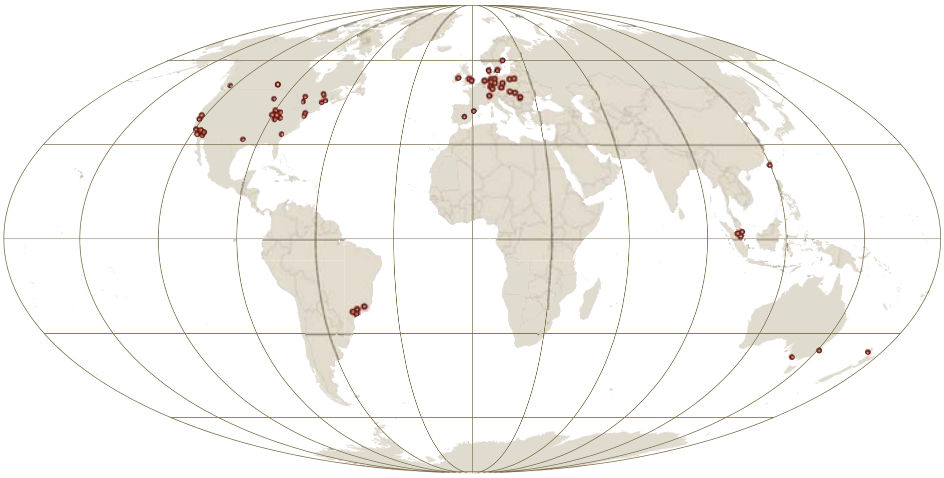
2018

Annual Report and Accounts

ARYZTA
Passion for good food



WELCOME TO ARYZTA AG

ARYZTA AG ('ARYZTA') is a global leader in frozen B2B bakery. ARYZTA is based in Zurich, Switzerland, with operations in North America, Europe, Asia, Australia, New Zealand and South America. ARYZTA has a primary listing on the SIX Swiss Exchange and a secondary listing on the ISE Irish Exchange (SIX: ARYN, ISE: YZA).

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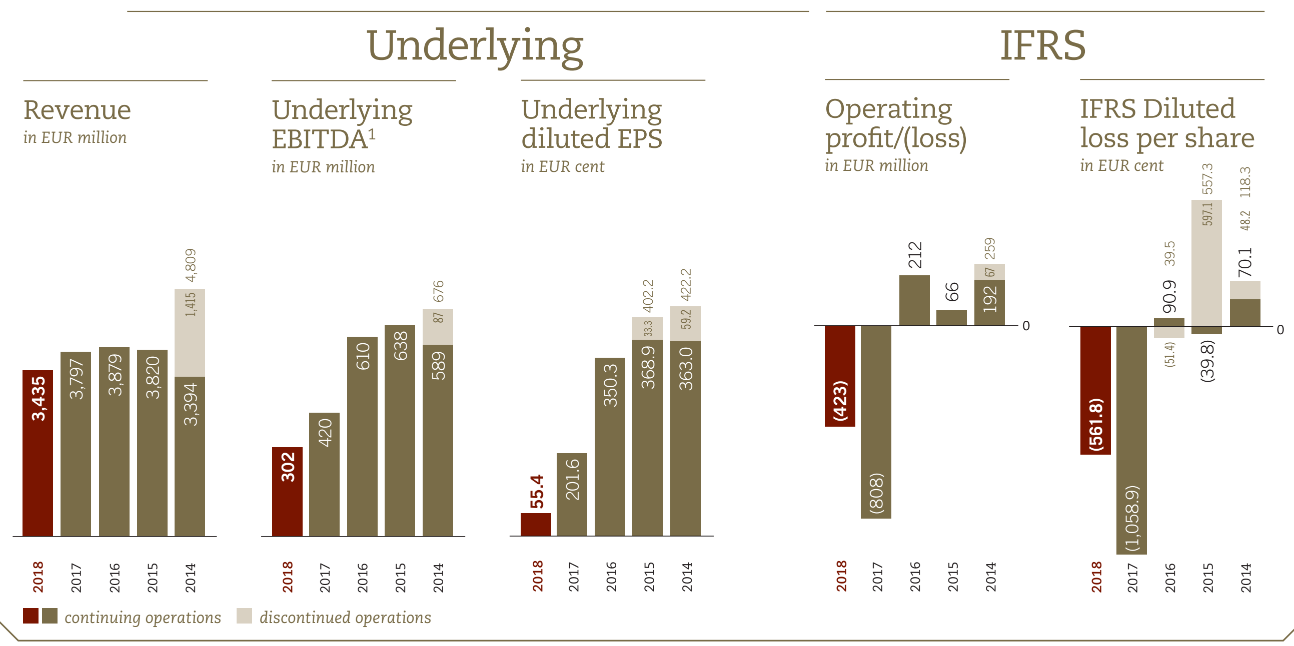
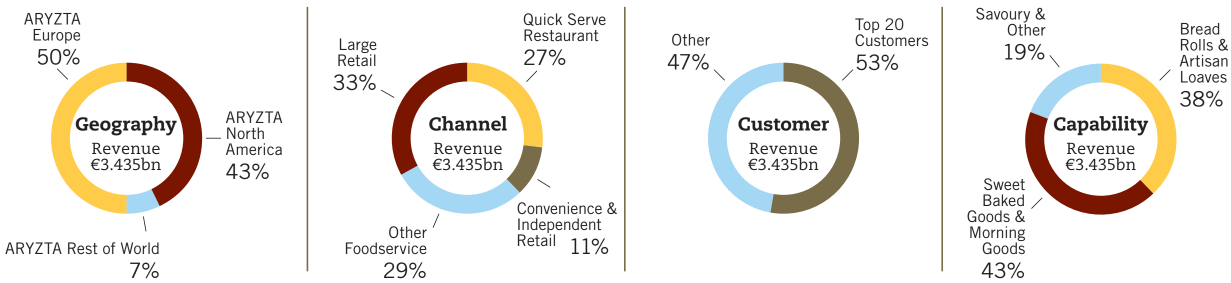


ARYZTA Group

Revenue
€3.435bn

56
Bakeries

29
Countries



1 See glossary on page 23 for definitions of financial terms and references used in this document.

Annual Report and Accounts 2018
Letter to Shareholders

Dear Shareholder,

The 2018 financial year ('FY18') has been a difficult one for ARYZTA and our shareholders. The challenges we have faced have been acute and we recognise that, in recent years, the Group had become too complex and expanded beyond its core strengths.

As indicated in my 2017 letter, during FY18 we have continued to take steps to address the challenges we face and implement the multi-year turnaround needed to return the business to acceptable performance. Management has now developed a clearer view of the issues we face, which has been critical to ensuring we are positioned to execute on our plan. Progress has also been made in our efforts to provide stability and, in time, deliver enhanced performance. This means ensuring we are totally focused on capitalising on ARYZTA's established leading global position in the large and growing frozen bakery market.

Focusing the Business
A number of headwinds, including inflation costs and commodity prices, as well as write-downs and certain operational difficulties, continued to impact performance in FY18. Despite these difficulties, progress was made in a number of important areas. The implementation of a comprehensive strategic review of the business resulted in significant steps being taken to deliver on our commitment to withdraw from non-core areas and become more focused on our core business. In January 2018, we sold La Rousse Foods and in February we disposed of both the Cloverhill Chicago and Cicero facilities. The proceeds from these disposals were used to reduce debt and improve the balance sheet, which is a fundamental part of the multi-year turnaround being driven by the Board and Executive Management.

Being the best in B2B Frozen Bakery and providing great products, service, innovation and support to our customers is at the core of our strategy and we are continuing to work hard to do a better job, have better relationships and make sure we are the best partner for them.

While the exit from non-core businesses is a central tenet of our refocused strategy, the Board and Executive Management team are fully aware of the need to operate more efficiently. In May, we announced a cumulative three-year €200 million cost reduction plan, Project Renew, which is underway and aims to deliver savings of €90 million a year by FY21. We are driving these cost saving programmes to address inflation, but also to make us leaner and more efficient in all market conditions. Cost control and optimising our cost base will continue to be a primary focus for the Board and Executive Management to drive faster progress in a growing but competitive industry.

Deleveraging
During FY18, together with our key advisors, we have carried out a comprehensive review of our capital structure, including an assessment of the appropriate financial leverage for the business over the medium term. In order to provide a sustainable capital base to support our customers and operations and deliver our refocused long-term strategy, in August 2018, the Board announced its intention to raise up to €800 million of equity capital. The proceeds will address our excessive leverage and

Letter to Shareholders (continued)

the inadequate liquidity in the business. Adequate capital will help us maintain our leadership position in our core business, provide funding to drive our Renew programmes and act as a basis to restore confidence in ARYZTA amongst customers, suppliers, bankers, shareholders and employees.

In addition to the announced capital increase and the successful disposals already completed, the Board remains committed to its previously announced €1bn deleveraging plan, comprising at least €450 million of asset disposals and driving the remainder from cash flow generation. Such disposals will be pursued under normal business conditions, rather than being perceived as distressed sales.

Executive Management Team
Over the past two years, there has been a significant amount of change at Executive Management levels and one of the clear priorities for the Board was to ensure that the Group had the strength of leadership and the commitment required to drive our refocused strategy and deliver value for stakeholders.

Building on the appointment of a new CEO and CFO during 2018, the Board was pleased to appoint a number of highly experienced professionals to our Executive Management team, including new CEOs of North America and Europe, Dave Johnson and Gregory Sklikas, respectively. We also appointed executives John Heffernan as Chief Strategy Officer and Tony Murphy as Chief People Officer. In September 2018, Rhona O'Brien joined the Executive Management team as General Counsel and Company Secretary. Together with the COOs of APMEA and LATAM, they comprise the Executive Committee of the Group.

Board & Governance
As part of the strategic review and the pursuit of its implementation, the business made progress in further strengthening governance, stewardship and oversight in FY18. A company and its strategy can only be effective if accompanied by a strong, committed and experienced Board. Our objective is to ensure that we have the appropriate blend of skills, market knowledge and expertise at Board level to set and oversee the strategic direction of the business and to provide support and constructive challenge to management.

As part of a continued programme of Board refreshment, with the support of a global search firm, we identified three excellent independent Non-Executive Directors with extensive experience and a track record of success in the food sector, as well as in business transformation and turnarounds. The three new Directors being put forward for election at the 2018 AGM:

- Michael Andres, who spent the majority of his career with McDonald's Corporation having most recently served, up to 2016, as President of McDonald's USA, the largest global segment of McDonald's Corporation.

- Gregory Flack, who is Executive Chairman of Green Chile Foods Company, a US frozen consumer foods company, a position he has held since 2014. He spent most of his previous career at Schwan Food Company, a US frozen food company, where he served as CEO from 2008 until 2013.

Letter to Shareholders (continued)

- Tim Lodge, who is a very experienced CFO who recently retired as CFO of COFCO International, a Chinese grain and oilseed company with revenue of c. $34 billion. He spent most of his previous career at Tate & Lyle plc, a UK listed food ingredients company with a significant international market presence, where he served as CFO from 2008 until 2014.

We are pleased to recommend to shareholders appointments to the Board of Directors of the calibre of Michael Andres, Gregory Flack and Tim Lodge. It is a testament to the strength of the ARYZTA franchise that we continue to attract high quality individuals to serve on the Board.

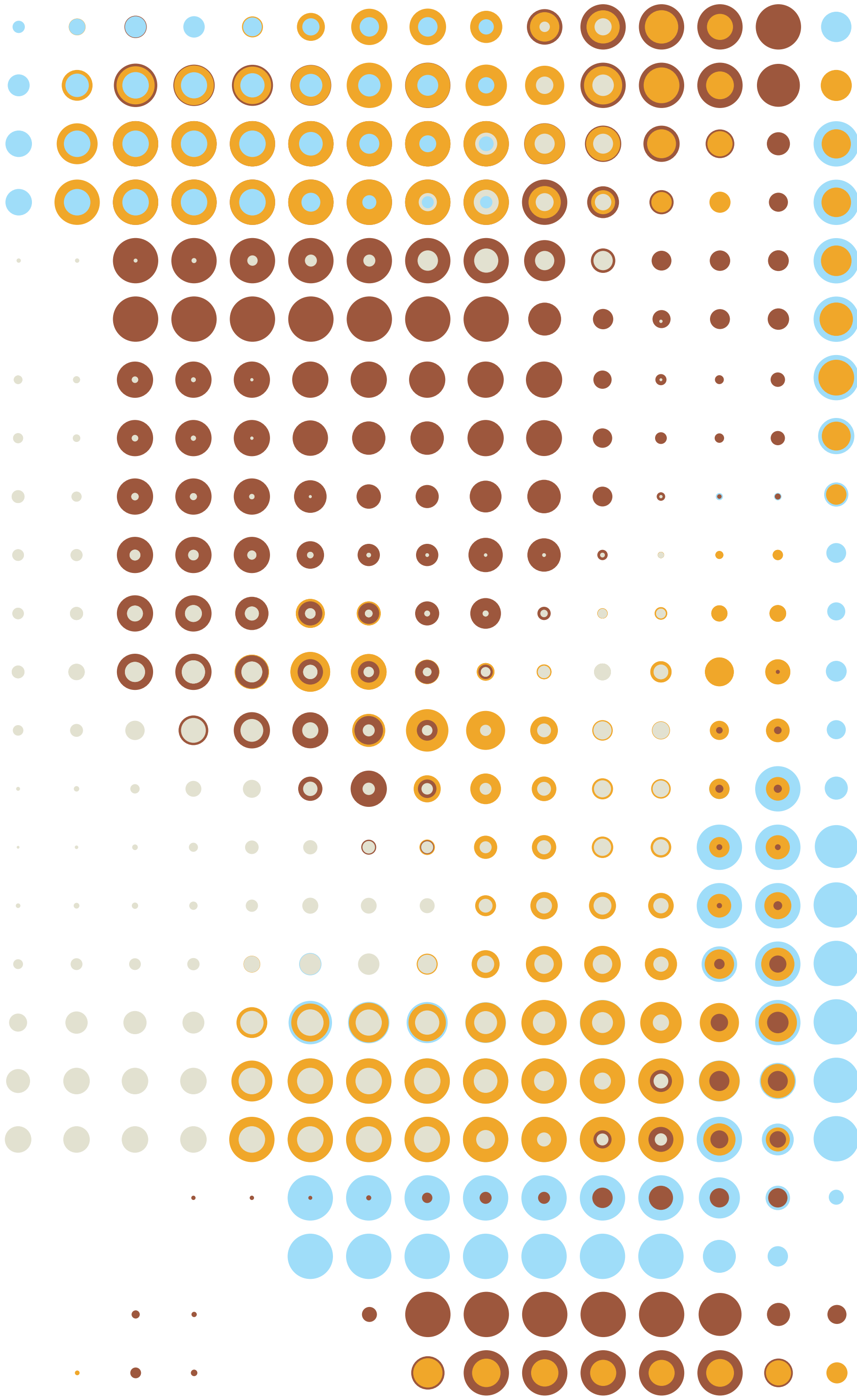
On behalf of the Board and management team, I would like to record our sincere appreciation to Chuck Adair for his services to ARYZTA over the past eight years. He played a significant role on the Board and we are grateful for the commitment he has shown the Company during his tenure. We wish him well for the future.

Stakeholder Engagement
Engagement with our stakeholders, including customers, employees and shareholders, is a priority for the Board. During the course of the year, I engaged directly with many of our customers and shareholders to ensure that the Board understands their views. In addition, we are committed to visiting operations and engaging with our employees. Over the past year, we visited our Grange Castle facility in September 2017 and our Eisleben facility in May 2018. During the coming year, we will continue this programme and intend to arrange a site visit to our North American operations ensuring our engagement extends to as many employees and sites as possible.

Outlook
Undoubtedly, it has been a difficult period for the Group. However, we continue to commit significant energy and focus on implementing our multi-year turnaround plan. Difficult periods such as the one we are experiencing are tests of a company's character, and the Board remains resolute in its belief in the inherent strengths of our business, our people and the quality of ARYZTA's franchise. The challenges we face also provide an opportunity to renew our purpose and develop strategies for growth in a rapidly evolving marketplace. We are the world's leading frozen bakery company, operating in a growing market. The Board and I fundamentally believe in the proposed capital raising and the new strategy underpinned by the multi-year transformation plan to strengthen and simplify the business and deliver future success for the Company, our customers, employees and shareholders.

Our people are central to everything we do, particularly in challenging circumstances, and I want to thank them for their continued hard work, energy and commitment. The multi-year transformation process being led by Kevin Toland and his team will lead to a more sustainable and focused business operating with strong values, transparency and commitment to deliver great services to our customers and all our stakeholders.

Gary McGann
Chairman, Board of Directors
1 October 2018



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Business Overview
About ARYZTA

Reporting Segments

ARYZTA AG

ARYZTA Europe

REVENUE 2018
€1.710bn
Underlying EBITDA 2018
€172m
Underlying EBITDA margin 2018
10.1%

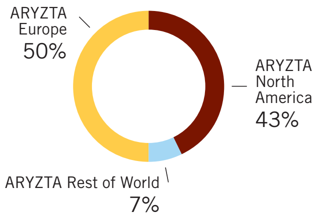
ARYZTA North America

REVENUE 2018
€1.468bn
Underlying EBITDA 2018
€90m
Underlying EBITDA margin 2018
6.1%

ARYZTA Rest of World

REVENUE 2018
€257m
Underlying EBITDA 2018
€40m
Underlying EBITDA margin 2018
15.6%

Segmental Revenue

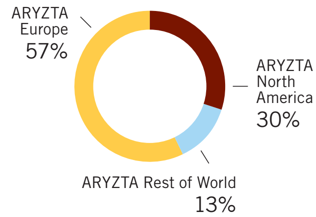


Revenue ARYZTA Europe
in EUR million

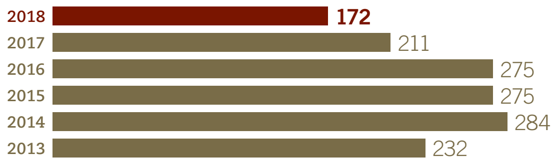
Revenue ARYZTA North America
in EUR million

Revenue ARYZTA Rest of World
in EUR million

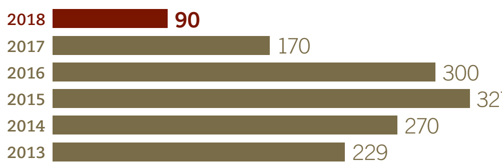
Segmental Underlying EBITDA



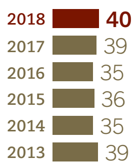
Underlying EBITDA ARYZTA Europe
in EUR million

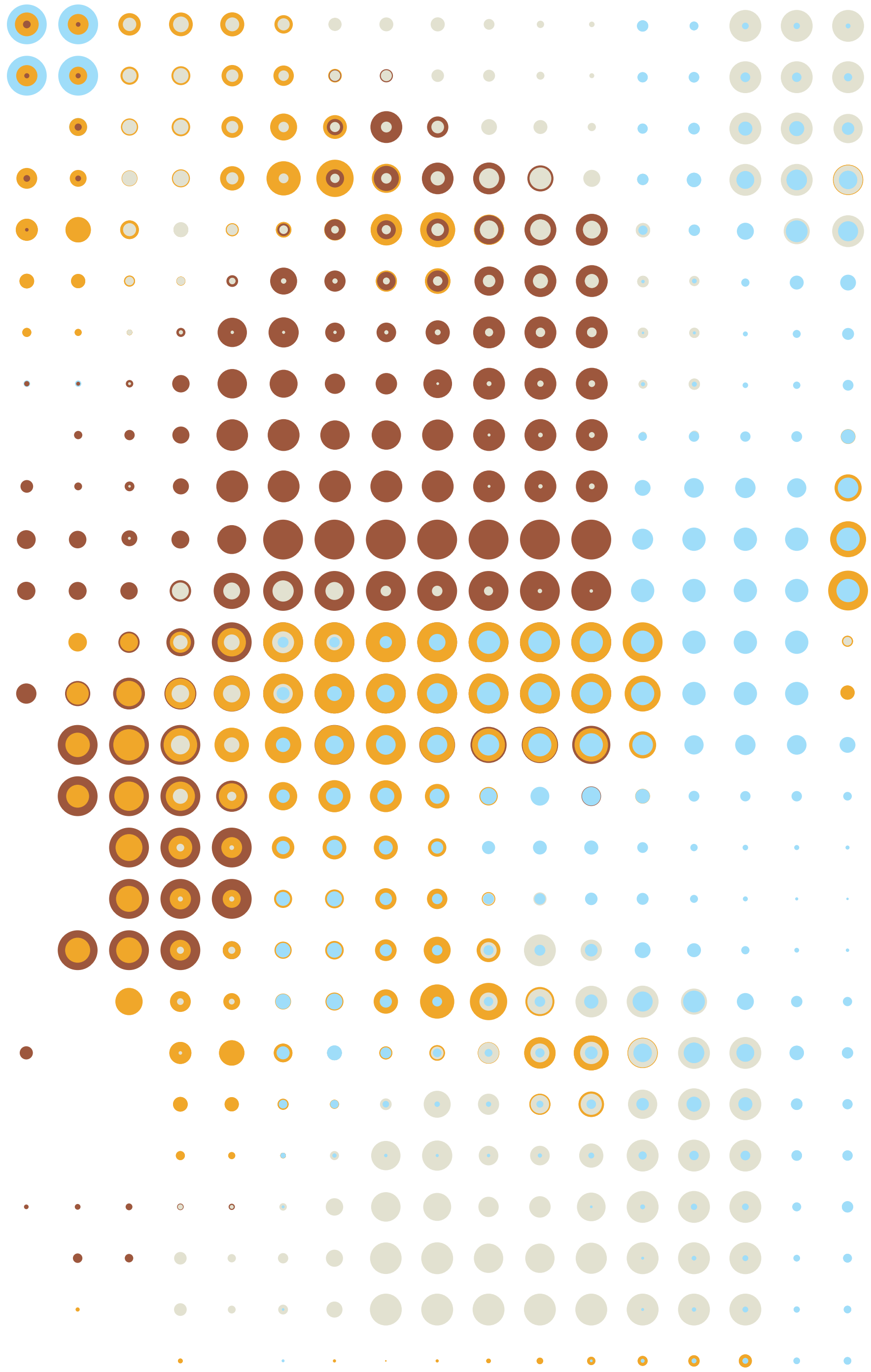


Underlying EBITDA ARYZTA North America
in EUR million



Underlying EBITDA ARYZTA Rest of World
in EUR million





Annual Report and Accounts 2018

Financial and Business Review

1 Underlying Income Statement and reconciliation to IFRS

in EUR `000	FY 2018	FY 2017	% Change
Group revenue	3,435,422	3,796,770	(9.5)%
Underlying EBITDA[1]	301,822	420,307	(28.2)%
Underlying EBITDA margin	8.8%	11.1%	(230) bps
Depreciation and ERP amortisation	(136,886)	(142,997)	4.3%
Underlying EBITA[1]	164,936	277,310	(40.5)%
Joint ventures underlying net profit	22,755	21,281	6.9%
Underlying EBITA including joint ventures	187,691	298,591	(37.1)%
Finance cost, net	(73,568)	(58,451)	(25.9)%
Hybrid instrument dividend	(32,057)	(32,099)	0.1%
Underlying pre-tax profits	82,066	208,041	(60.6)%
Income tax	(32,449)	(27,380)	(18.5)%
Non-controlling interests	–	(1,635)	100.0%
Underlying net profit[1]	**49,617**	**179,026**	**(72.3)%**
Underlying diluted EPS (cent)[2]	**55.4**	**201.6**	**(72.5)%**

1 See glossary in section 20 for definitions of financial terms and references used in the financial and business review.

2 The 31 July 2018 weighted average number of ordinary shares used to calculate underlying earnings per share is 89,629,539 (2017: 88,788,494).

in EUR `000	FY 2018	FY 2017
Underlying EBITDA	**301,822**	420,307
Depreciation	**(119,850)**	(126,308)
ERP amortisation	**(17,036)**	(16,689)
Underlying EBITA	**164,936**	277,310
Amortisation of other intangible assets	**(155,642)**	(174,640)
Net loss on disposal of businesses and impairment of disposal groups held-for-sale	**(183,316)**	–
Impairment of goodwill	**(175,000)**	(594,872)
Impairment of intangible assets	–	(138,642)
Net loss on fixed asset disposals and impairments	**(4,467)**	(126,202)
Restructuring-related costs	**(69,825)**	(50,474)
IFRS operating loss	**(423,314)**	(807,520)
Share of profit after interest and tax of joint ventures	**15,156**	38,380
Net gain on disposal of joint venture	**1,468**	–
Financing income	**2,845**	3,821
Financing costs	**(76,413)**	(62,272)
RCF termination and private placement early redemption	**(12,415)**	(182,513)
Loss before income tax	**(492,673)**	(1,010,104)
Income tax credit	**22,697**	103,966
IFRS Loss for the year	**(469,976)**	(906,138)
IFRS Diluted loss per share (cent)[3]	**(561.8)**	(1,058.9)

3 The 31 July 2018 weighted average number of ordinary shares used to calculate IFRS diluted loss per share is 89,360,672 (2017: 88,758,527).

Financial and Business Review (continued)

2 Organic revenue

in EUR million	ARYZTA Europe	ARYZTA North America	ARYZTA Rest of World	ARYZTA Group
Revenue	1,710.6	1,468.0	256.8	3,435.4
Organic growth	0.9%	(4.7)%	7.9%	(1.2)%
Disposals	(1.3)%	(6.9)%	–	(3.9)%
Currency	(1.2)%	(6.8)%	(8.8)%	(4.4)%
Revenue Growth	**(1.6)%**	**(18.4)%**	**(0.9)%**	**(9.5)%**

Quarterly organic revenue

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	FY 2018
ARYZTA Europe					
Volume %	(0.7)%	(1.3)%	(5.0)%	0.5%	(1.6)%
Price/Mix %	1.3%	4.2%	2.4%	2.1%	2.5%
Organic growth %	**0.6%**	**2.9%**	**(2.6)%**	**2.6%**	**0.9%**
ARYZTA North America					
Volume %	(7.1)%	(8.6)%	(1.9)%	1.2%	(4.2)%
Price/Mix %	0.1%	0.6%	0.6%	(3.6)%	(0.5)%
Organic growth %	**(7.0)%**	**(8.0)%**	**(1.3)%**	**(2.4)%**	**(4.7)%**
Organic growth % excluding Cloverhill	**1.0%**	**(1.8)%**	**(1.5)%**	**(2.7)%**	**(1.2)%**
ARYZTA Rest of World					
Volume %	2.7%	7.9%	7.5%	5.7%	6.2%
Price/Mix %	5.1%	2.3%	1.8%	(1.4)%	1.7%
Organic growth %	**7.8%**	**10.2%**	**9.3%**	**4.3%**	**7.9%**
ARYZTA Group					
Volume %	(3.6)%	(4.2)%	(2.7)%	1.2%	(2.3)%
Price/Mix %	1.0%	2.4%	1.5%	(0.7)%	1.1%
Organic growth %	**(2.6)%**	**(1.8)%**	**(1.2)%**	**0.5%**	**(1.2)%**
Organic growth % excluding Cloverhill	**1.3%**	**1.4%**	**(1.3)%**	**0.5%**	**0.5%**

Financial and Business Review (continued)

3 Segmental Underlying EBITDA

in EUR `000	FY 2018	FY 2017	% Change	Underlying EBITDA Margin FY 2018	Underlying EBITDA Margin FY 2017	Change
ARYZTA Europe	171,977	211,128	(18.5)%	10.1%	12.1%	(200) bps
ARYZTA North America	89,902	170,096	(47.1)%	6.1%	9.5%	(340) bps
ARYZTA Rest of World	39,943	39,083	2.2%	15.6%	15.1%	50 bps
Total Underlying EBITDA	**301,822**	**420,307**	**(28.2)%**	**8.8%**	**11.1%**	**(230) bps**

4 Our business

ARYZTA is the world's leading global, frozen B2B baking solutions provider, operating in the frozen bakery segment of the overall bakery market. ARYZTA's customer channels consist of a mix of large retail, convenience and independent retail, Quick Service Restaurants ('QSR') and other foodservice categories.

Total revenue decreased by (9.5)% to €3.4bn during the year ended 31 July 2018, due to an organic decline of (1.2%), consisting of volume losses of (2.3)%, partially offset by a positive price/mix impact of 1.1%. Disposals reduced revenue by (3.9)% and currency negatively impacted revenue by (4.4)%.

Overall organic revenue decreased during the year by (1.2)%, primarily related to an organic revenue decline of (4.7)% in ARYZTA North America, largely due to volume declines at the Cloverhill Chicago and Cicero bakeries, up until disposal in February 2018. Excluding Cloverhill, ARYZTA Group revenue would have been €3,373.2m, representing Group organic revenue growth of 0.5%, while ARYZTA North America organic revenues would have declined by (1.2)%. ARYZTA Europe revenue experienced 0.9% organic revenue growth, driven primarily by increases in price/mix, and ARYZTA Rest of World organic revenue grew by 7.9%, primarily as a result of strong volume growth.

In what has been a year of significant change, ARYZTA has made considerable progress in putting the core elements of the new leadership team in place.

– Kevin Toland commenced in his role of Group Chief Executive Officer in September 2017.
– Tony Murphy joined as Group Chief People Officer in December 2017.
– Frederic Pflanz joined as Group Chief Financial Officer in January 2018.
– Dave Johnson joined as Chief Executive Officer, North America, in January 2018.
– John Heffernan joined as Group Chief Strategy Officer in February 2018.
– Gregory Sklikas joined as Chief Executive Officer, Europe, in May 2018.
– Rhona O'Brien joined as Group General Counsel and Company Secretary in September 2018.

This team brings extensive expertise in global food and consumer goods industries, as well as a proven track record of managing businesses undergoing significant transformation.

Financial and Business Review (continued)

ARYZTA is committed to improving revenue growth by refocusing on its core strengths as a global leader in B2B Frozen Bakery and European bakery driven food solutions, while continuing to deliver best-in-class customer service, support and food safety to our customers. This revenue focus, when combined with bakery cost alignment, will support the financial aim of restoring operating leverage, improving margins and enhancing cash generation.

5 ARYZTA Europe

ARYZTA Europe has leading market positions in the frozen B2B bakery markets in Germany, Switzerland, France, Ireland, the UK, the Netherlands, Hungary, Poland, Denmark, Spain, Sweden, Romania, Czechia and other European countries.

ARYZTA Europe revenue decreased by (1.6)% to €1,710.6m during the year ended 31 July 2018. Organic revenue growth of 0.9% was a result of a 2.5% benefit from improved price/mix, as a result of increased input costs partially passed through to customers, which was partially offset by a (1.6)% decrease in volumes, driven by customer insourcing in Switzerland and Germany. Unfavourable currency movements also impacted revenue by (1.2)% and the disposal of a business in Ireland during January 2018 resulted in a (1.3)% decline in year over year revenue.

ARYZTA Europe Underlying EBITDA decreased by (18.5)% to €172.0m, while Underlying EBITDA margins decreased by (200) bps to 10.1%, primarily in connection with the decreased margins on partial pass through of increased raw materials and input costs, and lower operating leverage following customer insourcing.

As detailed in Section 9, during the year ARYZTA Europe recorded a goodwill impairment charge of €175.0m relating to the Germany business, as well as an additional €48.8m of impairment of disposal groups held-for-sale, offset by a gain on disposal of a business of €1.4m. In addition, ARYZTA Europe incurred €1.9m of other fixed asset impairments, and €6.1m of other restructuring-related costs, primarily severance and staff-related costs and advisory and other costs, incurred as a direct result of rationalisation and consolidation of management functions across the region.

6 ARYZTA North America

ARYZTA North America is a leading player in the frozen B2B bakery markets in the United States and Canada. It has a diversified customer base, including multiple retail, restaurants, catering, hotels, leisure, hospitals, military, fundraising and QSRs. ARYZTA North America is a leader in high-value artisan bakery via La Brea Bakery, which focuses on the premium branded bakery segment.

ARYZTA North America revenue declined by (18.4)% to €1,468.0m during the year ended 31 July 2018. Currency movements negatively impacted revenue by (6.8)%, while the disposal of the Cloverhill Chicago and Cicero bakeries resulted in a (6.9)% decline in year over year revenue arising in the second half of the year, following completion of that disposal in February 2018.

Financial and Business Review (continued)

ARYZTA North America organic revenue decreased by (4.7)%, as a result of (0.5)% price/mix declines and a (4.2%) decrease in volumes, primarily related to reduced volumes at the Cloverhill Chicago and Cicero bakeries during the first half of the year, up until disposal in February 2018. Excluding Cloverhill, North American revenue would have been €1,405.8m, representing an organic revenue decline of (1.2)%.

ARYZTA North America Underlying EBITDA declined by (47.1)% to €89.9m, while Underlying EBITDA margins declined (340) bps to 6.1%. Excluding Cloverhill, ARYZTA North America Underlying EBITDA would have declined by (34.2)%, while margins would have declined (240) bps to 6.4%.

Besides Cloverhill, the remaining impacts on ARYZTA North America EBITDA and margins primarily related to negative operating leverage from volume losses and insufficient cost realignment, combined with continued increases in raw materials, labour costs and industry wide increases in transport and distribution costs.

As detailed in Section 9, ARYZTA North America incurred €135.9m of losses in relation to the disposal of Cloverhill, as well as €1.1m of other fixed asset impairments. In addition, ARYZTA North America incurred €63.4m of other restructuring-related costs, primarily related to the labour-related business interruption challenges at the Cloverhill bakeries during the first half of the year up until disposal, as well as severance and staff-related costs, and advisory and other costs, incurred as a direct result of consolidation of bakeries and rationalisation of management functions during the year.

7 ARYZTA Rest of World

ARYZTA's operations in the Rest of World primarily includes businesses in Brazil, Australia, Japan, Malaysia, Singapore, New Zealand and Taiwan. While representing only 7% of total Group revenue and 13% of total Group Underlying EBITDA, these locations provide attractive future growth opportunities and have importance as suppliers to our global QSR customers.

ARYZTA Rest of World revenue decreased by (0.9)% to €256.8m during the year ended 31 July 2018. While unfavourable currency movements reduced revenue by (8.8)%, organic revenue increased by 7.9% as a result of strong 6.2% volume growth with global strategic customers, as well as others across the region, combined with price/mix growth of 1.7%.

ARYZTA Rest of World Underlying EBITDA increased by 2.2% to €39.9m, while Underlying EBITDA margins increased by 50 bps to 15.6%, as a result of the improved operating leverage resulting from organic revenue growth.

Financial and Business Review (continued)

8 Joint ventures

During August 2015, ARYZTA acquired a 49% interest in Picard, which operates an asset-light B2C platform focused on premium speciality food. Picard is located primarily in France, is separately managed and has separately funded debt structures, which are non-recourse to ARYZTA.

ARYZTA received dividends from Picard totalling €91.0m during the year, after which the Group's investment carrying value in Picard is €420.0m as of 31 July 2018.

While Picard is not considered part of ARYZTA's long-term strategy, disposal of the Group's investment is currently only possible with agreement of both joint venture partners. Therefore, the Group's investment continues to be accounted on a historical cost basis using the equity method of accounting.

The Group also owned a 50% interest in Signature Flatbreads. During March 2018, the Group sold its 50% interest to its joint venture partners for net proceeds of €34.9m. This resulted in a net gain on disposal of €1.5m, compared to the Group's carrying value of €32.8m, and associated cumulative foreign currency translation reserve losses of €0.6m since the initial investment.

During the year ended 31 July 2018, joint ventures had combined revenues of €1,533.5m, and delivered an underlying contribution of €22.8m to ARYZTA, after interest and tax. Both joint ventures performed well, growing overall revenues and generating strong Underlying EBITDA margins and internal cash flows.

in EUR `000	Picard	Signature	FY 2018	FY 2017
Revenue	1,449,671	83,844	**1,533,515**	1,515,849
Underlying EBITDA	207,272	11,689	**218,961**	219,019
Underlying EBITDA margin	14.3%	13.9%	**14.3%**	14.4%
Depreciation	(31,201)	(3,299)	**(34,500)**	(35,977)
Underlying EBITA	176,071	8,390	**184,461**	183,042
Finance cost, net	(84,984)	(260)	**(85,244)**	(95,934)
Pre-tax profit	91,087	8,130	**99,217**	87,108
Income tax	(50,868)	(1,769)	**(52,637)**	(43,555)
Joint venture underlying net profit	40,219	6,361	**46,580**	43,553
ARYZTA's share of JV underlying net profit	**19,575**	**3,180**	**22,755**	**21,281**

Financial and Business Review (continued)

9 Impairment, disposal and restructuring

During the year ended 31 July 2018, the Group incurred the following amounts related to impairment, disposal and restructuring:

in EUR `000	Impairment FY 2018	Restructuring FY 2018	Total FY 2018	Total FY 2017
Net loss on disposal of businesses and impairment of disposal groups held-for-sale	(183,316)	–	**(183,316)**	–
Impairment of goodwill	(175,000)	–	**(175,000)**	(594,872)
Impairment of intangibles	–	–	**–**	(138,642)
Impairment and disposal of fixed assets and investment property	(4,467)	–	**(4,467)**	(126,202)
Labour-related business interruption	–	(41,443)	**(41,443)**	(16,349)
Severance and other staff-related costs	–	(15,151)	**(15,151)**	(21,367)
Contractual obligations	–	(416)	**(416)**	(7,295)
Advisory and other costs	–	(12,815)	**(12,815)**	(5,463)
Net impairment, disposal and restructuring-related costs	**(362,783)**	**(69,825)**	**(432,608)**	**(910,190)**

Impairment and disposal-related costs

Net loss on disposal of businesses and impairment of disposal groups held for sale

During January 2018, the Group disposed of a business in Europe, which historically generated approximately €45m in annual revenues. As the €46.8m proceeds received, net of associated transaction costs, exceeded the €45.4m carrying value of the net assets disposed, the transaction resulted in a €1.4m net gain on disposal.

During February 2018, the Group disposed of the Cloverhill Chicago and Cicero facilities in North America, which historically generated approximately €250m in annual revenues. As the €54.8m proceeds received, net of associated transaction costs, were less than the €209.1m carrying value of the net assets prior to the disposal agreement, a loss of €135.9m was recognized during the year ended 31 July 2018, net of a €18.4m cumulative foreign currency translation gain since the initial investment.

During July 2018, the Group identified two non-core businesses in Europe, which historically generated approximately €30m in annual revenues, for disposal. As plans for these disposals have been approved by the Board of Directors and are sufficiently progressed that they are considered highly probable to be completed within the next 12 months, the assets of these businesses have been accounted for as disposal groups held-for-sale as of 31 July 2018.

As the €7.0m estimated net proceeds to be received upon disposal of these businesses is less than the €55.8m carrying value of their combined net assets, a €48.8m loss on impairment of disposal group held-for-sale has been recognised during the year ended 31 July 2018.

Financial and Business Review (continued)

Additionally, a cumulative €0.9m foreign currency translation loss on net investment has been recognised through other comprehensive income since initial investment in these disposal groups, and remains in foreign currency translation reserve as of 31 July 2018. This amount will be recycled from other comprehensive income into the income statement upon completion of the respective transactions.

There were no business disposals or disposal Groups held-for-sale during the year ended 31 July 2017.

Impairment of goodwill
Following significant reductions in profitability in Germany and North America, the Group recorded goodwill impairment charges of €103.0m in Germany and €491.9m in North America during the year ended 31 July 2017.

Following further reductions in estimated future profitability, the Group recorded an additional €175.0m goodwill impairment charge in Germany during the year ended 31 July 2018.

Profitability in this business has been significantly impacted by the consolidation of bakery capacity into the Eisleben facility during prior years, which has been further compounded by customer volume insourcing and commodity prices during the current year, while the relatively new capacity at this bakery is still being optimised.

While profitability is expected to improve in the future, including utilising available capacity to support capacity needs for other geographies within the Group, after considering the goodwill and other assets, as well as the respective future cash flow projections, management determined it was appropriate to record an additional goodwill impairment during the current year.

Despite these impairments, the bakery remains a world-class production facility and is expected to make significant future contributions to the Group, once spare capacity across the network is optimised and other operational challenges are addressed.

Further detail on these goodwill impairments is included in note 14 in the IFRS financial statements on pages 118 to 121.

Impairment of intangibles
During the year ended 31 July 2017, ARYZTA North America experienced a significant reduction in volumes as a result of earlier than anticipated in-sourcing by co-pack customers.

As these customers and the related volumes were primarily associated with the Group's Cloverhill acquisition, the Group reviewed the remaining customer relationship and brand-related intangible assets obtained as part of that acquisition and recorded a €138.6m impairment of those intangible assets.

There were no such impairments of intangibles during the year ended 31 July 2018.

Financial and Business Review (continued)

Impairment and disposal of fixed assets and investment property
During the year ended 31 July 2018, the Group incurred a net loss on the disposal of various fixed assets and investment properties totalling €4.5m.

During the year ended 31 July 2017 the Group incurred €126.2m of asset write-downs and impairments, primarily related to assets in ARYZTA North America, including:

– €56.6m in relation to additional production capacity not yet fully completed or in service, which without further investment was expected to remain idle;
– €69.8m in relation to other North American facilities, which either lost significant activity or which were not projected to achieve sufficient future profitability to recover their carrying value.

Restructuring-related costs

Labour related business interruption costs
During the year ended 31 July 2017, the Group encountered significant labour-related business disruption at its Cloverhill facilities in North America.

A substantial number of the legacy labour force at those facilities were supplied through a third-party staffing agency. A federal audit of this third-party agency revealed inadequate documentation, resulting in circa 800 experienced workers leaving the business during Q4 FY2017.

As these individuals had significant knowledge and experience of the baking process and represented over one-third of the workforce at these facilities, a significant decrease in the labour efficiency, waste levels and production volumes occurred at these facilities, as a result of this disruption.

While the Cloverhill business had been profitable every month since its acquisition, following this disruption these locations incurred €16.3m of losses during June and July 2017, as well as €41.4m of losses during FY 2018, up until disposal in February 2018.

Severance and other staff-related costs
During the year ended 31 July 2018, the Group provided for a total of €15.2m (2017: €21.4m) in severance and other staff-related costs arising from a number of production, distribution and administrative rationalisations across the Group, as well as amounts in respect of key employee retention agreements implemented following the Executive Management departures in March 2017.

Contractual obligations
As a result of decisions made as part of the Group's integration and rationalisation projects, during the year ended 31 July 2018, the Group incurred total costs of €0.4m (2017: €7.3m) to provide for certain long-term contracts determined to be surplus to the Group's operating requirements.

Financial and Business Review (continued)

The associated provision amounts have been calculated on the basis of the remaining period of the relevant lease, or an estimate to the earliest date at which the lease could be terminated or sublet, if shorter.

Advisory and other costs
During the year ended 31 July 2018, the Group incurred €12.8m (2017: €5.5m) in advisory and other professional services costs arising directly from the strategic and business review activities following the changes in Executive Management.

10 Cash generation

in EUR `000	FY 2018	FY 2017
Underlying EBITDA	301,822	420,307
Working capital movement	(33,470)	5,613
Working capital movement from debtor securitisation[1]	(19,430)	16,766
Capital expenditure	(87,146)	(102,577)
Proceeds from sale of fixed assets and investment property	15,945	36,218
Restructuring-related cash flows	(69,884)	(63,451)
Segmental operating free cash generation	**107,837**	**312,876**
Dividends received from joint venture	91,018	–
Hybrid instrument dividend paid	–	(32,115)
Interest and income tax paid, net	(82,354)	(74,628)
Recognition of deferred income from government grants	(3,871)	(5,665)
Other	(2,167)	(4,315)
Cash flow generated from activities	**110,463**	**196,153**

1 Total debtor balances securitised as of 31 July 2018 is €199m (2017: €219m).

11 Net debt and investment activity

in EUR `000	FY 2018	FY 2017
Opening net debt as at 1 August	**(1,733,870)**	**(1,719,617)**
Cash flow generated from activities	110,463	196,153
Disposal of businesses, net of cash and finance leases	101,599	–
Disposal of joint venture	34,948	–
Purchase of non-controlling interests	–	(14,485)
Net receipts from joint ventures	–	3,277
Contingent consideration	–	(896)
RCF termination and Private Placement early redemption	(12,415)	(182,513)
Dividends paid to equity shareholders and non-controlling interests	–	(50,945)
Foreign exchange movement	(4,716)	38,952
Other[1]	(6,273)	(3,796)
Closing net debt as at 31 July	**(1,510,264)**	**(1,733,870)**

1 Other comprises primarily amortisation of upfront financing costs.

During July 2017, the Group agreed to the terms of a new five-year unsecured €1,800m refinancing of its Syndicated Bank RCF and term loan facility, comprising a €1,000m amortising term loan and a €800m revolving credit facility.

Financial and Business Review (continued)

On 22 September 2017, this financing was used to repay the revolving credit and term loan facilities outstanding at that time in full.

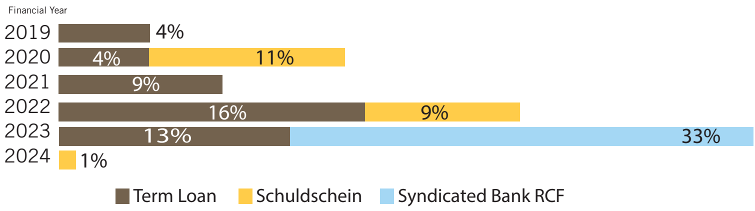
As of 31 July 2018, the Group's financing facilities, related capitalised upfront borrowing costs, finance leases, overdrafts and cash balances were as follows:

in EUR '000	**July 2018**
Syndicated Bank RCF	(611,815)
Term loan facility	(878,937)
Schuldschein	(384,454)
Gross term debt	**(1,875,206)**
Upfront borrowing costs	23,613
Term debt, net of upfront borrowing costs	**(1,851,593)**
Finance leases	(657)
Cash and cash equivalents, net of overdrafts	341,986
Net debt	**(1,510,264)**

As of 31 July 2018, the weighted average interest cost of the Group debt financing facilities is 3.2% (2017: 2.2%) and the weighted average maturity of the Group gross term debt is 3.24 years.

Gross Term Debt Maturity Profile

July 2018



The Group's key financial ratios were as follows:

	July 2018	**July 2017**
Net Debt: EBITDA[1]	3.83x	4.15x
EBITDA: Net interest, including Hybrid dividend[1]	3.72x	4.64x

During September 2018, the Group received the unanimous consent of its lenders to amend its existing Facilities Agreement to provide additional flexibility to pursue its new business strategy and implement a share capital increase as part of its deleveraging plan. The amendments to the Facilities Agreement include the following:

– An increase of the leverage covenant (Net Debt: EBITDA[1]) from:
  – 4.0x to 5.75x for the period ending on 31 January 2019;
  – 3.5x to 5.25x for the period ending on 31 July 2019; and
  – reverting to previous ratio of 3.5x for the periods thereafter.

– A decrease of the interest cover covenant (EBITDA: Net interest, including Hybrid dividend[1]) from:
  – 3.0x to 2.0x for the period ending on 31 January 2019;
  – 3.0x to 2.0x for the period ending on 31 July 2019; and
  – reverting to 3.0x for the periods thereafter.

1 Calculated as per Syndicated Bank Facilities Agreement terms.

Financial and Business Review (continued)

- A margin increase to:
  - 3.5% until 31 December 2018; and
  - 4.0% from 1 January 2019.

Upon the successful completion of the proposed equity raise, the above conditions revert to the conditions as per the Facilities Agreement. If the proposed equity raise has not successfully completed by 31 May 2019, there will be an additional test of the covenants as of the twelve month period ending 31 October 2019.

12 Hybrid funding

As of 31 July 2018, the Group has €759.6m of Hybrid funding principal outstanding, as reflected in the table below.

Perpetual Callable Subordinated Instruments		Coupon	Coupon rate if not called	in EUR '000
Not called	CHF 400m	5.3%	6.045% +3 Month Swiss Libor	(345,492)
First call March 2019	EUR 250m	4.5%	6.77% +5 Year Euro Swap Rate	(250,000)
First call April 2020	CHF 190m	3.5%	4.213% +3 Month Swiss Libor	(164,109)
Hybrid funding principal outstanding at 31 July 2018 exchange rates				**(759,601)**

As the instruments have no maturity date and repayment is at the option of ARYZTA, these perpetual callable subordinated instruments are recognised within other equity reserves at historical cost, net of attributable transaction costs, until such time that management and the Board of Directors have approved settlement of the applicable instrument. Any difference between the amount paid upon settlement of these instruments and the historical cost is recognised directly within retained earnings.

Dividends on these Hybrid instruments accrue at the coupon rate applicable to each respective instrument on an ongoing basis; however, a contractual obligation to pay these dividends in cash only arises when a Compulsory Payment Event, such as payment of a cash dividend to equity shareholders, has occurred within the last twelve months.

Because the Group has not paid a cash dividend to equity shareholders during the last 12 months, as of 31 July 2018 the Group is under no contractual obligation to pay the Hybrid instrument dividends in cash. Therefore, these deferred dividends have not been accrued as separate financial liabilities, but instead remain within equity, in accordance with IAS 32 'Financial Instruments'. Should a Compulsory Payment Event occur in the future, all Hybrid instrument deferred dividends will become due in cash.

Movements related to the Hybrid instrument dividends and related cash payments over the last two years were as follows:

in EUR `000	FY 2018	FY 2017
Balance at 1 August	(9,032)	(9,353)
Hybrid instrument dividend	(32,057)	(32,099)
Hybrid instrument dividend paid	–	32,155
Translation adjustments	18	265
Balance at 31 July	**(41,071)**	**(9,032)**

Financial and Business Review (continued)

13 Foreign currency

The principal euro foreign exchange currency rates used by the Group for the preparation of these Financial Statements are as follows:

Currency	Average FY 2018	Average FY 2017	% Change	Closing FY 2018	Closing FY 2017	% Change
CHF	1.1629	1.0818	(7.5)%	1.1578	1.1340	(2.1)%
USD	1.1951	1.0938	(9.3)%	1.1651	1.1756	0.9%
CAD	1.5210	1.4483	(5.0)%	1.5219	1.4674	(3.7)%
GBP	0.8863	0.8633	(2.7)%	0.8888	0.8933	0.5%

14 Return on invested capital

in EUR million	ARYZTA Europe	ARYZTA North America	ARYZTA Rest of World	ARYZTA Group
July 2018				
Segmental net assets	1,354	1,331	177	2,862
TTM EBITA	102	34	30	166
ROIC[1,2]	7.6%	2.6%	17.0%	5.8%
July 2017				
Segmental net assets	1,676	1,710	194	3,580
TTM EBITA	147	100	30	277
ROIC[1,2]	8.8%	5.9%	15.3%	7.7%

1 See glossary in section 20 for definitions of financial terms and references used.

2 Group WACC on a pre-tax basis is currently 8.5% (2017: 8.1%).

15 Net assets, goodwill and intangibles

in EUR `000	At 31July 2018	At 31July 2017
Property, plant and equipment	1,243,692	1,386,294
Investment properties	14,574	19,952
Goodwill and intangible assets	2,057,703	2,651,937
Deferred tax on goodwill and intangibles	(104,075)	(82,534)
Working capital	(285,830)	(334,078)
Other segmental liabilities	(71,047)	(61,202)
Assets of disposal groups held-for-sale	7,000	–
Segmental net assets	2,862,017	3,580,369
Investments in joint ventures	420,016	528,188
Net debt	(1,510,264)	(1,733,870)
Deferred tax, net excluding goodwill and intangibles	(33,842)	(111,863)
Income tax	(65,506)	(63,283)
Derivative financial instruments	439	2,111
Net assets	**1,672,860**	**2,201,652**

Financial and Business Review (continued)

16 Dividend
No dividend is planned to be proposed for the year ended 31 July 2018.

The dividend for the year ended 31 July 2017 was approved at the Annual General Meeting held on 7 December 2017, to be settled as a scrip dividend via newly issued share capital, based on a ratio of one new share for every 80 shares held. Accordingly, a total of 1,110,253 new shares, with a par value of CHF 0.02 per share, were issued to shareholders holding shares in ARYZTA AG on 29 January 2018, resulting in €33,962,000 being recognised within equity, based on the market price of the shares at the date of approval.

17 Post balance sheet events – after 31 July 2018
During September 2018, the Group received the unanimous consent of its lenders to amend its existing Facilities Agreement to provide additional flexibility to pursue its new business strategy and implement a share capital increase as part of its deleveraging plan. See section 11 above on pages 18 to 20 for details on this amendment.

18 Principal risks and uncertainties
The Board and senior management have invested significant time and resources in identifying specific risks across the Group, and in developing a culture of balanced risk minimisation. The Board considers the risks and uncertainties disclosed on page 67 to continue to reflect the principal risks and uncertainties of the Group.

19 Forward looking statement
This report contains forward looking statements, which reflect management's current views and estimates. The forward looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those contained in the forward looking statements. Potential risks and uncertainties include such factors as general economic conditions, foreign exchange fluctuations, competitive product and pricing pressures and regulatory developments.

Financial and Business Review (continued)

20 Glossary of financial terms and references

'Organic revenue' – presents the revenue movement during the period, excluding impacts from acquisitions/(disposals) and foreign exchange translation.

'Underlying EBITDA' – presented as earnings before interest, taxation, depreciation and amortisation; before impairment, disposal and restructuring-related costs.

'Underlying EBITA' – presented as earnings before interest, taxation and non-ERP related intangible amortisation; before impairment, disposal and restructuring-related costs.

'ERP' – Enterprise Resource Planning intangible assets include the Group SAP system.

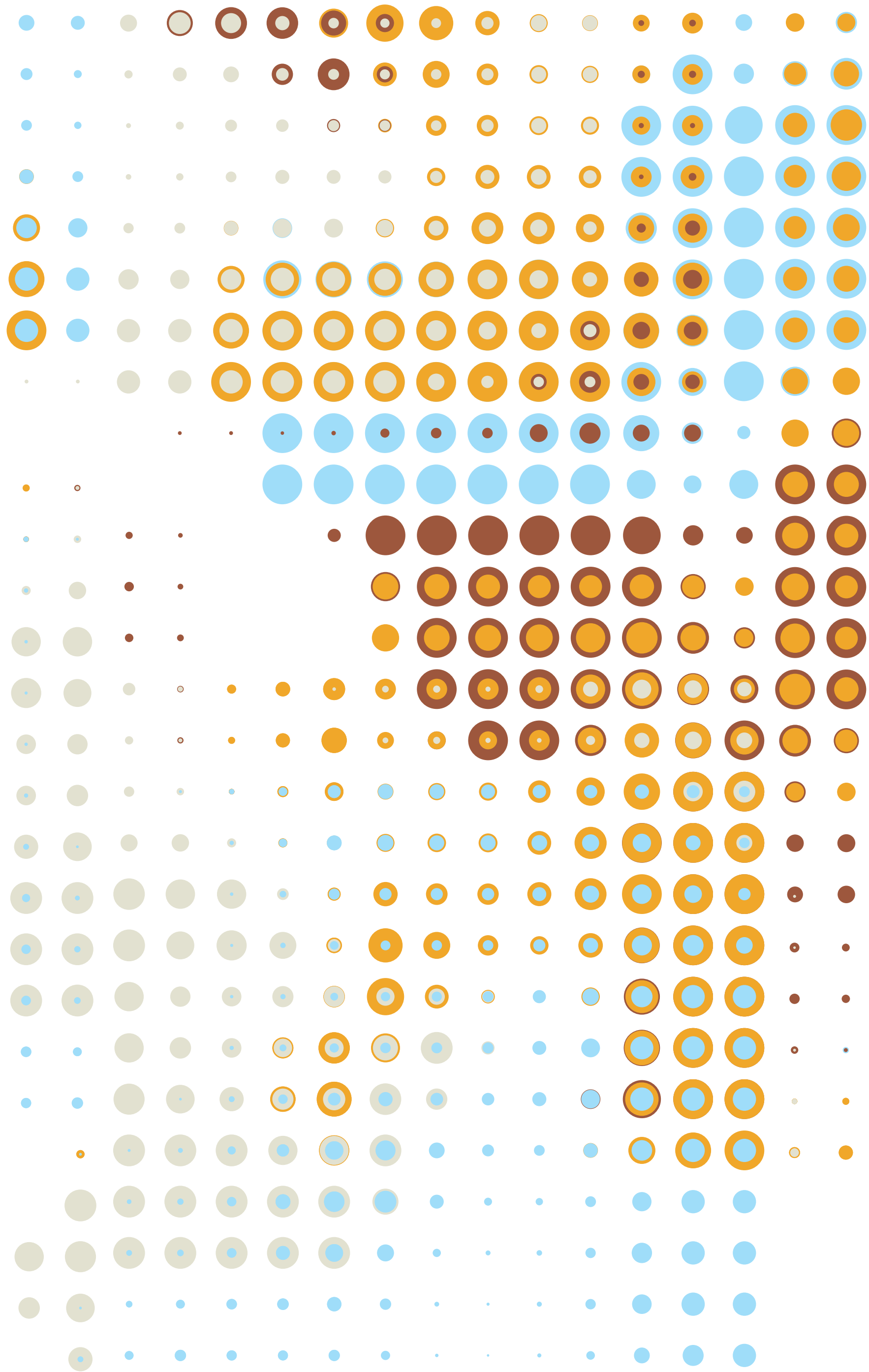
'Joint ventures underlying net profit' – presented as profit from joint ventures, net of interest and tax, before non-ERP amortisation and the impact of associated non-recurring items.

'Hybrid instrument' – presented as Perpetual Callable Subordinated Instruments, which have no contractual maturity date and for which the Group controls the timing of settlement; therefore, these instruments are accounted for as equity instruments in accordance with IAS 32 'Financial Instruments'.

'Underlying net profit' – presented as reported net profit, adjusted to include the Hybrid instrument dividend as a finance cost; before non-ERP related intangible amortisation; before RCF and private placement early redemption-related costs and before impairment, disposal and restructuring-related costs, net of related income tax impacts. The Group utilises the underlying net profit measure to enable comparability of the results from period to period, without the impact of transactions that do not relate to the underlying business.

'Segmental Net Assets' – Excludes joint ventures, all bank debt, cash and cash equivalents and tax balances, with the exception of deferred tax liabilities associated with acquired goodwill and intangible assets, as those deferred tax liabilities represent a notional non-cash tax impact directly linked to segmental goodwill and intangible assets recorded as part of a business combination, rather than an actual cash tax obligation.

'ROIC' – Return On Invested Capital is calculated using a pro-forma trailing twelve month segmental Underlying EBITA ('TTM EBITA') reflecting the full twelve month contribution from acquisitions and full twelve month deductions from disposals, divided by the respective Segmental Net Assets, as of the end of each period.



Annual Report and Accounts 2018

Corporate Governance Report

Performance and Strategy

The financial year ending 31 July 2018 (‘FY18’) has been a very challenging year for ARYZTA, during which the Board continued to focus on reviewing ARYZTA’s strategy and putting in place a leadership team with the capabilities and expertise to implement that strategy. The Board is working closely with the Group CEO and new Executive Management team to address the issues facing ARYZTA and to deliver the benefits of a revised strategy and multi-year turnaround plan to all our stakeholders.

ARYZTA’s strategy is to focus on managing, improving and growing our strong international base and our leading position in B2B Frozen Bakery and European bakery driven food solutions. Together with a clear and relentless focus on customers, the Board remains confident in the underlying strength in the business.

Following significant refreshment of the composition of the Board over the past two financial years and which is continuing with the proposed election of three new members to the Board, if approved by shareholders, and the flexibility that will be provided by the capital raise being proposed at the 2018 AGM, if approved by shareholders, ARYZTA has the requisite expertise and skills in place at Board level to oversee and contribute to senior management’s implementation of our revised strategy and multiyear turnaround plan.

ARYZTA Board and Executive Management

There were a number of changes to the Board and Executive Management team of ARYZTA during FY18.

At the ARYZTA 2017 Annual General Meeting (‘AGM’), Wolfgang Werlé retired without seeking re-election and Jim Leighton and Kevin Toland were elected to the Board.

In addition, on 11 September 2018, as part of a continued programme of Board refreshment, ARYZTA announced the nomination of three new independent non-executive Directors to the Board. Subject to shareholder approval at the AGM on 1 November 2018, Michael Andres, Greg Flack and Tim Lodge will be appointed to the Board. Each of the three Directors has deep expertise in the food industry, as well as in business turnaround and transitions, and will be hugely valuable additions to the Board.

The Board would also like to extend its sincere appreciation to Chuck Adair, who will step down from the Board at the 2018 AGM, for his services to ARYZTA over the past eight years. He played a significant role on the Board and we are grateful for the commitment he has shown to the company during his tenure. We wish him well for the future.

Biographical details of Michael, Greg and Tim will be included in the 2018 AGM invitation.

Corporate Governance Report (continued)

As of 31 July 2017, the Executive Management team comprised: Pat Morrissey, Group General Counsel, Company Secretary and CAO; Dermot Murphy, COO Europe; and Robert O'Boyle, COO APMEA. The following changes to the Executive Management team took place during the course of FY18:

– Kevin Toland commenced his role as Group CEO on 12 September 2017.

– Frederic Pflanz commenced his role as Group CFO in January 2018. David Wilkinson, who had held the role of Interim CFO, worked alongside Frederic until 23 March 2018, in order to ensure a seamless transition.

– Tony Murphy commenced his role as Chief People Officer on 1 December 2017.

– Dave Johnson commenced his role as CEO North America on 23 January 2018.

– John Heffernan commenced his role as Chief Strategy Officer on 28 February 2018.

– Gregory Sklikas commenced his role as CEO Europe in May 2018, as a successor to Dermot Murphy, who had decided to step down from his position.

– Pat Morrissey stepped down from his role as Group General Counsel, Company Secretary and CAO on 30 June 2018.

The Board would like to express its sincere thanks to Pat Morrissey and Dermot Murphy for the invaluable contribution to ARYZTA throughout their service.

As a result, on 30 May 2018, the Board confirmed that it had appointed a new Executive Committee comprised of: Kevin Toland, CEO; Frederic Pflanz, CFO; Gregory Sklikas, CEO Europe; Dave Johnson, CEO North America; Claudio Gekker, COO Latin America; Robert O'Boyle, COO APMEA; John Heffernan, Chief Strategy Officer; and Tony Murphy, Chief People Officer.

In addition, on 11 September 2018, Rhona O'Brien commenced her role as General Counsel and Company Secretary and joined the Executive Committee.

We believe that our ability to attract this calibre of candidates to the Executive Committee during the past 12 months demonstrates the continued appeal of our franchise, and that ARYZTA is now in a strong position in terms of the range of talented leaders within the organization who have the skills and the commitment to deliver the multi-year turnaround programme.

Governance Framework

Details of the corporate governance framework adopted by ARYZTA (namely the Articles of Association, Organisational Regulations and Terms of Reference for the Committees of the Board) are available on the Company website at www.aryzta.com/about-aryzta/corporate-governance.

Corporate Governance Report (continued)

Leadership

The Board

The Board is responsible for stewardship, governance and oversight, and for setting the strategic direction of ARYZTA, in order to deliver sustainable value. The Board is also responsible for defining risk appetite and risk mitigation/management. The Board is committed to the highest standards of corporate governance in its management of ARYZTA and its accountability to shareholders and other stakeholders. Strong leadership and strong corporate governance are integral parts of our corporate culture and the Board leads by example. Biographical details of the Directors are provided on pages 36 to 38. When assessing its composition, as well as the composition of its main Committees, the Board reviews international best-practice standards and global corporate governance developments.

Board Independence

At 31 July 2018, the Board of ARYZTA consisted of the Chairman, one Executive Director and six Non-Executive Directors. The Board's policy is that a majority of its membership consist of independent Non-Executive Directors, as determined in accordance with the Swiss Code of Best Practice for Corporate Governance (the 'Swiss Code'). The Board confirms that it is, and was throughout FY18, fully compliant with the Swiss Code.

In June 2018, after careful consideration, the Company entered into a six-month consultancy arrangement with Jim Leighton pursuant to which Jim will provide advisory services on the implementation of ARYZTA's three-year €200m cost reduction plan, Project Renew. Over and above his normal Board fees, the compensation payable to Jim Leighton under the arrangement amounts to €125,000 over the period of the consultancy, of which €29,000 accrued during FY18.

In determining the arrangement with Jim Leighton, the Board was fully apprised of corporate governance best-practice and, as a result of this arrangement, Jim Leighton ceased to be regarded as an independent director. Notwithstanding this, the Board is firmly of the belief that Mr Leighton's established skills and experience, his knowledge of the ARYZTA business, and the importance of Project Renew to the Group's multi-year turnaround story meant such an arrangement was, in balance, in the best interests of the Group and our stakeholders. The fee arrangement will be reviewed annually and the Board does not currently envisage the term of the agreement remaining in place beyond FY19.

Outside of Mr Leighton's classification for the terms of the Swiss Code, the Board is fully satisfied that his contributions to the Board are hugely valuable to the Company and continues to believe that Jim Leighton exercises independent character and judgement when contributing to Board discussions and making decisions. In line with the Swiss Code, and subject to his re-election by shareholders, following the 2018 AGM Jim Leighton will not be re-appointed to the Audit Committee throughout the period of the consulting arrangement.

Save as set out above in respect of Jim Leighton, all Non-Executive Directors are considered by the Board to be independent in character and judgement within the meaning of the Swiss Code and none of the Non-Executive Directors are party to

Corporate Governance Report (continued)

relationships or circumstances with ARYZTA which, in the Board's opinion, are likely to affect their independence or judgement. Subject to the approval of all Directors at the 2018 AGM, 78% of the Board will be independent non-executive Directors.

To ensure the effective oversight of financial reporting, risk management, remuneration and the future leadership of the business, the Board delegates certain functions to three main Board Committees. Further details on the role of these key Committees are provided on pages 40 to 42.

The Chairman
The Chairman is responsible for the effective leadership, operation and governance of the Board and its Committees. He ensures that all Directors contribute effectively in the development and implementation of the Company's strategy whilst ensuring that the nature and extent of the significant risks the Company is willing to embrace in the implementation of its strategy are determined and challenged.

Governance and Culture

As a Board, we are committed to ensuring we adhere to best-practice corporate governance principles and apply them in a pragmatic way that adds value to ARYZTA. Continually enhancing our corporate governance is central to our aim of ensuring the stability of ARYZTA and returning the business to a satisfactory level of performance and growth.

Culture and the fostering of an inclusive performance-based organisation is a key focus for us as part of our wider governance framework. The Board will continue to work to ensure that ARYZTA's revised strategy, operating model and remuneration framework are aligned with our cultural focus. The success of our strategy is dependent on developing a culture across ARYZTA that supports the pursuit of teamwork and excellence. We continue to focus on ensuring ARYZTA's core vision and values are developed and clearly understood by all our stakeholders, particularly our people. We recognise that the Board must lead by example to ensure these values are embedded not just in the boardroom, but are shared and understood throughout the business and form an integral part of interaction with all stakeholders.

A healthy culture protects and generates value for our stakeholders and the Board ensures that there is a regular review and evaluation of the corporate culture at ARYZTA. One of the key aspects of returning the business to performance and growth is continuing to foster a culture that thrives on ethics, transparency, excellence and performance accountability.

Board Refreshment and effectiveness

As detailed in this report, the last twelve months has seen a number of appointments to ARYZTA's Board. This reflects an ongoing programme of refreshment and renewal and the Board's desire to deepen its skills and expertise. Board refreshment is a fundamental aspect of fostering and sharing diverse perspectives in the boardroom and the generation of new ideas and business strategies. Improving the diversity of the Board will be a clear objective of the Board refreshment programme in FY19.

Central to effectively setting and overseeing ARYZTA's refocused strategy and determining our approach to risk is our Board's thorough understanding of our business and industry.

Corporate Governance Report (continued)

Throughout FY18, led by the Governance & Nomination Committee, the Board continued to review its composition to ensure it meets our objective of having the diversity of skills, experience, gender and geographic background relevant to ARYZTA's strategy and business profile. In the context of the challenges facing the business, the priority was to recruit Directors who would add to the existing skills and experience of the Board. With the help of an international executive recruitment firm, significant emphasis was placed on the diversity of skills and expertise required for new appointments and the importance of a strong cultural fit with ARYZTA, as it pursues its future strategy and objectives. A cornerstone of the recruitment process was the identification of individuals with relevant industry experience, but also situational experience, focusing on those candidates who have also had success in implementing business transformations or turnaround plans.

As part of the process of refreshment and renewal, the Board was delighted to confirm the appointment of Jim Leighton as a Non-Executive Director of the Company at the 2017 AGM. In addition, as announced on 11 September 2018, the Board intends to nominate Michael Andres, Greg Flack and Tim Lodge as candidates to serve as independent Non-Executive Directors of the Board at the 2018 AGM, subject to the approval of ARYZTA shareholders at the 2018 AGM.

The Board is satisfied that, subject to approval of the additional Directors at the 2018 AGM, its current composition includes an appropriate balance of longer-serving and newly appointed Directors who collectively have the critical skills and experience relevant to the challenges facing ARYZTA. The addition to the Board of Directors of the calibre of Michael Andres, Greg Flack and Tim Lodge, if elected by shareholders at the 2018 AGM, will contribute positively to the effectiveness of the Board.

The effectiveness of the Board is also impacted by the relationship between Non-Executive Directors and management. Together with the Group CEO and Group CFO, the Chairman has spent time ensuring the flow of information between senior management and Non-Executive Directors has been sufficient to further assist the Board to be effective in overseeing strategy and performance.

Given the level of recent Board refreshment, in 2019 a particular focus for the Chairman and the Board will be the development, and where applicable the training, of Non-Executive Directors to ensure the Board and its main Committees continue to evolve in line with our strategy and business.

Shareholder Engagement

The Board is committed to ongoing dialogue with shareholders to enable clear communication of ARYZTA's objectives and to foster mutual understanding of what is important to the Board and ARYZTA's shareholders. In addition, the Board is continually apprised of shareholder interaction by the Group CEO and Investor Relations team, consistent with the obligation to develop an understanding of the views and concerns of major shareholders.

Corporate Governance Report (continued)

Risk Management
The Board is and will be focused on ensuring that the Group's risk management and internal control systems are effective in underpinning robust decision-making on all capital allocation decisions. The Board has continued to debate and develop its understanding of risk, risk appetite and tolerance, risk testing and how to maximise business opportunities. Supported by the Audit Committee, the Board continues to strive for a better understanding of the risks we face.

Compensation Report
At the 2017 Annual General Meeting, shareholders ratified the 2017 Compensation Report through a separate advisory vote, and in line with Swiss law, shareholders approved the maximum aggregate amount of remuneration of the Board of Directors for the period ending at the 2018 AGM and for Executive Management for the financial year ending 31 July 2019.

ARYZTA Corporate Governance Report format
The ARYZTA Corporate Governance Report follows the SIX Swiss Exchange Directive on Information relating to Corporate Governance and takes into account the Swiss Code of Best Practice for Corporate Governance.

The ARYZTA Group consolidated financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') and the requirements of Swiss law. The ARYZTA AG Company financial statements are prepared in accordance with the requirements of Swiss Law and the Company's Articles of Association. Where necessary, the financial statement disclosures have been extended to comply with the requirements of the SIX Swiss Exchange Directive on Information relating to Corporate Governance.

In this report, the terms 'ARYZTA' and the 'Company' refer to ARYZTA AG, whereas the 'Group' and the 'ARYZTA Group' refer to ARYZTA AG and its subsidiaries. The 'Board' refers to the Board of Directors of the Company.

To avoid duplication in some sections, cross-references are made to the 2018 Financial Statements (comprising the Group consolidated financial statements and Company financial statements of ARYZTA AG), as well as to the Articles of Association of ARYZTA AG (available on the Company website at www.aryzta.com/about-aryzta/corporate-governance).

Corporate Governance Report (continued)

1 Group structure and shareholders

1.1 Group structure

The ARYZTA General Meeting is the ultimate governing corporate body of the Group and the Board is accountable and reports to the shareholders, by whom it is elected. The Board, while entrusted with the ultimate direction of ARYZTA, as well as the supervision of management, has delegated responsibility for the day-to-day management of the Group, to the extent allowed under Swiss law, through the Chief Executive Officer ('CEO'), to Executive Management. The Group's management and organisational structure corresponds to its current segmental reporting lines: ARYZTA Europe, ARYZTA North America and ARYZTA Rest of World. Please refer to the section 'Segmental Reporting' in the Group Statement of Accounting Policies and Note 1 to the ARYZTA Group Consolidated Financial Statements on page 89 and pages 100 to 103 respectively for further details regarding the Group's reporting segments.

Each segment's management team is responsible for the day-to-day activities of their segment and reports to Executive Management, which in turn reports through the CEO to the Board.

1.1.1 Listed companies of the ARYZTA Group

ARYZTA AG

Name and domicile:	ARYZTA AG, 8001 Zurich, Switzerland
Primary listing:	SIX Swiss Exchange, Zurich, Switzerland
Swiss Security number:	4 323 836
ISIN:	CH0043238366
Cedel/Euroclear common code:	037252298
Secondary listing:	Irish Stock Exchange, trading as Euronext Dublin, Dublin, Ireland
SEDOL Code:	B39VJ74
Swiss Stock Exchange symbol:	ARYN
Irish Stock Exchange symbol:	YZA

Stock market capitalisation as of 31 July 2018:
CHF 1,259,521,174 or €1,083,341,097 based on 89,933,679 registered shares outstanding (i.e. disregarding 2,987,108 treasury shares) and closing prices of CHF 14.005 or €12.046 per share.

Stock market capitalisation as of 31 July 2017:
CHF 2,758,615,019 or €2,443,078,456 based on 88,758,527 registered shares outstanding (i.e. disregarding 3,052,007 treasury shares) and closing prices of CHF 31.08 or €27.525 per share.

1.1.2 Non-listed companies of the ARYZTA Group

Details of the significant subsidiaries and associated companies of ARYZTA (being their company names, domicile, share capital, and the Company's participation therein) as well as the basis for classifying such subsidiaries as significant are set out in note 32 of the 2018 ARYZTA Group consolidated financial statements on page 153.

Corporate Governance Report (continued)

1.2 Significant shareholders

As at 31 July 2018, the Company has been notified of the following shareholdings or voting rights (adjusted, where applicable, for the effects of the scrip dividend), which amount to 3% or more of the Company's issued ordinary share capital:

	Number of shares as at 31 July 2018	**Number of shares % as at 31 July 2018**	Number of shares as at 31 July 2017	Number of shares % as at 31 July 2017
Cobas Asset Management	**9,309,685**	**10.02%**	2,897,454	3.16%
Causeway Capital Management LLC	**6,967,763**	**7.50%**	6,881,741	7.50%
CI Financial Corp.	**4,673,420**	**5.03%**	2,843,081	3.10%
Black Creek Investment Management Inc.	**4,660,950**	**5.01%**	4,603,407	5.01%
Financière de l'Echiquier	**4,636,210**	**4.99%**	–	–
ARYZTA Treasury shares	**2,987,108**	**3.21%**	3,052,007	3.32%
BlackRock, Inc.	**2,809,135**	**3.02%**	–	–
Norges Bank	–	–	2,848,734	3.10%

Any significant shareholder notifications during the year, and since 31 July 2018, are available from the Group's website at:
www.aryzta.com/investor-centre/shareholder-notifications.

1.3 Cross-shareholdings

The ARYZTA Group has no interest in any other company exceeding five percent of voting rights of that other company, where that other company has an interest in the ARYZTA Group exceeding five percent of the voting rights in ARYZTA.

2 Capital structure

2.1 Capital

The registered share capital of the Company, as at 31 July 2018, amounts to CHF 1,858,415.74 and is divided into 92,920,787 registered shares with a par value of CHF 0.02 per share. The share capital is fully paid-up.

2.2 Authorised and conditional capital

ARYZTA has no conditional share capital.

Pursuant to Article 5 of the Articles of Association (governing Authorised Share Capital), the amount by which the share capital of the Company may be increased for general purposes may not exceed CHF 161,416.00 (through the issue of up to 8,070,800 registered shares to be paid up in full with a par value of CHF 0.02 per share). Authority for this purpose expires on 9 December 2019.

The Board has the power to determine the issue price, the date of issue, the date of entitlement to dividends, the allocation of non-exercised pre-emptive rights and the type of contribution to be made. The Board may withdraw or limit the pre-emptive rights in the event of the use of those shares: (1) for acquisitions, (2) to broaden the shareholder constituency, or (3) or for the purposes of employee participation. For further details, refer to Article 5 of the Articles of Association, which is available on the Company website at www.aryzta.com/about-aryzta/corporate-governance.

Corporate Governance Report (continued)

2.3 Changes in capital

Changes in share capital, treasury shares and the allocation of treasury shares to awards granted in connection with the ARYZTA Long-Term Incentive Plans (Restricted Stock Plan and Option Equivalent Plan) over the last three financial years are as follows:

	Nominal value CHF	Shares in issue	Shares outstanding	Treasury shares	Restricted Stock Plan Allocation	Option Plan Allocation	Unallocated Treasury shares
As of 31 July 2015	**0.02**	**91,810,534**	**88,758,527**	**3,052,007**	**–**	**2,574,500**	**477,507**
Granting of LTIP awards		–	–	–	–	2,624,500	(2,624,500)
Forfeitures of LTIP awards		–	–	–	–	(315,500)	315,500
As of 31 July 2016		**91,810,534**	**88,758,527**	**3,052,007**	**–**	**4,883,500**	**(1,831,493)**
Granting of LTIP awards		–	–	–	182,807	–	(182,807)
Forfeitures of LTIP awards		–	–	–	(4,850)	(1,223,000)	1,227,850
As of 31 July 2017		**91,810,534**	**88,758,527**	**3,052,007**	**177,957**	**3,660,500**	**(786,450)**
Scrip dividend issuance	0.02	1,110,253	1,110,253	–	–	–	–
Exercise of LTIP awards		–	64,899	(64,899)	(64,899)	–	–
Forfeitures of LTIP awards		–	–	–	(22,777)	(2,100,000)	2,122,777
As of 31 July 2018	**0.02**	**92,920,787**	**89,933,679**	**2,987,108**	**90,281**	**1,560,500**	**1,336,327**

Of the 92,920,787 registered shares, 89,933,679 are outstanding and 2,987,108 are classified as treasury shares.

2.4 Shares and participation certificates

ARYZTA's capital is composed of registered shares only. As at 31 July 2018, ARYZTA has 92,920,787 fully paid-up, registered shares (including 2,987,108 treasury shares) with a nominal value of CHF 0.02 each. Each share entered in the share register with voting rights entitles the holder to one vote at the General Meeting and all shares have equal dividend rights. ARYZTA has not issued any participation certificates[1].

2.5 Profit-sharing certificates

ARYZTA has not issued any profit-sharing certificates[1].

2.6 Restrictions on transferability and nominee registrations

Article 7 of the Articles of Association deals with the Shareholders' Register and Restrictions on Transferability, and is available on the Company website at www.aryzta.com/about-aryzta/corporate-governance.

1 Participation and profit-sharing certificates are instruments which have similar features to shares, but may differ with regard to their entitlement to dividend payments, voting rights, preferential rights to company assets or other similar rights.

Corporate Governance Report (continued)

2.6.1 Limitations on transferability

Pursuant to Article 7 b) of the Articles of Association, persons acquiring registered shares are, on application, entered in the share register without limitation as shareholders with voting power, provided they comply with the disclosure requirement stipulated by the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (Financial Market Infrastructure Act, FMIA) of 19 June 2015 and expressly declare that they have acquired the shares in their own name and for their own account.

Pursuant to Article 7 f) of the Articles of Association, the Company may in special cases approve exceptions to the regulations described in section 2.6 above. The decision to grant exceptions is based on a discretionary decision of the Board.

2.6.2 Exceptions granted in the year under review

As part of the establishment of ARYZTA, former holders of IAWS Group plc shares and options received ARYZTA registered shares, delivered initially in the form of Capita Depository Interests and since replaced by CREST[1] Depository Interests ('CDIs')[2].

A CDI represents an entitlement to an ARYZTA registered share. CDI holders are not the legal owners of the shares represented by the CDIs. They are not in a position to directly enforce or exercise rights like a shareholder. However, CDI holders do maintain an interest in the shares represented by the CDIs.

To facilitate voting by CDI holders, the Company has entered arrangements with Euroclear UK and Ireland to enable, by way of exception, registration of CREST International Nominees Limited ('CREST') in the share register as nominee with voting rights for the number of registered shares corresponding to the number of CDIs on the CDI register. There were no other exceptions to the provisions of section 2.6.1 above granted in the year under review.

CDI holders who wish to be in a position to directly enforce or exercise their rights must have their interests entered in the share register in accordance with Article 7 of the Articles of Association and effectively hold their shares through a member of the Swiss SIS Settlement System.

1 The CREST system, operated by Euroclear UK and Ireland, is the system for the holding and settlement of transactions in uncertificated (UK, Irish and Channel Island) securities.

2 ARYZTA shares are held in trust by Euroclear UK and Ireland for the benefit of CREST members who have been issued with dematerialised interests representing entitlements to ARYZTA registered shares in the form of CDIs.

Corporate Governance Report (continued)

2.6.3 Admissibility of nominee registrations

Pursuant to Article 7 c) of the Articles of Association, nominee shareholders are entered in the share register with voting rights without further inquiry up to a maximum of 1.5% of the outstanding share capital available at the time. Above this 1.5% limit, registered shares held by nominees are entered in the share register with voting rights only if the nominee in question (at the application for registration or thereafter upon request by the Company) discloses the names, addresses and shareholdings of the persons for whose account the nominee holds 0.3% or more of the outstanding share capital available at that time, and provided that the disclosure requirement stipulated by the FMIA is complied with. The Board has the right to conclude agreements with nominees concerning their disclosure requirements.

Pursuant to Article 7 d) of the Articles of Association, the limit of registration in Article 7c) of the Articles of Association described above also applies to the subscription for, or acquisition of, registered shares by exercising option or convertible rights arising from registered or bearer securities issued by the Company, as well as by means of purchasing pre-emptive rights arising from either registered or bearer shares.

Pursuant to Article 7 e) of the Articles of Association, legal entities, or partnerships, or other associations or joint ownership arrangements, which are linked through capital ownership or voting rights, through common management or in like manner, as well as individuals, legal entities or partnerships that act in concert with intent to evade the entry restriction, are considered as one shareholder or nominee.

2.6.4 Procedure and conditions for cancelling transferability privileges

After due consultation with the person concerned, the Company is authorised to delete entries in the share register as a shareholder with voting rights, with retroactive effect, if they were effected on the basis of false information, or if the respective person does not provide the information pursuant to Article 7 c) described in section 2.6.3 above.

2.7 Convertible bonds, warrants and options

As of 31 July 2018, ARYZTA has not issued any convertible bonds or warrants.

As of 31 July 2018, a total of 90,281 Restricted Stock Plan awards and 1,560,500 Option Equivalent Plan awards were outstanding, subject to fulfilment of predefined vesting conditions in connection with the ARYZTA Long Term Incentive Plan.

Please refer to the Compensation Report on pages 55 to 64 of this Annual Report for further information pertaining to any Long Term Incentive Plan awards granted as an element of Executive Management compensation.

Corporate Governance Report (continued)

3 Board of Directors

3.1 Members of the Board of Directors

At 31 July 2018, the Board of ARYZTA consists of the Chairman, an executive director and six non-executive directors. Board policy is that a majority of its membership consist of independent Non-Executive Directors, as determined in accordance with the Swiss Code. The Board confirms that it is fully compliant with the Swiss Code.

At the ARYZTA 2017 Annual General Meeting ('AGM'), Wolfgang Werlé retired without seeking re-election and Jim Leighton was elected to the Board. As noted on page 27 above, Mr Leighton ceased to be regarded as an independent director within the meaning of the Swiss Code during FY18. Save as set out above in respect of Mr Leighton, all Non-Executive Directors are considered by the Board to be independent in character and judgement and none of these Non-Executive Directors are party to relationships or circumstances with ARYZTA which, in the Board of Directors' opinion, are likely to affect their judgement.

As at 31 July 2018, the Board of ARYZTA was comprised as follows:

Gary McGann (1950, Irish)
Chairman (since December 2016), and non-executive member
BA from University College Dublin; MScMgnt from IMI/Trinity College Dublin and a Fellow of the Association of Chartered Certified Accountants
Gary McGann is the Chairman of Paddy Power Betfair plc. He is also a director of Green REIT plc. He is the former Group Chief Executive Officer of the Smurfit Kappa Group plc, one of the leading providers of paper-based packaging solutions in the world. He is also former CEO of Aer Lingus Group and Gilbeys of Ireland. Gary is also Chairman of Sicon Ltd (Sisk Group) and Aon Ireland, and a former President of IBEC (Irish Business and Employers' Confederation) and CEPI (Confederation of European Paper Industries). In the 'not for profit sector', he is a director of Barnardos and The Ireland Funds. Gary became a member of the ARYZTA Board of Directors in December 2016.

Chuck Adair (1951, American)
Non-executive member
Bachelor of Arts in Biology from North Park College and a Master of Science from Michigan State University in Resource Economics
Chuck Adair retired as Vice-Chairman of BMO Capital Markets in August 2016. BMO Capital Markets is a full-service global investment bank headquartered in Toronto, Canada. He began his career in the agricultural commodity trading and transportation industries in the U.S. and joined BMO Capital Markets in 1984. He was a leader in the formation of BMO's initial U.S. investment banking effort, as one of the senior members of the Chicago investment banking platform in 1995. In addition, he started BMO's Food & Agribusiness Mergers & Acquisitions practice from Chicago. With over 38 years of experience in the food and agribusiness industries, he continues to consult and invest with food and agribusiness companies globally. He is a non-executive director of Darling Ingredients Inc. and a member of the compensation committee. He became a member of the ARYZTA Board of Directors in December 2010 and will retire from the Board without seeking election at the 2018 AGM.

Corporate Governance Report (continued)

Dan Flinter (1950, Irish)
Non-executive member
MA in Economics from University College Dublin, Ireland
Dan Flinter is a former CEO of Enterprise Ireland and a former Executive Director of IDA Ireland. He is Chairman of the Boards of PM Group Holdings Ltd and The Irish Times Ltd. He is a board member of Dairygold Co-Operative and Chairman of its Remuneration Committee. He is a member of the Board of the Institute of Directors, Ireland and joined the Board of the IEDR (Irish Exchange Domain Registry) in July 2017. He is Chairman of the Board of VCIM. He is also a former Chairman of the Governing Authority of Maynooth University and of the Centre For Effective Services. He is a former member of the Board of the Dundrum Theatre Management Company Ltd. He became a member of the ARYZTA Board of Directors in December 2015.

Annette Flynn (1966, Irish)
Non-executive member
Bachelor of Commerce from University College Cork, Ireland; Fellow of the Association of Chartered Certified Accountants; and Chartered Director
Annette Flynn has held various senior roles in UDG Healthcare plc, including Managing Director of the Packaging & Specialty division and Head of Group Strategy. Prior to joining UDG Healthcare, Annette held senior positions with Kerry Group plc working in their Irish, UK and US operations. She is a non-executive director of Canada Life International Assurance Ireland DAC, where she chairs the Risk Committee and is also a member of the Audit Committee. She is also a non-executive director of Dairygold Cooperative Society Ltd where she chairs the Audit Committee. She was formerly an executive and subsequently a non-executive Director of UDG Healthcare plc and a non-executive director of Grafton Group plc. She is a Fellow of the Association of Chartered Certified Accountants and a Chartered Director accredited by the Institute of Directors UK. She became a member of the ARYZTA Board of Directors in December 2014.

Jim Leighton (1956, American)
Non-executive member
Bachelor of Arts, Business Administration & Industrial Relations, University of Iowa
Jim Leighton served as President of Perdue Foods, a large privately-held food and protein company from 2009 to 2013; and Senior Vice President of operations and supply chain from 2006 to 2009. From 2002 to 2006, he served as the Senior Vice President of Operations of ConAgra Foods, Inc., one of the largest publically traded food companies in the United States. Between 2013 and 2016, Jim served as Chief Operating Officer and, subsequently, as Interim Chief Executive Officer of Boulder Brands Inc., one of the largest and fastest growing Health and Wellness food companies in North America. Jim served as President of 40 North Foods from 2016 to 2018, and is currently CEO of Getting FIT, both entities that he founded. He became a member of the ARYZTA Board of Directors in December 2017.

Corporate Governance Report (continued)

Andrew Morgan (1956, English)
Non-executive member
BA from the University of Manchester
Andrew Morgan has more than 25 years with Diageo Plc including most recently seven years as President Diageo Europe. Diageo is the world's leading premium drinks business and a FTSE top 10 company. Andrew also spent eight years with the Gillette Company in a number of sales and marketing roles. He has held a succession of marketing, strategy and general management positions with Diageo and has lived in London, Athens, Madrid and Barcelona, as well as managing emerging markets in Latin America, Asia and Africa. He is a member of Council at the University of Leicester and is investing chairman of two start-up companies in the consumer goods sector. He is a former President of AIM, the European Consumer Goods association and served two terms on the Global Advisory Board of British Airways. He became a member of the ARYZTA Board of Directors in December 2013.

Kevin Toland (1965, Irish)
Executive member
Fellow of the Chartered Institute of Management Accountants; Diploma in Applied Finance from the Irish Management Institute
Mr Kevin Toland is the Chief Executive Officer ('Group CEO') of ARYZTA. From 2013 to 2017 he was CEO of daa plc, which operates Dublin and Cork airports, ARI (a global retailer in travel retail) and daa International. He previously held the position of Chief Executive and President of Glanbia USA & Global Nutritionals, a division of Glanbia plc, based in Chicago, Illinois. He was a member of the Glanbia plc Board of Directors from 2003 to 2013; and, was based in the US from 2004 to 2012. Kevin is a director of Total Produce plc and IBEC (the Irish Business and Employers Confederation). He became a member of the ARYZTA Board of Directors in December 2017.

Rolf Watter (1958, Swiss)
Non-executive member
Doctorate in law from the University of Zurich, Master of Law degree from Georgetown University, Washington D.C., USA
Rolf Watter has been a partner at the Zurich law firm Bär & Karrer since 1994. He specialises in M&A and is an expert in corporate governance. He is currently chairman of PostFinance AG and of Ceva Logistics AG and serves as a director of A.W. Faber Castell (Holding) AG and AP Alternative Portfolio AG. He is also a board member in three charitable foundations, a member of the Regulatory Board of the SIX Swiss Exchange and a professor of law at the University of Zurich. He is a former chairman of Nobel Biocare Holding AG and Cablecom Holdings. In addition, he was a Board member of Zurich Insurance Group AG, Syngenta AG, Forbo Holding AG, and Centerpulse AG. He became a member of the ARYZTA Board of Directors in December 2016.

Corporate Governance Report (continued)

3.2 Other activities and functions

As noted in section 3.1 above, Rolf Watter is a member of the Regulatory Board of the SIX Swiss Exchange.

In June 2018 the Company entered into a consultancy arrangement with Jim Leighton pursuant to which Jim Leighton will provide advisory services on the implementation of ARYZTA's €200m cost reduction plan, Project Renew. The compensation payable to Jim Leighton under the arrangement amounts to €125,000, over the period of the consultancy, of which €29,000 accrued during FY18. As a result of this arrangement, Jim Leighton ceased to be regarded as an independent director within the meaning of the Swiss Code during FY18.

None of the non-executive members of the Board of Directors has fulfilled any operational management functions for companies of the ARYZTA Group in the three years immediately preceding the period. Related-party transactions with any members of the Board of Directors or Executive Management did not exceed €100,000 in aggregate during the years ended 31 July 2018 and 2017.

3.3 Number of activities permitted outside the Group

Pursuant to Article 25 of the Articles of Association, the members of the Board of Directors currently may hold no more than the following number of additional mandates in the supreme executive bodies of companies and organisations outside of the Company:

- up to three mandates in listed companies;
- up to three mandates in non-listed companies;
- up to four mandates in (i) charitable organisations, (ii) associations or foundations and (iii) other non-profit institutions.

For further details, refer to Article 25 of the Articles of Association, which is available on the Company website at www.aryzta.com/about-aryzta/corporate-governance.

3.4 Elections and terms of office

The General Meeting has the competence to appoint and remove the members of the Board. By virtue of the Ordinance against Excessive Compensation with respect to Listed Stock Corporations enacted by the Swiss Federal Council (the "Ordinance"), as from the ARYZTA 2014 AGM, all directors are subject to individual annual election by the General Meeting.

3.5 Internal organizational structure

3.5.1 Allocation of tasks within the Board of Directors

The Board has adopted Organizational Regulations that define the essential roles and responsibilities of the Board, the Chairman, the Committees of the Board and Executive Management. By virtue of Swiss law, as from the ARYZTA 2014 AGM, the office of Chairman and the members of the Remuneration Committee are subject to annual election by the General Meeting. Membership of the Audit Committee, the Governance and Nomination Committee and the respective Chairs thereof, are determined annually by the Board, following the Annual General Meeting, in accordance with the Organizational Regulations, which are available on the ARYZTA website at www.aryzta.com/about-aryzta/corporate-governance.

Corporate Governance Report (continued)

3.5.2 Tasks and areas of responsibility for each Committee of the Board of Directors

ARYZTA has an Audit Committee, a Governance and Nomination Committee and a Remuneration Committee. The powers and responsibilities of each Committee are set out in their respective Terms of Reference, as approved by the Board and which are available on the ARYZTA website at www.aryzta.com/about-aryzta/corporate-governance.

As of 31 July 2018, these Committees were comprised as follows:

	Governance and Nomination Committee	Audit Committee	Remuneration Committee
Gary McGann (Chairman)	X		X
Charles Adair			X[1]
Dan Flinter	X[1]		
Annette Flynn		X[1]	
Andrew Morgan		X	
Rolf Watter	X		X
James B. Leighton		X	

X denotes that the Board Member is on the applicable Committee.
1 denotes the Board Member who chairs the applicable Committee.

Audit Committee

From 1 August 2017 until the Annual General Meeting on 7 December 2017, the Audit Committee was comprised of three non-executive directors, namely Annette Flynn (Chair), Andrew Morgan and Wolfgang Werlé. From 7 December 2017 to 31 July 2018, the Audit Committee was comprised of three non-executive directors, namely Annette Flynn (Chair), Andrew Morgan and James B. Leighton. In the 2018 financial year, the Audit Committee met seven times and the average duration of the meetings was approximately three hours. Due to the entering into of a consulting arrangement with Jim Leighton, and subject to his re-election as a director by shareholders, Jim Leighton will not be re-appointed to the Audit Committee following the 2018 AGM.

The Audit Committee's role includes reviewing the Group consolidated financial statements and Company financial statements, the interim and full-year results and the significant financial reporting judgements contained therein. The Audit Committee also reviews the Group's internal controls, and the scope and effectiveness of the Group's Internal Audit function. The Head of Internal Audit has access to the Audit Committee at all times and they, as well as the Group CFO, regularly attend meetings of the Audit Committee by invitation.

In the financial year 2018 the Audit Committee, operating under its Terms of Reference, discharged its responsibilities by reviewing:

– the Group's draft financial statements and interim results statement prior to Board approval and reviewing the external auditor's reports thereon;
– the appropriateness of the Group's accounting policies;
– the audit and non-audit fees payable to the Group's external auditor;

Corporate Governance Report (continued)

- the external auditor's plan for the audit of the Group's accounts, which included key areas of extended scope work, key risks to the accounts, confirmations of auditor independence and the proposed audit fee, and approving the terms of engagement for the audit;
- the Group's financial controls and risk systems;
- the Internal Audit function's terms of reference, resources, its work programme and reports on its work during the year;
- the arrangements by which staff may, in confidence, raise concerns about possible fraud; and
- the quality of underlying earnings reported by ARYZTA.

Remuneration Committee
From 1 August 2017 to 31 July 2018, the Remuneration Committee was comprised of three non-executive directors, namely Chuck Adair (Chairman), Gary McGann and Rolf Watter. Each of these directors is considered by the Board to be independent in judgement and character. In FY 2018, the Remuneration Committee met seven times and the average duration of the meetings was approximately two hours.

The Remuneration Committee is responsible for determining all elements of the remuneration of the members of the Board and the Group CEO, and for approving the remuneration of other members of senior management, upon the recommendation of the Group CEO. The Remuneration Committee also reviews and makes recommendations to the Board on an annual basis regarding the proposed total remuneration of the Board and the Executive Management for future financial periods for approval at the Annual General Meeting of shareholders. The Group's remuneration policy for executive and non-executive directors and details of directors' remuneration are contained in the Compensation Report on pages 55 to 64 of this Annual Report, in accordance with the Swiss Code of Obligations and the SIX Directive on Information relating to Corporate Governance.

Governance and Nomination Committee
From 1 August 2017 to 31 July 2018, the Governance and Nomination Committee was comprised of three non-executive directors, namely Dan Flinter (Chairman), Gary McGann and Rolf Watter. Each of these directors is considered by the Board to be independent in judgement and character. In financial year 2018, the Governance and Nomination Committee met four times and the average duration of the meetings was approximately two hours.

The Governance and Nomination Committee is responsible for identifying and nominating, for approval of the Board and ultimately the shareholders, candidates to fill Board vacancies and for the continuous review of senior management succession plans. This role was prominent in Committee discussions during FY18. In addition, the Governance and Nomination Committee is responsible for regularly reviewing the structure, size and composition of the Board and making appropriate recommendations to the Board in order to ensure an adequate size and a well-balanced composition of the Board. The Governance and Nomination Committee is also responsible for making determinations regarding the independence of members of the Board. In that context, the Governance and Nomination Committee also engaged (together with other Directors) in a significant number of interviews over the course of FY18 in order to identify and recommend for approval to the full Board a number of candidates for election by shareholders as part of the Board renewal programme.

Corporate Governance Report (continued)

The Governance and Nomination Committee is charged with monitoring the Company's compliance with corporate governance best practices and with applicable legal, regulatory and listing requirements and recommending to the Board such changes or actions as it deems necessary. The Governance and Nomination Committee is also responsible for reviewing the performance and effectiveness of the Chairman and the full Board during the year. In the financial year 2018 the Governance and Nomination Committee worked collaboratively with the Remuneration Committee.

Ad hoc committee
In addition, in FY 2018 the Board established an ad hoc Committee comprising Gary McGann, Annette Flynn, Rolf Watter and Dan Flinter to review certain budgeting and forecasting controls and processes in ARYZTA. The ad hoc Committee made a number of recommendations to the Board during the course of the year and was dissolved in July 2018.

3.5.3 Work methods of the Board and its Committees

Eleven Board meetings were held during the financial year 2018. Save for Wolfgang Werlé who retired at the 2017 AGM without offering himself for re-election, no Board member attended less than 75% of Board and/or Committee meetings which he/she was eligible to attend. The average duration of regular Board meetings was approximately five hours. At regularly scheduled meetings, the Chairs of the Committees reported to the Board on their activities. Details of the remit of the Committees are set out in section 3.5.2.

Board of Directors

	Eligible to attend	Attended
Gary McGann (Chairman)	11	10[1]
Chuck Adair	11	11
Dan Flinter	11	11
Annette Flynn	11	11
Jim Leighton	8	8
Andrew Morgan	11	10
Kevin Toland	9	9
Rolf Watter	11	10
Wolfgang Werlé	2	2

Audit Committee

	Eligible to attend	Attended
Annette Flynn (Chair)	7	7
Jim Leighton	5	5
Andrew Morgan	7	7
Wolfgang Werlé	2	2

Governance and Nomination Committee

	Eligible to attend	Attended
Dan Flinter (Chair)	4	4
Gary McGann	4	3[1]
Rolf Watter	4	4

1 Gary McGann was unable to attend one meeting during FY18 due to an emergency hospitalisation.

Corporate Governance Report (continued)

Remuneration Committee

	Eligible to attend	Attended
Chuck Adair (Chair)	7	7
Gary McGann	7	7
Rolf Watter	7	7

3.6 Definition of areas of responsibility

The Board of Directors is the ultimate governing body of ARYZTA AG. It has the power and competencies afforded by Swiss law (art. 716a of the Swiss Code of Obligation ('CO')) including in particular:

1) to approve the strategic objectives, annual budget and capital allocations;
2) to appoint and remove executive management; and
3) to act as the ultimate supervisory authority.

The following matters fall within the exclusive competency of the Board of Directors:

- To ultimately direct the Company and issue necessary directives;
- To determine the organisation of the Company;
- To organise the accounting, the internal control system, the financial control and the financial planning system, as well as perform a risk assessment;
- To appoint and remove the persons entrusted with the management and the representation of the Company and to grant signatory power;
- To ultimately supervise the persons entrusted with the management, in particular with respect to compliance with the law and with the Articles of Association, regulations and directives;
- To prepare the business report, as well as to convene the General Meeting and to implement its resolutions;
- To inform the judge in the event of over-indebtedness;
- To pass resolutions regarding the subsequent payment of capital with respect to non-fully paid-up shares;
- To pass resolutions confirming increases in share capital and the amendments to the Articles of Association entailed thereby;
- To examine compliance with the legal requirements regarding the appointment, election and the professional qualifications of the external auditors; and
- To execute the agreements pursuant to art. 12, 36 and 70 of Swiss merger law.

The Board has delegated responsibility for the day-to-day management of the Group, through the Group CEO, to Executive Management, to the extent allowed by Swiss law.

3.7 Information and control instruments pertaining to Group Executive Management

On 30 May 2018, the Board confirmed the appointment of a new Executive Committee as follows; Kevin Toland, Group CEO; Frederic Pflanz, Group CFO; Gregory Sklikas, CEO Europe; Dave Johnson, CEO North America; Claudio Gekker, COO Latin America; Robert O'Boyle, COO APMEA; John Heffernan, Chief Strategy Officer; and Tony Murphy, Chief People Officer.

Corporate Governance Report (continued)

In addition, on 25 June 2018, the Board confirmed the appointment of Rhona O'Brien as the new General Counsel and Company Secretary of the Company, commencing 11 September 2018. On commencement of her appointment, Rhona also joined the Executive Committee.

The Executive Committee reports in a structured manner to the Board with the Group CEO and Group CFO reporting to the Board on a regular basis. In particular, at each Board meeting, the Group CEO informs the Board of the status of current business operations, significant developments and major business transactions and the Group CFO reports on financial performance across the Group and on key financial figures and parameters. In addition, executives within the Group deliver presentations directly to the Board as and when appropriate.

The Board approves the formal Risk Assessment, as well as the design, implementation and maintenance of the Internal Control System.

The ARYZTA Internal Audit function reports directly to the Audit Committee and to the Group CEO and Group CFO. Internal Audit may audit all Group activities and regularly meets with Group Executive Management. Internal Audit discusses audit plans with the Audit Committee on at least an annual basis, but may discuss them more frequently should circumstances require.

The external auditors, PricewaterhouseCoopers AG (the Auditors of the ARYZTA Group consolidated financial statements and the Company financial statements), conduct their audits in compliance with the auditing standards referenced in their respective opinions.

4 Group Executive Management

On 30 May 2018, the Board confirmed that it had approved a new Executive Committee, comprised as follows: Kevin Toland (Group CEO); Frederic Pflanz (Group CFO); Gregory Sklikas (CEO Europe); Dave Johnson (CEO North America); Claudio Gekker (COO Latin America); Robert O'Boyle (COO APMEA); John Heffernan (Chief Strategy Officer); and Tony Murphy (Chief People Officer).

In addition, on 25 June 2018, the Board confirmed the appointment of Rhona O'Brien as its new General Counsel and Company Secretary, commencing 11 September 2018. On commencement of her appointment, Rhona also joined the Executive Committee.

Kevin Toland (1965, Irish)

Chief Executive Officer ('Group CEO')

Fellow of the Chartered Institute of Management Accountants; Diploma in Applied Finance from the Irish Management Institute

Mr Kevin Toland is the Chief Executive Officer ('Group CEO') of ARYZTA. From 2013 to 2017 he was CEO of daa plc, which operates Dublin and Cork airports, ARI (a global retailer in travel retail) and daa International. He previously held the position of Chief Executive and President of Glanbia USA & Global Nutritionals, a division of Glanbia plc, based in Chicago, Illinois. He was a member of the Glanbia plc Board of Directors from 2003 to 2013; and, was based in the US from 2004 to 2012. Kevin is a director of Total Produce plc and IBEC (the Irish Business and Employers Confederation). He became a member of the ARYZTA Board of Directors in December 2017.

Corporate Governance Report (continued)

Frederic Pflanz (1968, French/German)
Chief Financial Officer ('Group CFO')
Graduate Diploma in European Business Administration, ESB Business School; Bachelor of Business Administration (BBA), International Finance, European Studies, NEOMA Business School
Frederic Pflanz joined ARYZTA in January 2018 having previously served as a member of the Executive Board of Maxingvest AG from 2015 to 2017 and as a member of the Supervisory Board of Beiersdorf AG from 2015 to 2018. Prior to this, Frederic held a number of roles in Remy-Cointreau Group from 2010 to 2014, including Group CFO, COO, heading the Group's Global Operations and Director of External Development. Between 1992 and 2010, Frederic held a number of senior positions at L'Oreal Group, the world's largest cosmetics company, where he worked extensively across Continental Europe and Asia. Most recently he served as Chief Financial Officer of the Global Consumer Products Division, the largest division in the L'Oreal Group. Frederic has been a member of the Advisory Board (Beirat) of Stiftung Meridian since November 2017.

Dave Johnson (1956, American)
CEO North America
Bachelor of Business Administration with a concentration in Finance and an MBA from the University of Wisconsin
Dave Johnson is a native of Wisconsin, USA and brings to ARYZTA an extensive background in the food industry. Most recently he served for nine years at Barry Callebaut as President and CEO Americas, retiring in August 2017. Prior to Barry Callebaut, Dave spent over 20 years with Kraft Foods Global, Inc serving in a number of senior positions and was a member of the Global Executive team. His positions included President of Kraft North America from 2003-2006 and President of Operations, Technology and Procurement from 2002-2003. Dave also served as Chief Operating Officer and then Chief Executive Officer and member of the Board, at Michael Foods from 2007-2009.

Gregory Sklikas (1964, Greek)
CEO Europe
MSc, Computing Science, Cardiff University; Bachelor Business Administration, Economics, Athens School of Economics
Gregory is a seasoned international business leader, who has spent the whole of his career in food. Prior to joining ARYZTA in May 2018, Gregory spent 11 years at Royal Friesland Campina where he held a number of senior roles, including most recently, COO, Consumer Products EMEA and serving as a member of the Executive Board. Gregory also served as Regional Director South East Europe between 2011 and 2012 and Managing Director FrieslandCampina Hellas between 2006 and 2012. Between 1993 and 2006, Gregory spent 14 years at Unilever where he was Managing Director Algida Ice Cream Greece & Country Board Member based in Greece and previously held roles in regional marketing, trade and customer management.

Corporate Governance Report (continued)

Claudio Gekker (1965, Brazilian)
COO Latin America
Industrial engineering, Federal University of Rio de Janerio, Brazil; MBA from the COPPEAD Graduate School of Business with an extension in the ESSEC International Business School in France
Claudio joined ARYZTA in May 2014 as head of the Group's Latin American activities. Before joining ARYZTA, Claudio had a long and experienced career in Brazil and Latin America working for multinational companies such as Nabisco, Coca-Cola Company, McCann Erickson, Nestlé and Bimbo Group. In January 2018 he became Vice President and member of the Board of the Brazilian Food Service Institute.

Robert O'Boyle (1975, Irish)
COO APMEA
Bachelor Degree of International Commerce (German) from University College Dublin, Ireland. Fellow of the Institute of Chartered Accountants in Ireland
From 1999 to 2008, Robert worked in Andersen and subsequently KPMG. Since 2008, Robert has fulfilled a number of senior management roles in ARYZTA. From 2013 to 2015 he held the role of European Trading Director, moving in 2016 to head of the Group's APMEA activities as regional COO.

John Heffernan (1970, Irish)
Chief Strategy Officer
Master of Business Administration, INSEAD; MSc, International Accounting and Finance, London School of Economics and Political Science; Bachelor of Commerce (B. Comm.), Banking and Finance, University College Dublin, Ireland
John joined ARYZTA as Chief Strategy Officer in February 2018, having previously held roles in daa plc; ARI and daa International. John served as Chief Development Officer of daa plc from 2014 to 2018. From 2006 to 2014, John was the founder and CEO of a number of businesses in clean energy including Clearpower and Aer Ltd. From 2003 to 2006, he was Acquisitions and Development Director with Boundary Capital, a boutique Irish-based private equity investor and corporate finance advisory. Prior to this, he worked with McKinsey and Company from 1997 to 2003.

Tony Murphy (1963, British)
Chief People Officer
B.A., Industrial Economics, University of Nottingham
Tony joined ARYZTA as Chief People Officer in December 2017. Tony previously held a number of senior HR roles, including with Mondelez as Vice President of Human Resources for the North America Region from 2012 to 2017, with Kraft Foods as Vice President of Human Resources for the Snacks & Confectionary Business in the United States from 2010 to 2012 and with Cadbury as Executive VP for Human Resources in North America from 2008 to 2010, Vice President for Human Resources for the United States and Canada from 2005 to 2008 and People Capability Director in the UK from 2004 to 2005. Tony also served in a number of senior HR roles with Diageo plc in the UK and North America from 1993 to 2004.

Corporate Governance Report (continued)

Rhona O'Brien (1974, Irish)
General Counsel and Company Secretary
Solicitor, Law Society of Ireland; Law (LLB Hons), Trinity College Dublin; Masters (LLM Hons) in Commercial Law from University College Dublin; Diploma in Notarial Law & Practice (Dip. Not. L.) (F.N.P.I.), Faculty of Notaries Public in Ireland
Rhona has served as senior legal and regulatory advisor with over 18 years of legal and governance experience. Rhona joined ARYZTA on 11 September 2018 from DCC Vital Ltd (part of the DCC plc business) where she held the role of Senior Counsel, Legal & Compliance. Prior to joining DCC Vital, Rhona was Senior Director of Legal and Risk Management at Parexel International (IRL) Limited, part of Parexel International Corporation. Rhona has held a variety of senior legal roles at eir (formerly eircom), including as General Counsel and a member of the Executive Senior Management Team from 2013 to 2016 and as Director of Regulation, Public Policy, Compliance and Equivalence from 2014 to 2016. Rhona trained with Arthur Cox before joining eircom as Director of Legal Services in 2007. Rhona is a qualified solicitor admitted in Ireland by the Law Society of Ireland and in England and Wales by the Law Society of England and Wales. Rhona is also a voluntary unpaid non-Executive Director on Dublin City Council Culture Connects Company Ltd.

4.2 Other activities and functions

Except for the above-mentioned assignments, members of Group Executive Management are currently not involved in other management or supervisory bodies. They are not active in managing or consulting functions with interest groups, nor do they hold public or political office. No member of the Group Executive Management holds management contracts for any company outside the ARYZTA Group.

4.3 Number of activities permitted outside the Group

Pursuant to Article 25 of the Articles of Association, the members of the Executive Management, subject to the approval by the Chairman of the Board, may currently hold no more than the following number of additional mandates in the supreme executive bodies of companies and organisations outside of the Company:
- none in listed companies;
- up to two mandates in non-listed companies;
- up to four mandates upon instruction of the Company in companies that are not directly or indirectly controlled by the Company (such as in pension funds and joint-ventures); and
- up to four mandates in (i) charitable organisations, (ii) associations or foundations and (iii) other non-profit institutions.

As noted above, in addition to his role as Group CEO of ARYZTA, Kevin Toland is a non-executive director of Total Produce plc, an Irish company whose shares are listed on the Irish Stock Exchange, trading as Euronext Dublin and the London Stock Exchange. The Board intends to propose an amendment to Article 25 at the Company's 2018 AGM, which would permit members of the Executive Management Team to hold up to one mandate in the supreme executive body of a listed company outside of the Group. The Board believes that there is benefit for the group if members of Executive Management hold a Non-Executive Directorship with another company as it can enhance their overall business experience, while providing insight into strong practices at other companies. If the proposed amendment is approved by shareholders, in line with international best practice corporate governance, members of Executive Management will only be permitted

Corporate Governance Report (continued)

to hold one external mandate as a Board Member of a listed company. Further details of the proposed amendment will be contained in the Company's 2018 AGM invitation.

For further details, refer to Article 25 of the Articles of Association, which is available on the Company website at www.aryzta.com/about-aryzta/corporate-governance.

4.4 Management contracts

There are no management contracts with third parties at ARYZTA Group.

Corporate Governance Report (continued)

5 Compensation, shareholdings and loans

Please refer to the Compensation Report on pages 55 to 64 for disclosures pertaining to compensation, as well as the content and method of determining the compensation and share-ownership programmes. Also, see Articles 20 and 21 of the Articles of Association (available at http://www.aryzta.com/about-aryzta/corporate-governance/), which govern the responsibilities of the Remuneration Committee and Group Remuneration principles.

Non-executive Directors' and Executive Management's share interests

As at 31 July 2018 and 31 July 2017, the Directors and Company Secretary had no interests, other than those shown below, in the ordinary shares in, or loan stock of, the Company or other Group undertakings.

Beneficial interests at 31 July 2018 and 31 July 2017 were as follows:

Shares in ARYZTA at CHF 0.02 each	**No. of shares 2018**	No. of shares 2017
Directors		
Gary McGann	**14,700**	5,650
Chuck Adair	**5,062**	5,000
Dan Flinter	**1,215**	1,200
Annette Flynn	**1,012**	1,000
Jim Leighton[1]	**–**	N/A
Andrew Morgan	**–**	–
Kevin Toland[1]	**8,840**	N/A
Rolf Watter	**7,137**	7,050
Wolfgang Werlé[1]	**N/A**	2,336
Executive Management		
Claudio Gekker	**–**	N/A
John Heffernan	**1,274**	N/A
Dave Johnson	**–**	N/A
Pat Morrissey[2]	**N/A**	131,922
Dermot Murphy[2]	**N/A**	35,000
Anthony Murphy	**–**	N/A
Robert O'Boyle	**10,127**	10,000
Frederic Pflanz	**–**	N/A
Gregory Sklikas	**–**	N/A
Total	**49,367**	199,158

1 Effective 7 December 2017, W. Werlé retired from the Board and J. Leighton and K. Toland were elected to the Board.

2 During FY2018 P. Morrissey and D. Murphy resigned from Group Executive management.

No loans or advances were made by the ARYZTA Group to members of the Board of Directors or to Executive Management during the financial year, or were outstanding at 31 July 2018 (2017: none).

Corporate Governance Report (continued)

6 Shareholders' participation

6.1 Voting rights

Each ARYZTA share registered as a share conferring a voting right entitles the holder to one vote at a General Meeting. Only holders who are registered as shareholders with voting rights are entitled to exercise voting rights or the rights associated with them. The consent of the Company is required for registration in the share register as a shareholder with voting rights and such consent may be declined in the circumstances specified in Article 7 c), d) and e) of the Articles of Association (available at http://www.aryzta.com/about-aryzta/corporate-governance/) as described in more detail in section 2.6.3 above.

Under Article 7 f) of the Articles of Association, the Company may approve exceptions to these restrictions in exceptional cases. As indicated in section 2.6.2 above, ARYZTA has entered into arrangements with Euroclear UK and Ireland to enable investors whose interests in ARYZTA are represented by CDIs to exercise their voting rights. CDI holders who wish to be in a position to directly enforce or exercise their rights must have their interests entered in the share register in accordance with Article 7 of the Articles of Association and effectively hold their shares through a member of the Swiss SIS Settlement System.

Proxies are entitled to attend shareholders' meetings and exercise all rights of the represented shareholders at such meetings. Provisions regarding the appointment of proxies and the issuing of instructions to the independent proxy are contained in Article 13 of the Articles of Association.

6.2 Statutory quorums

Pursuant to Article 15 of the Articles of Association, resolutions at the General Meeting calling for a quorum of at least two-thirds of the votes represented are required for:

– The cases listed in art. 704 para. 1 CO and in art. 18 and 64 Merger Act;
– The easement or abolition of the restriction of the transferability of registered shares;
– The conversion of bearer shares into registered shares; and
– Any change to the provisions of article 15 of the Articles of Association.

6.3 Convocation of General Meeting of the shareholders

General Meetings are convened by the Board of Directors and, if need be, by the Auditors. In addition, the Board of Directors must convene a General Meeting within two months if shareholders who jointly represent at least ten per cent of the share capital of the Company request in writing that a meeting be called and give details of the items to be discussed and the motions. Notice of the General Meeting is given by publication in the Swiss Official Gazette of Commerce and on the Group's homepage (www.aryzta.com) at least 20 days before the date of the meeting. The notice must state, inter alia, the day, time and place of the Meeting and the agenda.

Corporate Governance Report (continued)

6.4 Agenda
The Board states the items on the agenda. One or more registered shareholders with voting rights who jointly represent at least ten percent of the share capital of the Company registered in the Commercial Register may request items to be included in the agenda. Such requests must be in writing, specifying the items and the proposals, and be submitted to the Chairman at least 45 days before the date of the General Meeting.

6.5 Entry in the share register
The relevant date to determine the shareholders' right to participate in the General Meeting, on the basis of the registrations appearing in the share register, is set by the Board in the invitation to the General Meeting.

7 Change of control and defence measures

7.1 Obligation to make an offer
ARYZTA does not have a provision on opting out or opting up in its Articles of Association. Thus, the provisions regarding the legally prescribed threshold of 33 1/3% of the voting rights for making a public takeover offer set out in Article 135 of the FMIA are applicable.

7.2 Change of control clauses
Benefits under the ARYZTA LTIP vest upon a change of control by reference to the fair value of the LTIP instruments. The final determination of such fair value falls to be made by the Board of Directors (acting through the Remuneration Committee thereof) on the basis of independent, external, professional advice. Otherwise, the agreements and plans benefiting the members of the Board or the Group Executive Management team are unaffected by a change of control. Further details regarding the benefits under the ARYZTA LTIP are set out in the Compensation Report on pages 55 to 64 of this Annual Report.

8 Auditors

8.1 Duration of the mandate and term of office of the lead auditor
Following a formal tender process, PricewaterhouseCoopers AG, Zurich, was elected as statutory auditor and Group auditor beginning in December 2009 and has been elected for a term of one year each year thereafter. Sandra Boehm was the lead auditor for the financial years 2018 and 2017. Patrick Balkanyi was lead auditor from PricewaterhouseCoopers AG's appointment in 2009 to 2016. The lead auditor rotates every seven years in accordance with Swiss law. At the 2017 AGM, PricewaterhouseCoopers AG, Zurich, was re-elected as statutory auditor and Group auditor for the 2018 financial year.

8.2 Audit fees
The total audit and audit-related fees charged by the Group auditors in financial year 2018 amounted to €2,450,000.

The total audit and audit-related fees charged by the Group auditors in financial year 2017 amounted to €2,479,000.

Corporate Governance Report (continued)

8.3 Additional fees

The Group's policy is to manage its relationship with the Group's external auditor to ensure their independence is maintained. In order to achieve this, the Board has determined limits on the type and scale of non-audit work that can be provided by the auditor.

Contracts to the auditor for other non-audit work are deemed to be pre-approved by the Audit Committee, up to an aggregate limit of 75% of the audit fee on average over a three year period. This is subject to the requirement that all contracts for specific pieces of non-audit work with fees exceeding €250,000 be awarded on the basis of competitive tendering. Where the awarding of a contract for non-audit work to the auditor is to be made that is likely to increase total fees for non-audit work above this aggregate limit, the Group CFO consults the Chair of the Audit Committee in advance of such a contract being awarded.

Fees for additional services rendered by the auditors to the ARYZTA Group in financial year 2018 totalled €1,138,000 (2017: €1,429,000). A significant portion of these fees related to tax return preparation or review in over 20 countries, covering more than 100 legal entities.

Auditor's remuneration

in EUR `000	2018	2017
– Auditor's remuneration for audit and audit-related services	**2,450**	2,479
– Auditor's remuneration for tax compliance and related services	**758**	1,052
– Auditor's remuneration for tax consulting services	**340**	377
– Auditor's remuneration for advisory services	**40**	–
	3,588	3,908

– Total other fees / Audit and audit-related services	**46%**	58%
– Tax consulting or advisory services / Audit and audit-related services	**16%**	15%

8.4 Information tools pertaining to the external audit

PricewaterhouseCoopers presents to the Audit Committee a detailed report on the results of the 2018 Group consolidated and Company financial statement audits, the findings on significant financial accounting and reporting issues, as well as the findings on the Group's internal control system ('ICS').

In the financial year 2018, both PricewaterhouseCoopers and the Group Head of Internal Audit participated in all regularly scheduled Audit Committee meetings. The Group CFO or Interim CFO attended and participated in all Audit Committee meetings during their respective appointments. Other members of the Group Executive Management attended the meetings as invited. In addition, the Group Head of Internal Audit regularly met with the Chair of the Audit Committee for interim updates. During the year the Audit Committee and the Chair of the Audit Committee met with PricewaterhouseCoopers without management present and vice versa.

On an annual basis, the Board of Directors reviews the selection of the auditors, in order to propose their appointment to the Annual General Meeting of ARYZTA. The Audit Committee assesses the effectiveness of the work of the auditors in accordance with Swiss law. The lead auditor rotates every seven years in accordance with Swiss law.

Corporate Governance Report (continued)

During meetings of the Audit Committee, audit and non-audit-related fees to be charged by PricewaterhouseCoopers during the year, are reviewed to mitigate the risk of any potential impairment to PricewaterhouseCoopers' independence. PricewaterhouseCoopers monitors its independence throughout the year and confirms its independence to the Audit Committee annually.

9 Investor Communications Policy

Guiding principles

ARYZTA is committed to pursuing an open and consistent communication policy with shareholders, potential investors and other interested parties. The guiding principles of this policy are that ARYZTA gives equal treatment to shareholders in equal situations, that any price-sensitive information is published in a timely fashion and that the information is provided in a format that is as complete, simple, transparent and consistent as possible.

Quarterly announcement cycle

Announcement	News Release	Report	Conference Call	Webcast
First-quarter trading update	x		x	
Half-Year results	x	x	x	x
Third-quarter trading update	x		x	
Full-year results	x	x	x	x
Annual Report	x	x		

All announcements, reports and webcasts are available on the ARYZTA website: www.aryzta.com. An automatic alerting service is also provided through the website.

ARYZTA's Investor Relations programme for institutional investors is carried out in line with the quarterly announcement cycle. These investor communications focus either on recently announced financial results, recent corporate activity or the longer-term strategy of the Group. They do not serve the purpose of disclosing new information that might encourage an investment decision.

Investor relations contact details

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Communications Officer

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Corporate Governance Report (continued)

Key dates to September 2019

Annual General Meeting 2018	1 November 2018
First-quarter trading update	26 November 2018
Announcement of half-year results 2019	11 March 2019
Third-quarter trading update	28 May 2019
Announcement of the 2019 annual results	30 September 2019

Annual Report and Accounts 2018
Compensation Report

Introduction

As discussed in the Chairman's letter and the CEO's review, the financial year ended 31 July 2018 ('FY18') was a very difficult year for ARYZTA and the Group remains in a period of transition. Bonus payouts for the year under review reflect the disappointing financial and shareholder returns performance. The only payouts under the short-term incentive scheme related to Executives responsible for regions that performed well during the year. The CEO and CFO did not receive a bonus payout for FY18.

Review of Remuneration
During FY18, the Board has focused on implementing the necessary strategic, financial and operational changes required to ensure the Group returns to expected levels of performance. In the face of exceptional circumstances, as a Board our focus has been to establish a baseline and develop a cohesive strategy to move forward.

Separate to the key component of stabilising the business was the appointment of a new Executive Committee. As detailed on page 26, the Board has had significant success in recruiting individuals with the relevant expertise and experience to lead the business through its multiyear turnaround. After a substantial level of change, seven of the nine members of the current Executive Committee have been appointed within the last 14 months.

In light of the challenges facing the business, the length and depth of the strategic review and the level of change at Executive Committee level, as a Committee, we were not in a position to set sensible performance targets and grant an Long Term Incentive Plan (LTIP) during FY18. Nonetheless, a fundamental part of recruiting our newly formed senior management team was the establishment of a LTIP, which we communicated would be set up upon completion of the strategic review and the stabilisation of business performance. There were no recruitment or sign-on payments granted to any of the recruited Executive Committee members.

While significant progress has been made during FY18, it became clear to the Board that a capital raise of €800 million was required to create the necessary strategic and financial flexibility to implement the business turnaround plan. The capital raise will be subject to shareholder approval at the 2018 AGM.

Following the AGM, we will have our recapitalisation plan and efficiency plan (Project Renew) in place which provides the framework for the delivery of our strategic goals. This has allowed us to develop measures that the Committee consider central to our refocused strategy and the restoration of performance. The Committee is committed to ensuring the remuneration arrangements are focused on recruiting, retaining and motivating executives who can improve the performance of the company and return it to acceptable levels of performance.

In structuring the revised remuneration framework, the Committee placed significant emphasis on aligning the interests of management and shareholders, and awards will be linked to purely financial measures; namely Operating Free Cash Flow (FCF) and Return on Invested Capital (ROIC). Those measures are fully aligned with our short-and long-term strategy to generate the necessary cash flow to deleverage the business, while ROIC promotes capital discipline and emphasises the importance of returns.

The Committee determined that the appropriate timing for the granting of awards was after the successful completion of the capital raise in November, which will provide a solid base to determine the level of award.

Compensation Report (continued)

LTIP Awards
Subject to the successful completion of the equity raise, the Committee will grant the following awards:

– FY18 Award – 2-year performance period (i.e. FY19 and FY20)
– FY19 Award – 3-year performance period (i.e. FY19, FY20 and FY21)

The Committee is fully aware of the expectation that all LTIP awards are subject to a three-year performance period. However, in light of the truly exceptional circumstances that the business faced in FY18, the Committee determined that delaying the grant of the FY18 award – and basing it on FY19 and FY20 performance – was in the best interests of shareholders and would support the business by incentivising management to deliver our strategic goals, while also fulfilling our contractual commitments to members of senior management, a number of whom were appointed during FY18.

The granting of this deferred LTIP, and the one-off shortened period for the FY18 award, reflects the inability of the Committee to confirm the performance measures and targets during FY18 in light of the exceptional challenges facing the business. These awards are central to driving the multiyear turnaround we now have in place and ensuring the delivery of our refocused strategy and future success. As detailed in last year's annual report, all equity awards to be granted to the CEO, including the FY18 award, remain subject to a two-year holding period after vesting.

Short-term Incentive Plan
The Committee has also reviewed the annual bonus plan to ensure it appropriately complements our multiyear turnaround plan. Following that review, the Committee can confirm that the short-term incentive plan will be based on the following measures:

– EBITDA
– Net Debt: EBITDA or Regional Operating Free Cash Flow for Regional CEO's

The Committee is satisfied that these measures are fully aligned to the Group's goals of driving earnings growth while deleveraging the business. As noted, there were no pay-outs to the CEO under the short-term incentive framework based on FY18 performance.

Shareholder Engagement
At the 2017 Annual General Meeting ('AGM'), a significant minority of shareholders opposed the approval of the Compensation Report. In engaging with shareholders to fully understand the reasons for opposing the Compensation Report for the financial year ended 31 July 2017 ('FY17'), the Committee recognises that a number of shareholders voiced concerns over the payment of retention awards. ARYZTA reaffirms that the Group's remuneration philosophy is grounded in pay for performance – the FY17 retention awards were the exception rather than the rule. No such payments have been made this year or will be made in future.

As part of the process to confirming our approach to the FY18 and FY19 LTIPs, we engaged with certain shareholders and proxy advisors. During FY19, we will build on this engagement and engage with shareholders to foster mutual understanding of our respective views on remuneration and corporate governance generally.

Compensation Report (continued)

In compliance with the Articles of Association of the Company, at the 2018 AGM, shareholders will be asked to approve the maximum aggregate amount of remuneration of:

- the Board of Directors for the period until the next AGM (i.e. the period until the 2019 AGM); and
- the Executive Management team for the following financial year (i.e. the financial year ending 31 July 2020).

In addition, as in prior years, the Board will submit this Compensation Report to a separate advisory vote of the shareholders at the 2018 AGM in line with the Swiss Code.

Executive Management Changes

A detailed overview of the changes to the Executive Management team during the year ended FY18 is set out on page 26 of the Corporate Governance Report.

As noted therein, on 30 May 2018, ARYZTA announced that the Board had appointed a new Executive Committee comprised of: Kevin Toland, CEO; Frederic Pflanz, CFO; Gregory Sklikas, CEO Europe; Dave Johnson, CEO North America; Claudio Gekker, COO Latin America; Robert O'Boyle, COO APMEA; John Heffernan, Chief Strategy Officer; and Tony Murphy, Chief People Officer.

In addition, on 25 June 2018, ARYZTA confirmed the appointment of Rhona O'Brien as its new General Counsel and Company Secretary. On commencement of her appointment on 11 September 2018, Rhona also joined the Executive Committee.

In connection with his departure from the Group, ARYZTA entered into a Termination Agreement with Pat Morrissey, former General Counsel, Company Secretary and CAO. Amounts payable to Pat Morrissey under the Termination Agreement in respect of FY18 have been included in the table of aggregate remuneration payable to members of Executive management on page 61.

The table on page 61 of this Compensation Report presents total FY18 remuneration for the Executive Management team in accordance with applicable Swiss law (rather than IFRS). For greater transparency, this is broken out further between current and former Executive Management in the table also on page 61.

CEO Remuneration

Kevin Toland commenced his role as CEO on 12 September 2017. The Committee gave careful and detailed consideration to our new CEO's remuneration. In particular, the Committee took time to assess European best-practice in terms of structuring the package. As a reference point, the Committee had regard to market data on remuneration to ensure it was market competitive. The aim of the Committee in designing remuneration arrangements for the new CEO was to ensure they reflect evolving best-practice, have clear alignment with shareholders, incorporate both robust structural elements and an emphasis on performance, and promote the long-term success of the company.

The Board is committed to ensuring that our remuneration framework supports ARYZTA's strategy, and provides a balance between motivating and challenging the CEO to deliver ARYZTA's near term business priorities together with sustainable, long-term success. While the targets and measures to be employed under the Group's LTIP are yet to be finalized, a significant part of the performance related reward will be delivered through

Compensation Report (continued)

equity awards to promote alignment between his interests and those of ARYZTA's shareholders.

The Committee is conscious of the increased focus on executive remuneration from a number of stakeholders. While ARYZTA's primary listing is in Switzerland, given the global scale of our business, the Committee keeps apprised of key developments with regard to corporate governance and remuneration throughout Europe.

Performance Measures and Targets
As detailed in the introduction the Compensation Report, the Board and the CEO conducted a deep review of strategy during FY18 with the aim of narrowing the focus to our core B2B business.

As part of the process to establish appropriate performance measures, targets and vesting schedules and our commitment to transparency, ARYZTA consulted with shareholders during FY18 to provide them with the opportunity to express their views on the Committee's proposals and our remuneration framework.

After the completion of that review, and the establishment of the key performance criteria necessary to deliver the multiyear turnaround plan and return to the business to acceptable performance, the Committee determined the following measures and weightings for the FY18 and FY19 LTIP awards:

- Operating Free Cash Flow after Capex and Disposals (50%)
- Return on Invested Capital (50%)

Under the short term incentive plan, bonuses will be paid based on performance against the following measures:

- EBITDA
- Net Debt: EBITDA

The targets to be employed under the STIP and LTIP will be determined in due course and disclosed in the FY19 Compensation Report.

Compensation Process

Role of the Remuneration Committee of the Board
As in prior years, FY18 the Committee was, within the limits of the relevant shareholder approvals, responsible for:

- determining the remuneration of executive and non-executive members of the Board; and
- approving the remuneration of other members of senior management, upon the recommendation of the CEO.

The Committee reviews the various elements of remuneration on an annual basis to ensure that executives are remunerated in line with the level of their authority and responsibility within the Group. The Committee reports to the Board at the next Board meeting following each meeting of the Committee. In addition, all Committee papers (e.g., agenda, minutes, presentations, etc.) are available to all members of the Board. The CEO attends meetings of the Committee by invitation only.

Compensation Report (continued)

Shareholder Approval and Pay-outs
At our December 2017 AGM, shareholders ratified the FY17 Compensation Report in a separate advisory vote. At that meeting, shareholders also fixed CHF 1,200,000 as the maximum remuneration of the Board of Directors for the period ending at our 2018 AGM. As per the table on page 60, directors' fees for FY18 totalled CHF 990,000.

At our December 2016 AGM, shareholders approved a maximum aggregate amount of remuneration of CHF 15,050,000 for members of Executive Management for the 2018 financial year. As per the table on page 61, Executive Management remuneration during FY18 totalled CHF 9,949,000.

Employment Contracts
The employment contracts of the CEO and other members of Executive Management provide for notice periods of no more than 12 months and non-compete clauses of up to an additional 12 months thereafter.

Compensation to members of the Board of Directors – FY 2018

For FY 2018, consistent with the shareholder approval, non-executive Board members were paid a yearly fee of CHF 88,000, reflecting the time commitment and responsibilities of the role. Additional compensation for non-executive directors for service on a Board Committee was CHF 8,000 and CHF 16,000 for the Chair thereof. In addition, in recognition of the extra burden and time commitment associated with transatlantic travel, an additional allowance of CHF 15,000 per annum was allowed for Board members based in North America.

The non-executive Chairman of the Board was paid an annual fee of CHF 323,000 to cover all his duties.

Non-executive Board members are not eligible for performance-related payments and therefore did not participate in the LTIP.

The CEO received no additional compensation for his role as a Board member.

In June 2018 the Group entered into a consultancy arrangement with Jim Leighton pursuant to which Mr Leighton will provide advice in relation to the implementation of ARYZTA's three-year €200m cost reduction, Project Renew. The compensation payable to Mr Leighton under the arrangement amounts to €125,000, over the course of the consultancy, of which €29,000 accrued during FY18.

The following table reflects the payments received by Board members during the years ended 31 July 2018 and 2017 (inclusive of any additional fees for service on a committee). Fluctuations in amounts received are reflective of the changing roles and responsibilities held by the individual directors, during each respective year.

Compensation Report (continued)

in CHF `000	**Direct payments year ended 31 July 2018**	Direct payments year ended 31 July 2017
Denis Lucey[3]	**–**	135
Gary McGann[3]	**323**	215
Chuck Adair	**119**	104
Dan Flinter	**104**	104
Annette Flynn	**104**	104
Shaun B. Higgins[3]	**–**	43
Jim Leighton[1 4]	**106**	–
Owen Killian[2]	**–**	–
Andrew Morgan	**96**	96
Kevin Toland[1]	**–**	–
Rolf Watter[3]	**104**	69
Wolfgang Werlé[1]	**34**	96
Total	**990**	966

1 The term of office as Member of the Board of Directors of W. Werlé expired on 7 December 2017 and on that date J. Leighton and K. Toland were elected to the Board.

2 O. Killian resigned as a director on 31 March 2017

3 The terms of office as Members of the Board of Directors of D. Lucey and S. Higgins expired on 13 December 2016 and on that date G. McGann and R. Watter were elected to the Board.

4 The fee for J. Leighton includes a consultancy payment of CHF 34,000 for advice in relation to the implementation of ARYZTA's three-year €200m cost reduction, Project Renew.

Compensation to members of Executive Management

As set out in more detail on page 26 of the Corporate Governance report, during FY18 Kevin Toland (CEO), Frederic Pflanz (CFO), Tony Murphy (Chief People Officer), Dave Johnson (CEO North America); John Heffernan (Chief Strategy Officer) and Gregory Sklikas (CEO Europe) each joined the Company and Dermot Murphy (COO Europe) and Pat Morrissey (Group General Counsel, Company Secretary and CAO) each stepped down from their positions.

As a result, as at 31 July 2018 the Executive Committee was comprised as follows: Kevin Toland (CEO); Frederic Pflanz (CFO); Gregory Sklikas (CEO Europe); Dave Johnson (CEO North America); Claudio Gekker (COO Latin America); Robert O'Boyle (COO APMEA); John Heffernan (Chief Strategy Officer); and Tony Murphy (Chief People Officer).

In addition, on 25 June 2018, the Board confirmed the appointment of Rhona O'Brien as its new General Counsel and Company Secretary, commencing 11 September 2018. On commencement of her appointment, Rhona also joined the Executive Committee.

The elements of the remuneration package for Executive Management for financial years 2018 and 2017 comprised:

- basic salary and benefits (including benefits-in-kind and pension contributions);
- short-term performance-related bonus (measured by reference to performance in the financial year) and for FY17 only, retention payments; and
- long-term incentives (LTIP).

Compensation Report (continued)

in CHF `000	**Total Executive Management 2018**	Kevin Toland 2018	**Total Executive Management 2017**	Owen Killian 2018	Owen Killian 2017
Basic salaries	**6,477**	881	**4,340**	853	1,277
Benefits in kind	**510**	41	**316**	55	83
Pension contributions	**786**	176	**487**	128	192
Performance and contractual related bonus and retention	**2,176**	–	**1,396**	425	213
Long-term incentives (LTIP)	**–**	–	**–**	–	–
Total compensation paid to members of ARYZTA Executive Management	**9,949**	1,098	**6,539**	1,461	1,765
Average total compensation per member of ARYZTA Executive Management	**995**		**1,090**		

The highest total compensation in FY2018 was earned by Owen Killian and his total remuneration is disclosed separately in the table above.

The FY18 remuneration of Owen Killian disclosed in the table above is presented in accordance with Swiss Law and reflects amounts in connection with the 12 month contractual notice period and related contractual bonus, as included in his employment contract.

The compensation to members of Executive Management, during financial years 2018 and 2017, includes compensation for their roles as members of the Board or Company Secretary of ARYZTA.

The total remuneration for Executive management during FY18 is allocated between current and former Executive Management as follows:

in CHF `000	Current Executive Management 2018	Former Executive Management 2018[1]	**Total Executive Management 2018**
Basic salaries	2,680	3,797	**6,477**
Benefits in kind	318	192	**510**
Pension contributions	374	412	**786**
Performance and contractual related bonus and retention	686	1,490	**2,176**
Long-term incentives (LTIP)	–	–	**–**
Total compensation paid to members of ARYZTA Executive Management	4,058	5,891	**9,949**

1 Former Executive Management includes Owen Killian, Patrick McEniff, John Yamin, Pat Morrissey, Dermot Murphy and Ronan Minahan.

Severance

Outside of contractual entitlements, no severance or termination payments were made to any member of Executive Management during financial years 2018 and 2017.

As detailed on page 57, a Termination Agreement was entered into with Pat Morrissey in FY18 in connection with his resignation.

As detailed on page 49 of the 2017 Annual Report, Termination Agreements were entered into with each of Owen Killian, Patrick McEniff and John Yamin in connection with their resignations.

Compensation Report (continued)

One-off Retention Payments
As disclosed on page 55 of the 2017 Annual Report and detailed on page 61 of the 2018 Annual Report, during FY17 continuity payments of 50% of base salary were awarded to the then Executive Management team in order to ensure senior executive continuity and to stabilise a severely depleted Executive Management team. While these payments were one-off in nature, a portion of the payments vested in respect of continued service during FY18 and is reflected in the table above. No new retention payments were made in FY18 and it is not envisaged that these payments will occur in the future.

Loans and Advances
No loans or advances were made by the ARYZTA Group to members of the Board of Directors or to Executive Management during FY18, or were outstanding at 31 July 2018 (2017:none).

Executive Management basic salary and benefits

At the 2016 AGM, shareholders approved the maximum possible remuneration for Executive Management for FY18 (CHF 15,050,000). At the 2016 AGM, shareholders also approved the ratio between base salary and maximum variable contingent consideration for Executive Management of 1:3 for FY18, of which the variable contingent portion of the consideration may be comprised of short-term performance-related bonus up to 1.5 times base salary and long-term incentive plans up to 1.5 times base salary (based on fair value at grant).

Employment-related benefits consist principally of a car allowance and pension. Pension benefits are determined solely by reference to basic salary.

At the 2017 AGM, shareholders approved the maximum possible remuneration for Executive Management for FY19 (CHF 21,000,000) and shareholders have the authority to approve the maximum remuneration for Executive Management for future years. As stated in the booklet accompanying the Invitation for the 2017 AGM, following the significant change at senior management level during FY17 and FY18, Executive Management now comprises more than the previous four or five individuals with a corresponding increase in remuneration payable to Executive Management.

Executive Management short-term performance-related bonus

At the 2016 AGM, shareholders approved the FY18 short-term performance- related bonus targets for Executive Management at 100% of base salaries, with the maximum potential amounts to be earned being capped at 150% of base for outperformance of targets.

As detailed on page 49 of the 2017 Annual Report, Termination Agreements were entered into with each of Owen Killian, Patrick McEniff and John Yamin in FY17, which included any obligation with regard to short-term bonus.

As detailed on page 57 of this Compensation Report, the Company entered into a Termination Agreement with Pat Morrissey on his resignation, which included any obligation with regard to short-term bonus.

During FY18 a short-term performance-related bonus was paid to certain members of Executive Management where regional performance met the required thresholds.

Compensation Report (continued)

Save as set out above, no short-term performance-related bonus was earned by any members of Executive Management in FY18.

Executive Management Long-term Incentive Plan (LTIP)

As outlined in detail in the introduction to the Compensation Report, the significant and exceptional challenges facing the business dictated that the Committee was unable to confirm targets and make an LTIP award during FY18. As such, no LTIP awards were granted during either FY17 or FY18.

However, the Committee also recognise the importance of putting in place an incentive framework to recruit, retain and incentivise senior management while clearly aligning their interests with those of shareholders. The structure of this incentive framework will play a central role in incentivising the delivery of our turnaround plan and return the company to acceptable levels of performance from a very difficult position. In light of the progress in stabilising the business, and putting in place a highly experienced management team, the Committee has determined that the first LTIP awards under our revised remuneration framework will be granted following the successful completion of the capital raise in November 2018.

The awards will be granted subject to the following structures:
- FY18 Award – 2-year performance period (i.e. FY19 and FY20)
- FY19 Award – 3-year performance period (i.e. FY19, FY20 and FY21)

Awards under both the FY18 and FY19 will vest subject to the achievement of targets relating to the following measures:
- Operating Free Cash Flow (50%)
- Return on Invested Capital (50%)

As noted in the introduction, the Committee is fully aware of the expectations that LTIP awards are subject to a three-year performance period. The once-off shortened period for the FY18 award reflects the inability of the Committee to confirm the performance measures and targets during FY18 in light of the exceptional challenges facing the business. The CEO's 2018 award will continue to be subject to the post-vesting holding period of two years and, from FY19, all awards will be subject to a three-year performance period in line with best practice.

The Option Equivalent Plan

Vesting of the awards under the Option Equivalent Plan issued during financial year 2016 was conditional on compound annual growth in underlying diluted EPS (including the associated cost of any awards expected to vest) in three consecutive accounting periods exceeding the compound growth in the Euro-zone Core Consumer Price Index, plus 5%, on an annualised basis. The awards were also subject to additional conditions, including notably:

(a) the requirement to remain in service throughout the performance period;
(b) the requirement that ARYZTA's reported ROIC over the expected performance period is not less than 120% of its weighted average cost of capital; and
(c) the requirement that annual dividends to shareholders are at least 15% of underlying EPS during the performance period.

As the above performance conditions were not met, the Option Equivalent Plan awards granted during financial year 2016, for which no expense had been recognised to date, were forfeited during the current year.

The vested Option Equivalent Plan awards still outstanding as of 31 July 2018 can be exercised no longer than ten years after grant date.

Compensation Report (continued)

Executive Management Option Equivalent Plan Allocation

Executive Management were granted no Option Equivalent Awards under the Option Equivalent Plan during FY 2018 and FY 2017. As shown in the table on page 61, no expense was recognised for Executive Management LTIP awards in FY 2018 or FY 2017.

The following table details awards outstanding under the Option Equivalent Plan in favour of Executive Management:

	Options carried forward 1 August 2017	Granted during the year	Forfeited during the year	Closing position 31 July 2018	Of which Vesting criteria have been fulfilled[1]
Executive Management					
Kevin Toland	–	–	–	–	–
Frederic Pflanz	–	–	–	–	–
John Heffernan	–	–	–	–	–
Anthony Murphy	–	–	–	–	–
Dave Johnson	–	–	–	–	–
Gregory Sklikas	–	–	–	–	–
Robert O'Boyle	32,500	–	(10,000)	22,500	22,500
Claudio Gekker	20,000	–	(20,000)	–	–
Total current executive management	**52,500**	**–**	**(30,000)**	**22,500**	**22,500**
Owen Killian	1,160,000	–	(410,000)	750,000	750,000
Patrick McEniff	910,000	–	(300,000)	610,000	610,000
Ronan Minahan	120,000	–	(120,000)	–	–
Pat Morrissey	220,000	–	(120,000)	100,000	100,000
Dermot Murphy	125,000	–	(75,000)	50,000	50,000
John Yamin	150,000	–	(150,000)	–	–
Total former executive management	**2,685,000**	**–**	**(1,175,000)**	**1,510,000**	**1,510,000**
Total current and former executive management	**2,737,500**	**–**	**(1,205,000)**	**1,532,500**	**1,532,500**

1 The weighted average exercise price of all Option Equivalent Plan awards that remain outstanding and for which the vesting conditions have been met is CHF 39.20.

Report of the statutory auditor to the General Meeting of ARYZTA AG on the compensation report 2018

We have audited the remuneration report of ARYZTA AG for the year ended 31 July 2018. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables on pages 60 and 61 of the remuneration report.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

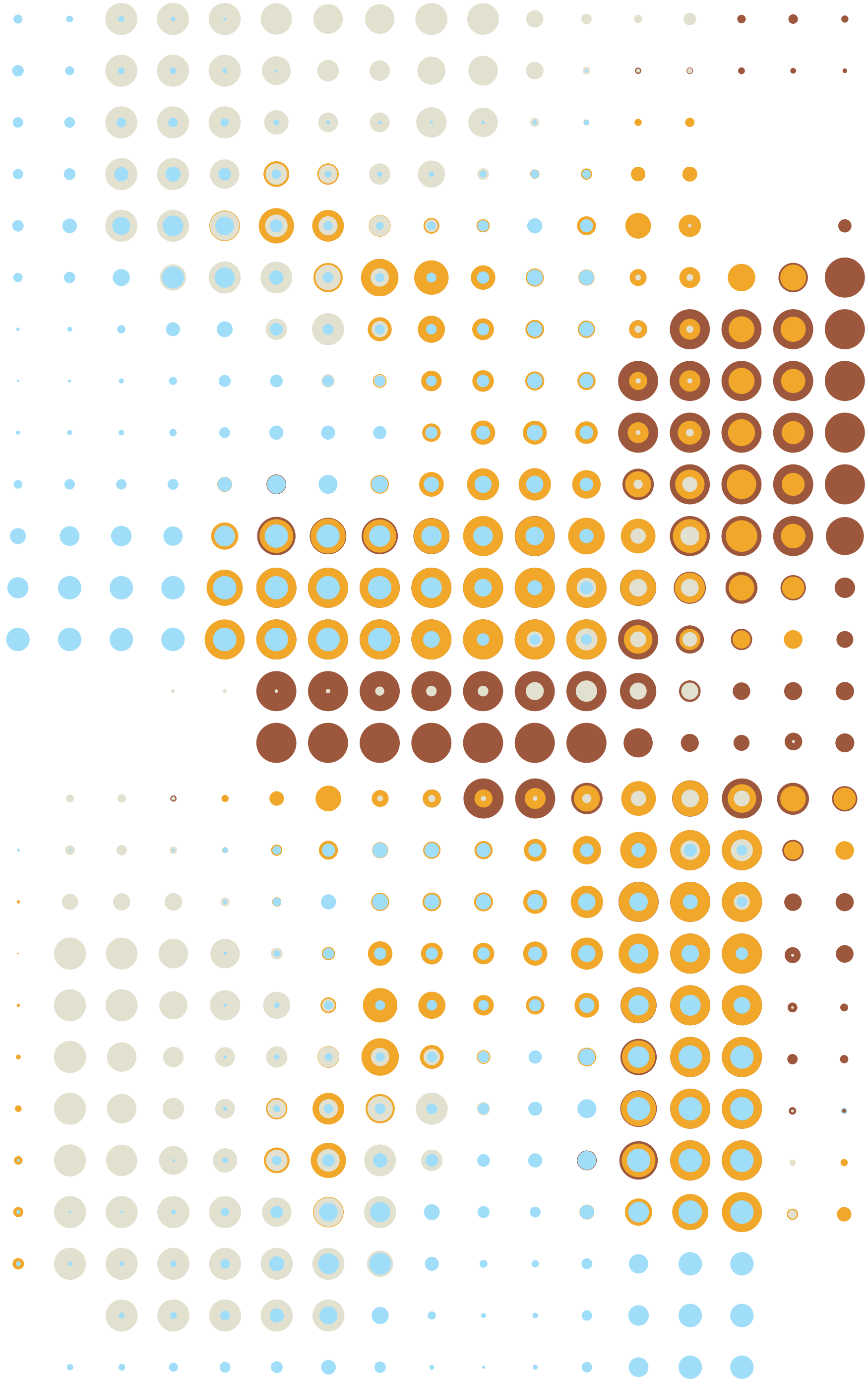
In our opinion, the remuneration report of ARYZTA AG for the year ended 31 July 2018 complies with Swiss law and articles 14–16 of the Ordinance.

pwc PricewaterhouseCoopers AG

Sandra Böhm
Audit expert
Auditor in charge

Carrie Rohner

Zurich, 1 October 2018



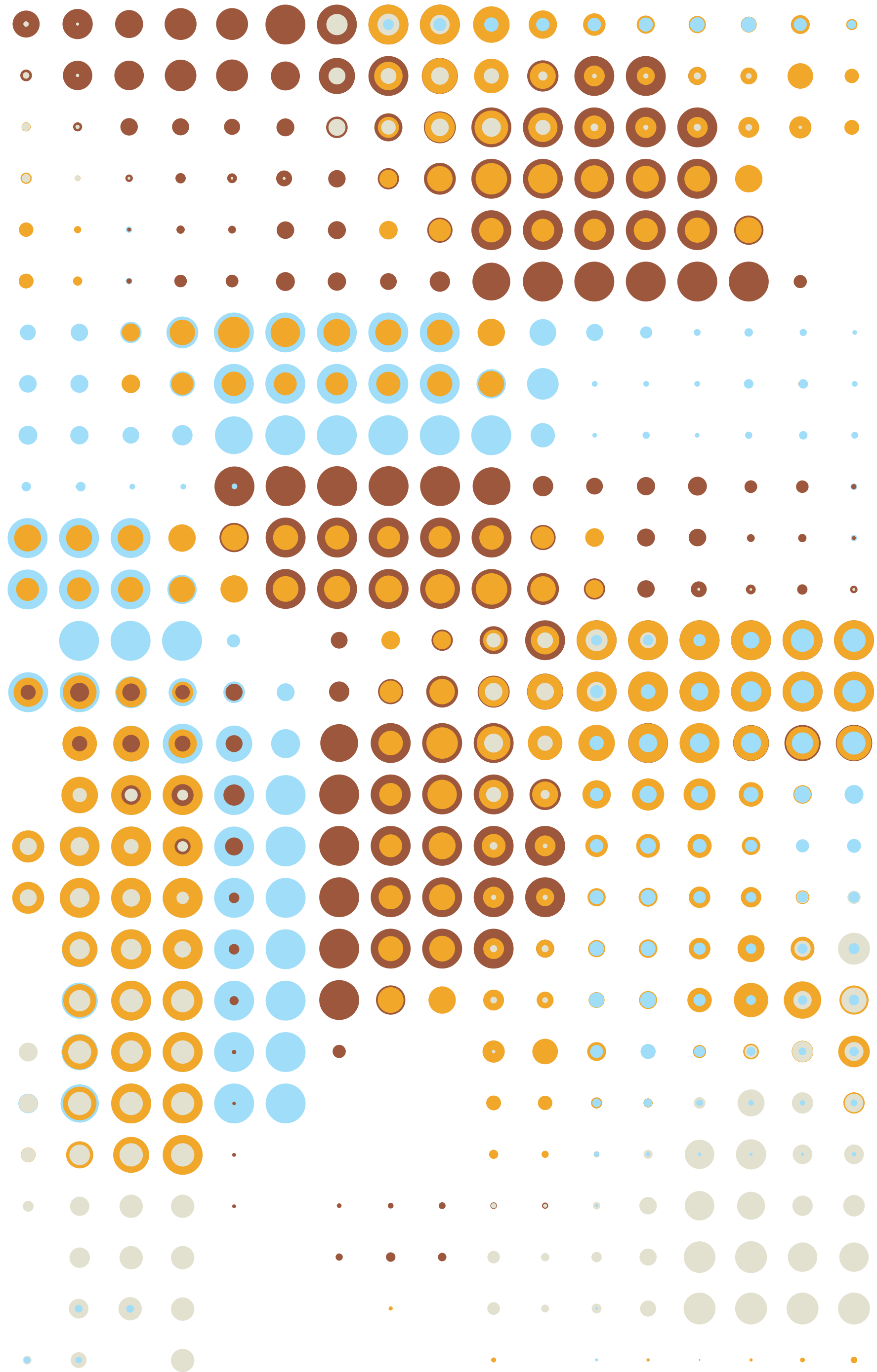
Group Risk Statement
Principal Risks and Uncertainties

The Board and senior management continue to invest significant time and resources in identifying specific risks across the Group, and in developing a culture of balanced risk minimisation. The Group has formal risk assessment processes in place through which risks are identified and associated mitigating controls are evaluated. These processes are driven by local management, who are best placed to identify the significant ongoing and emerging risks facing the business. The outputs of these risk assessment processes are subject to various levels of review by Group management and Internal Audit, and a consolidated Risk Map denoting the potential frequency, severity and velocity of identified risks is reviewed and challenged by the Board of Directors on at least an annual basis. Risks identified, and associated mitigating controls, are also subject to audit as part of various operational, financial, health and safety audit programmes.

The key risks facing the Group include the following:[1]

- As an international group with substantial operations and interests outside the Eurozone, ARYZTA is subject to the risk of adverse movements in foreign currency exchange rates.
- The Group faces business risks associated with cash, receivables and other financial instruments.
- Operational risks facing the Group include product contamination and general food scares, which could impact relevant products or production and distribution processes.
- Changing dietary trends and the increased emphasis on health and wellness among consumers present both opportunities and risks for the Group.
- The Group faces increasing regulation and compliance requirements in areas such as employment, health and safety, emissions and effluent control.
- The loss of a significant manufacturing / operational site through natural catastrophe or act of vandalism could have a material impact on the Group.
- A significant failure in the accounting, planning or internal financial controls and related systems could result in a material error or fraud.
- A significant IT or security system failure, including a cyber-attack, could adversely impact operations.
- Fluctuations in energy, commodities and other production inputs could materially impact the profitability of the Group.
- The Group faces the risk of a decrease in consumer spending.
- The Group faces the risk of impairment of its goodwill, brands and intangibles.
- Having grown both organically and through acquisitions, the Group faces risks and challenges associated with change management and reorganisation.
- The Group faces risks associated with the potential loss of key management personnel.
- A failure to implement the proposed capital increase announced on 13 August 2018 in a timely fashion, or at all, could have a material adverse impact on the Group's financial condition.
- Were the Group to breach a financing covenant, it may be required to renegotiate its financing facilities at less favourable terms resulting in higher financing costs, and/or be unable to finance operations.
- The loss of a significant supplier could adversely impact ongoing operations.
- The loss of a major customer / contract could materially impact the profitability of the Group.

1 These risks are not listed in order of importance.



Annual Report and Accounts 2018
Our Responsibility

Our Approach
ARYZTA is committed to operating as a financially successful and socially responsible business for the long-term. Our strategies are developed with careful consideration of Environmental, Social and Governance (ESG) factors. The Group has established the ARYZTA Cares initiative, aimed at promoting active employee, customer and supplier engagement in pursuit of our corporate responsibility goals.

The key elements of this programme, as summarised below, include:

- Environmental Practices
- Food and Marketplace
- People and Workplace
- Sustainable Sourcing
- Community Engagement

Additional information on each of these areas is also available on our website at: http://www.aryzta.com/our-responsibilities

Environmental Practices
ARYZTA is aware that the earth's ecosystems are fragile and that environmental conservation is critical to the continued well-being of the planet, its natural resources and its citizens. In order to monitor the Group's impact on the environment, key bakery production metrics have been established for monitoring electricity consumption, gas consumption, waste water intensity and overall carbon emissions.

These metrics are used not only to assess the efficiency of our individual bakeries and to identify potential cost savings opportunities, but are also included as the primary inputs in determining the Group's CO_2 emissions per metric tonne of food sold, which is the key environmental performance indicator used for measuring the success of our ARYZTA Cares initiative.

This CO_2 metric is calculated based on various bakery and distribution activity inputs and applying a relevant Green House Gas emission factor to assess the estimated global warming potential of activities directly related to ARYZTA's business. For the past two years, ARYZTA has submitted its global GHG emissions to the Carbon Disclosure Project, as a means of public reporting and continuous improvement.

The Group is also keenly focused on our waste stream and recycling as a method to reduce waste sent to landfills.

Food and Marketplace
ARYZTA's commitment to supply chain excellence includes strict vendor standards, comprehensive facility expectations and detailed adherence to customer specifications. Customer requirements are a central component of all of our baking operations. Each customer's specifications, expectations and requirements are documented to ensure compliance.

ARYZTA's internal policies require compliance with all food safety laws and regulations, including labelling requirements.

Our Responsibility (continued)

To ensure our food is produced with the highest level of food safety, the Group's raw material vendors generally must:

– have a recognised Global Food Safety Initiative (GFSI) accreditation
– ensure raw materials are fully traceable back to suppliers
– subject their operations to a risk assessment process in accordance with the ARYZTA Supplier Code of Conduct and Manufacturing Code of Practice
– submit their operations to annual ethical data exchange audits

ARYZTA's food processing facilities operate under comprehensive Hazard Analysis and Critical Control Point (HACCP) systems based on Codex Alimentarius Principles, Good Manufacturing Practice (GMP) and in compliance with applicable food laws and regulations. All relevant internal food safety and quality systems are also certified by independent third-parties.

ARYZTA is committed to our Food Safety, Quality Assurance and Responsible Marketing programmes and has partnered with iCiX to establish effective and efficient ways to manage these programmes. ARYZTA contributes to various voluntary initiatives on food and product safety by actively engaging with industry associations including the British Retail Consortium, International Featured Standards (IFS-Food and IFS-Logistics), American Institute of Baking (AIB) and the US Food and Drug Administration.

Our products are produced to the exacting specifications of our major international food customers, as well as for the unique expectations of our independent local customers. Excellence within this wide array of supply chain expectations is achieved through partnering with our customers, suppliers and partners and through detailed internal training programmes, to ensure quality control standards are adhered to throughout the entire supply chain process.

People and Workplace

ARYZTA recognises that its continued success is dependent on the quality, commitment and responsible behaviour of its people. ARYZTA values diversity and treats all individuals with respect.

The health and safety of our people is of paramount importance to ARYZTA. The Group pursues comprehensive safety management procedures, including policy manuals, verification of regulatory compliance, risk assessments, individual site action plans, safety audits, training programmes, formal accident investigations and the provision of occupational health services.

In order to attract and retain the most talented workforce possible, the Group provides equal opportunities in recruitment, selection, promotion, employee development, succession planning, training and compensation, solely on the basis of merit and business needs and does not discriminate.

Our Responsibility (continued)

The Group has implemented a global Employee Code of Conduct, which establishes policies and expectations of employee behaviour, ethics, anti-bribery and corruption, political involvement and collective bargaining. ARYZTA fully complies with applicable national and local laws and industry standards on working hours and workplace environment.

The Group has established a 24 / 7 hotline with Expo-link (0800 563823) where employees, customers and suppliers can confidentially communicate any concerns through an independent service.

The Group has implemented 'My ARYZTA Connection', a human resources information system used for confidentially retaining and updating employee information, in order to streamline administration and enhance utilisation of employee data on a secure and confidential basis.

Sustainable Sourcing

ARYZTA partners with our key vendors to establish long-term sustainable sources of raw materials that address the social, ethical, economic, safety, quality, and environmental aspects of product sourcing.

The Group sources only UEP-certified eggs in North America, with a longer-term commitment to cage-free egg sourcing. In Europe, our procurement team partners with wheat farmers to encourage sustainable agricultural practices, including optimising the amount of fertiliser and pesticides. We also strive to source Fairtrade ingredients and utilise diversity-owned vendors in sourcing our products.

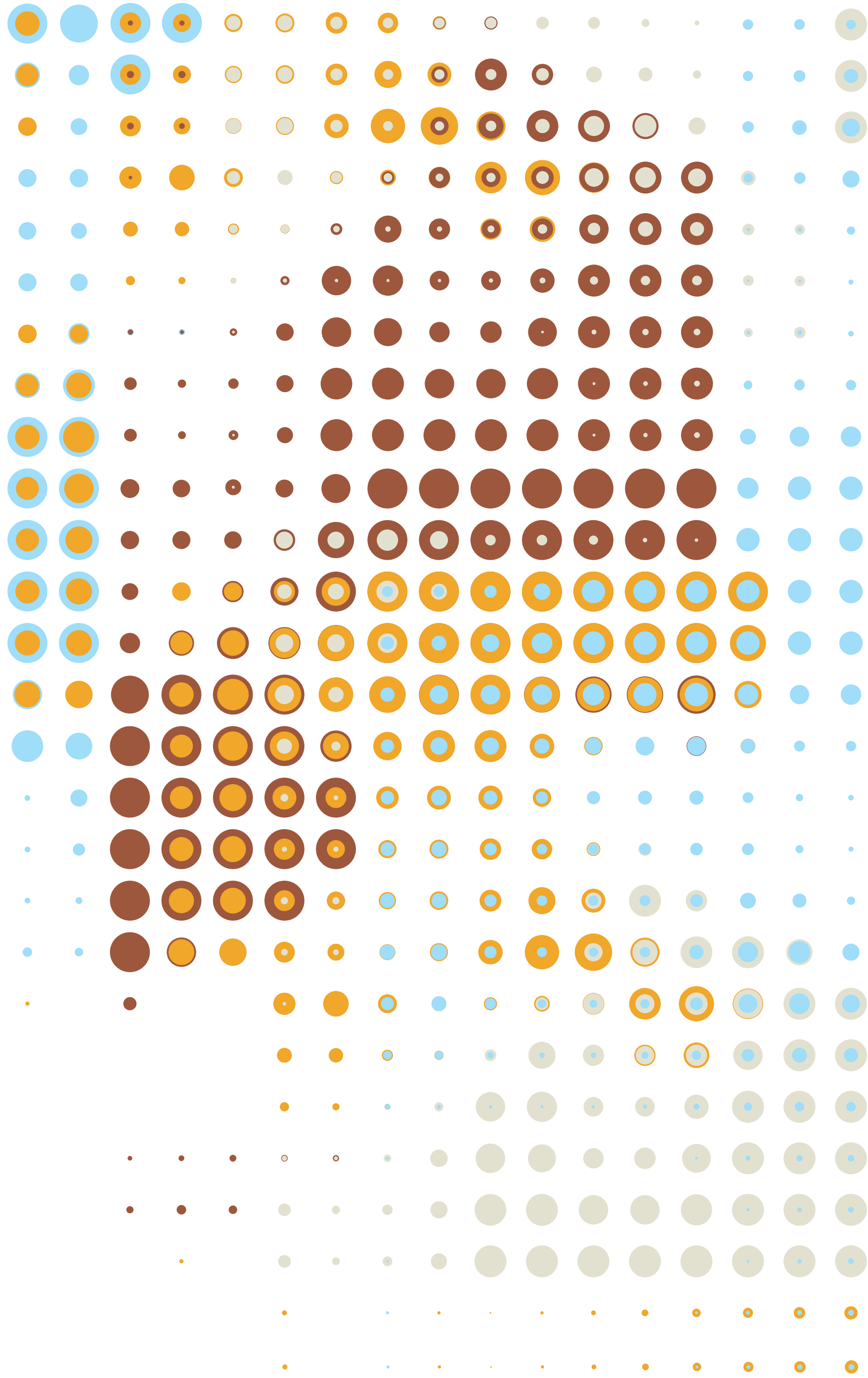
In order to support the long-term development of sustainable palm oil solutions, ARYZTA is a global member of the Roundtable on Sustainable Palm Oil (RSPO) and participates in three of the available certifications: Book and Claim, Mass Balance, and Segregated Supply.

In addition to meeting the stringent sourcing requirements of our international food customers, ARYZTA has established a Global Vendor Code of Conduct and actively audits suppliers utilising internal and external resources to ensure vendors are compliant with workplace standards, business practices and all local laws and regulations.

Community Engagement

The Group understands its responsibilities as an important member of the communities in which it operates and encourages its business units to play an active role within them. In addition to providing employment opportunities, the Group aims to make positive contributions to its community by building relationships and earning a positive reputation as a good employer, neighbour and corporate citizen.

The Group believes that donations are the business of the shareholder and ARYZTA has established protocols for philanthropic activities. Employees are also encouraged to contribute their time and talents to causes that are important to them individually. In addition, ARYZTA routinely supports philanthropic activities of our key customers.



Annual Report and Accounts 2018

Group Consolidated and Company Financial Statements 2018

Statement of Directors' Responsibilities
for the year ended 31 July 2018

Swiss company law requires the directors to prepare Group consolidated and Company financial statements for each financial year. The directors are required to prepare the Group consolidated financial statements in accordance with International Financial Reporting Standards ('IFRS') and the requirements of Swiss law and to prepare the Company financial statements in accordance with Swiss law and the Company's Articles of Association.

This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of the Group consolidated and Company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing each of the Group consolidated and Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping proper books of account that present, with reasonable accuracy at any time, the financial position of the Group and Company and enable them to ensure that its financial statements comply with IFRS, the requirements of Swiss law and the Company's Articles of Association.

They are also responsible for taking such steps as are reasonably available to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

On behalf of the Board

Gary McGann
Chairman, Board of Directors

Kevin Toland
CEO, Member of the Board of Directors

1 October 2018

Group Consolidated Income Statement
for the year ended 31 July 2018

in EUR `000	Notes	2018	2017
Revenue	1	**3,435,422**	3,796,770
Cost of sales		**(2,543,732)**	(2,766,136)
Distribution expenses		**(402,561)**	(411,702)
Gross profit		**489,129**	618,932
Selling expenses		**(181,635)**	(202,747)
Administration expenses		**(372,492)**	(628,833)
Net loss on disposal of businesses and impairment of disposal groups held-for-sale	2	**(183,316)**	–
Impairment of goodwill	14	**(175,000)**	(594,872)
Operating loss	1	**(423,314)**	(807,520)
Share of profit after interest and tax of joint ventures	15	**15,156**	38,380
Net gain on disposal of joint venture	15	**1,468**	–
Loss before financing income, financing costs and income tax		**(406,690)**	(769,140)
Financing income	4	**2,845**	3,821
Financing costs	4	**(76,413)**	(62,272)
RCF termination and private placement early redemption	20	**(12,415)**	(182,513)
Loss before income tax		**(492,673)**	(1,010,104)
Income tax credit	9	**22,697**	103,966
Loss for the year		**(469,976)**	(906,138)
Attributable as follows:			
Equity shareholders		**(469,976)**	(907,773)
Non-controlling interests		**–**	1,635
Loss for the year		**(469,976)**	(906,138)

Loss per share	Notes	2018 euro cent	2017 euro cent
Basic loss per share	11	**(561.8)**	(1,058.9)
Diluted loss per share	11	**(561.8)**	(1,058.9)

The notes on pages 83 to 153 are an integral part of these Group consolidated financial statements.

Group Consolidated Statement of Comprehensive Income
for the year ended 31 July 2018

in EUR `000	Notes	2018	2017
Loss for the year		**(469,976)**	(906,138)
Other comprehensive (loss)/income			
Items that may be reclassified subsequently to profit or loss:			
Foreign exchange translation effects			
– Foreign exchange translation effects on net investments		**(67,593)**	(16,901)
– Taxation effect of foreign exchange translation movements	9	**(1,301)**	(1,532)
Cash flow hedges			
– Effective portion of changes in fair value of cash flow hedges		**(1,299)**	9,036
– Fair value of cash flow hedges transferred to income statement		**(442)**	6,991
– Deferred tax effect of cash flow hedges	9	**310**	(1,647)
Share of joint ventures' other comprehensive income	15	**105**	180
Total of items that may be reclassified subsequently to profit or loss		**(70,220)**	(3,873)
Items that will not be reclassified to profit or loss:			
Defined benefit plans			
– Actuarial gain on Group defined benefit pension plans	24	**1,124**	6,135
– Deferred tax effect of actuarial gain	9	**(156)**	(1,204)
Total of items that will not be reclassified to profit or loss		**968**	4,931
Total other comprehensive (loss)/income		**(69,252)**	1,058
Total comprehensive loss for the year		**(539,228)**	(905,080)
Attributable as follows:			
Equity shareholders		**(539,228)**	(907,313)
Non-controlling interests		**–**	2,233
Total comprehensive loss for the year		**(539,228)**	(905,080)

The notes on pages 83 to 153 are an integral part of these Group consolidated financial statements.

Group Consolidated Balance Sheet
as at 31 July 2018

in EUR `000	Notes	2018	2017
Assets			
Non-current assets			
Property, plant and equipment	12	**1,243,692**	1,386,294
Investment properties	13	**14,574**	19,952
Goodwill and intangible assets	14	**2,057,703**	2,651,937
Investments in joint ventures	15	**420,016**	528,188
Deferred income tax assets	23	**74,961**	158,767
Total non-current assets		**3,810,946**	4,745,138
Current assets			
Inventory	16	**244,535**	252,162
Trade and other receivables	17	**153,970**	164,271
Derivative financial instruments	21	**1,268**	4,311
Cash and cash equivalents	19	**517,854**	535,570
		917,627	956,314
Assets of disposal groups held-for-sale	3	**7,000**	–
Total current assets		**924,627**	956,314
Total assets		**4,735,573**	5,701,452

The notes on pages 83 to 153 are an integral part of these Group consolidated financial statements.

Group Consolidated Balance Sheet (continued) as at 31 July 2018

in EUR `000	Notes	2018	2017
Equity			
Called up share capital	25	**1,191**	1,172
Share premium		**807,512**	774,040
Retained earnings and other reserves		**864,157**	1,426,440
Total equity		**1,672,860**	2,201,652
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	20	**1,772,315**	383,242
Employee benefits	24	**6,975**	6,644
Deferred income from government grants	22	**14,408**	18,280
Other payables	18	**49,664**	36,278
Deferred income tax liabilities	23	**212,878**	353,164
Derivative financial instruments	21	**–**	704
Total non-current liabilities		**2,056,240**	798,312
Current liabilities			
Interest-bearing loans and borrowings	20	**255,803**	1,886,198
Trade and other payables	18	**684,335**	750,511
Income tax payable		**65,506**	63,283
Derivative financial instruments	21	**829**	1,496
Total current liabilities		**1,006,473**	2,701,488
Total liabilities		**3,062,713**	3,499,800
Total equity and liabilities		**4,735,573**	5,701,452

The notes on pages 83 to 153 are an integral part of these Group consolidated financial statements.

Group Consolidated Statement of Changes in Equity
for the year ended 31 July 2018

31 July 2018 in EUR `000	Share capital	Share premium	Treasury shares	Other equity reserve	Cash flow hedge reserve	Share-based payment reserve	Foreign currency translation reserve	Retained earnings	Total
At 1 August 2017	**1,172**	**774,040**	**(47)**	**720,456**	**2,859**	**2,005**	**(36,617)**	**737,784**	**2,201,652**
Loss for the year	–	–	–	–	–	–	–	(469,976)	(469,976)
Other comprehensive (loss)/income	–	–	–	–	(1,431)	–	(68,894)	1,073	(69,252)
Total comprehensive loss	**–**	**–**	**–**	**–**	**(1,431)**	**–**	**(68,894)**	**(468,903)**	**(539,228)**
Release of treasury shares upon vesting of Restricted Stock Unit Plan awards (note 25)	–	(1)	1	–	–	–	–	–	–
Share-based payments (note 8)	–	–	–	–	–	2,005	–	–	2,005
Transfer of share-based payment reserve to retained earnings	–	–	–	–	–	(1,801)	–	1,801	–
Equity dividends (note 10)	19	33,473	–	–	–	–	–	(33,962)	(470)
Hybrid instrument deferred dividend (note 25)	–	–	–	–	–	–	–	8,901	8,901
Total transactions with owners recognised directly in equity	**19**	**33,472**	**1**	**–**	**–**	**204**	**–**	**(23,260)**	**10,436**
At 31 July 2018	**1,191**	**807,512**	**(46)**	**720,456**	**1,428**	**2,209**	**(105,511)**	**245,621**	**1,672,860**

The notes on pages 83 to 153 are an integral part of these Group consolidated financial statements.

Group Consolidated Statement of Changes in Equity (continued) for the year ended 31 July 2018

31 July 2017 in EUR `000	Share capital	Share premium	Treasury shares	Other equity reserve	Cash flow hedge reserve	Share-based payment reserve	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total
At 1 August 2016	**1,172**	**774,040**	**(47)**	**720,456**	**(11,521)**	**–**	**(18,114)**	**1,706,686**	**3,172,672**	**15,099**	**3,187,771**
Loss for the year	–	–	–	–	–	–	–	(907,773)	(907,773)	1,635	(906,138)
Other comprehensive income/(loss)	–	–	–	–	14,380	–	(18,503)	4,583	460	598	1,058
Total comprehensive income/(loss)	**–**	**–**	**–**	**–**	**14,380**	**–**	**(18,503)**	**(903,190)**	**(907,313)**	**2,233**	**(905,080)**
Share-based payments (note 8)	–	–	–	–	–	2,005	–	–	2,005	–	2,005
Equity dividends	–	–	–	–	–	–	–	(47,595)	(47,595)	–	(47,595)
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	–	(3,350)	(3,350)
Hybrid instrument accrued dividend (note 25)	–	–	–	–	–	–	–	(32,099)	(32,099)	–	(32,099)
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**–**	**2,005**	**–**	**(79,694)**	**(77,689)**	**(3,350)**	**(81,039)**
Acquisition of non-controlling interests	–	–	–	–	–	–	–	13,982	13,982	(13,982)	–
Total transactions with owners recognised directly in equity	**–**	**–**	**–**	**–**	**–**	**2,005**	**–**	**(65,712)**	**(63,707)**	**(17,332)**	**(81,039)**
At 31 July 2017	**1,172**	**774,040**	**(47)**	**720,456**	**2,859**	**2,005**	**(36,617)**	**737,784**	**2,201,652**	**–**	**2,201,652**

The notes on pages 83 to 153 are an integral part of these Group consolidated financial statements.

Group Consolidated Cash Flow Statement
for the year ended 31 July 2018

in EUR `000	Notes	2018	2017
Cash flows from operating activities			
Loss for the year		**(469,976)**	(906,138)
Income tax credit	9	**(22,697)**	(103,966)
Financing income	4	**(2,845)**	(3,821)
Financing costs	4	**76,413**	62,272
RCF termination and private placement early redemption costs	20	**12,415**	182,513
Share of profit after interest and tax of joint ventures	15	**(15,156)**	(38,380)
Net gain on disposal of joint venture	15	**(1,468)**	–
Net loss on disposal of businesses and asset write-downs	2	**362,783**	859,716
Other restructuring-related payments in excess of current year costs		**(2,064)**	(14,982)
Depreciation of property, plant and equipment	1	**119,850**	126,308
Amortisation of intangible assets	1	**172,678**	191,329
Recognition of deferred income from government grants	22	**(3,871)**	(5,665)
Share-based payments	8	**2,005**	2,005
Other		**(2,167)**	(4,315)
Cash flows from operating activities before changes in working capital		**225,900**	346,876
Increase in inventory		**(23,427)**	(18,038)
(Increase)/decrease in trade and other receivables		**(1,134)**	2,172
(Decrease)/increase in trade and other payables		**(28,339)**	38,245
Cash generated from operating activities		**173,000**	369,255
Income tax paid		**(22,692)**	(13,381)
Net cash flows from operating activities		**150,308**	355,874

The notes on pages 83 to 153 are an integral part of these Group consolidated financial statements.

Group Consolidated Cash Flow Statement
(continued)
for the year ended 31 July 2018

in EUR `000	Notes	2018	2017
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**8,348**	21,696
Proceeds from sale of investment property	13	**7,597**	14,522
Purchase of property, plant and equipment		**(81,680)**	(91,552)
Purchase of intangible assets		**(5,466)**	(11,025)
Dividends received from joint venture	15	**91,018**	–
Net receipts from joint ventures		**–**	3,277
Disposal of businesses, net	2	**101,599**	–
Disposal of joint venture	15	**34,948**	–
Contingent consideration paid		**–**	(896)
Net cash flows from investing activities		**156,364**	(63,978)
Cash flows from financing activities			
Gross drawdown of loan capital	20	**1,606,157**	1,226,778
Gross repayment of loan capital	20	**(1,919,180)**	(1,209,472)
RCF termination and private placement early redemption	20	**(501)**	(175,647)
Interest paid		**(62,507)**	(65,635)
Interest received		**2,845**	4,388
Capital element of finance lease liabilities	20	**(716)**	(1,022)
Purchase of non-controlling interests	21	**–**	(14,485)
Dividends paid to non-controlling interests		**–**	(3,350)
Hybrid instrument dividend paid	25	**–**	(32,115)
Dividends paid to equity shareholders		**–**	(47,595)
Equity dividend issuance costs		**(470)**	–
Net cash flows from financing activities		**(374,372)**	(318,155)
Net decrease in cash and cash equivalents	20	**(67,700)**	(26,259)
Translation adjustment	20	**(12,254)**	(20,774)
Net cash and cash equivalents at start of year	20	**421,940**	468,973
Net cash and cash equivalents at end of year	20	**341,986**	421,940

The notes on pages 83 to 153 are an integral part of these Group consolidated financial statements.

Group Statement of Accounting Policies
for the year ended 31 July 2018

Organisation

ARYZTA AG (the 'Company') is domiciled and incorporated in Zurich, Switzerland. The consolidated financial statements for the year ended 31 July 2018 consolidate the individual financial statements of the Company and its subsidiaries (together referred to as the 'Group'), and show the Group's interest in joint ventures using the equity method of accounting.

The Group consolidated financial statements and the ARYZTA AG Company financial statements were authorised for issue by the directors on 1 October 2018, subject to approval by the shareholders at the General Meeting on 1 November 2018.

Statement of compliance

The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and the requirements of Swiss law. These policies have been consistently applied to all years presented, unless otherwise stated.

The IFRS applied by the Group in preparation of these financial statements are those that were effective for accounting periods beginning on or before 1 August 2017. The following standards and interpretations, issued by the International Accounting Standards Board ('IASB') and the IFRS Interpretations Committee, are effective for the first time in the current financial year and have been adopted by the Group:

- Amendments to IAS 7 – Disclosure initiative
- Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses
- Amendment to IFRS 12 – Disclosure of interests in other entities

While the above standards and interpretations adopted by the Group modify certain presentation and disclosure requirements, these requirements are not significantly different than information presented as part of the 31 July 2017 year-end financial statements and have no material impact on the consolidated results or financial position of the Group.

Group Statement of Accounting Policies (continued) for the year ended 31 July 2018

The following new standards and interpretations, issued by the IASB or the IFRS Interpretations Committee, have not yet become effective. The Group has not applied early adoption in relation to any of them.

Standard/Interpretation	Effective date	Planned implementation by ARYZTA (reporting year to 31 July)
IFRS 9 – Financial Instruments	1 January 2018	2019
IFRS 15 – Revenue from Contracts with Customers	1 January 2018	2019
Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions	1 January 2018	2019
Amendments to IAS 40 – Transfers of Investment Property	1 January 2018	2019
Improvements to IFRS Standards (2014–2016)	1 January 2018	2019
IFRIC 22 – Foreign Currency Transactions and Advance Consideration	1 January 2018	2019
Amendments to IFRS 9 – Prepayment Features with Negative Compensation	1 January 2019	2020
Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures	1 January 2019	2020
Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement	1 January 2019	2020
Improvements to IFRS Standards (2015–2017)	1 January 2019	2020
IFRIC 23 – Uncertainty over Income Tax Treatments	1 January 2019	2020
IFRS 16 – Leases	1 January 2019	2020
IFRS 17 – Insurance Contracts	1 January 2021	2022

The Group has undertaken an initial assessment of the potential impacts of the new standards, amendments and improvements listed above that are effective for the Group for the year ending 31 July 2019, as well as IFRS 16, which becomes effective for the Group for the year ending 31 July 2020. Based on this initial assessment, the Group does not currently believe the adoption of these standards, amendments and interpretations will have a significant impact on the consolidated results or financial position of the Group, except as noted below:

– IFRS 9 'Financial Instruments' will fully replace IAS 39 'Financial instruments: Recognition and measurements' effective 1 January 2018 and is to be implemented by the Group effective 1 August 2018. The new standard requires impairments of financial instruments to be based on a forward-looking model, changes the approach to hedging financial exposures and related documentation, amends the recognition of certain fair value changes and increases disclosure requirements. The Group has performed a review of the business model corresponding to the different portfolios of financial assets and their related characteristics. Based on this review, the impact of the new standard on the financial position or performance of the Group is immaterial; however, the new standard will result in an increased volume of disclosure.

– IFRS 15 'Revenue from contracts with customers' will replace IAS 11 'Construction Contracts', IAS 18 'Revenue' and related interpretations effective 1 January 2018 and is to be implemented by the Group effective 1 August 2018. The new standard defines a five-step model to recognise revenue from customer contracts. The Group has undertaken a review of the main types of commercial arrangements used with customers under this model and has concluded that the application of IFRS 15 will not have a material impact on the Group's financial position or performance.

Group Statement of Accounting Policies (continued) for the year ended 31 July 2018

– IFRS 16 'Leases' will replace IAS 17 'Leases' effective on 1 January 2019 and is to be implemented by the Group effective 1 August 2019. The new standard changes the principles of recognition, measurement, presentation and disclosure of leases. The main effect on the Group is the introduction of a single lessee accounting model and requires a lessee to recognise assets and liabilities for almost all leases. Therefore, implementation of IFRS 16 will result in an increase of total property, plant and equipment and interest-bearing loans and borrowings on the balance sheet. The change will also increase depreciation of the leased assets and increase finance costs associated with the interest-bearing loans and borrowings, while decreasing operating lease expenses. Future lease rentals due under existing operating lease commitments of the Group are disclosed in note 26 and operating lease rentals expense is disclosed in note 5. Subject to the provisions of the standard, these amounts provide an indicator of the impact implementation of IFRS 16 will have on the Group's consolidated balance sheet and income statement; however, the Group continues to assess the precise impact implementation of the new standard will have.

Group Statement of Accounting Policies (continued) for the year ended 31 July 2018

Basis of preparation

The Group consolidated financial statements are prepared on a historical cost basis, except that investment properties, derivative financial instruments and certain financial liabilities are stated at fair value through profit or loss or other comprehensive income.

The Group consolidated financial statements are presented in euro, rounded to the nearest thousand, unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions in the application of the Group's accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Further information on areas involving a higher degree of judgement and accounting estimates is set out in note 31.

Income statement presentation

In accordance with IAS 1, 'Presentation of Financial Statements', the Group Consolidated Income Statement is presented by function of expense, with the exception of net loss on disposal of businesses and impairment of disposal groups held-for-sale and impairment of goodwill. In accordance with IAS 1.85, net loss on disposal of businesses and impairment of disposal groups held-for-sale and impairment of goodwill have been presented separately on the basis of materiality and to distinguish them from other elements of financial performance.

Management has also identified certain impairment, disposal and restructuring-related costs within each functional area that do not relate to the underlying business of the Group. Due to the relative size or nature of these items, in order to enable comparability of the Group's underlying results from period to period, these items have been presented as separate components of underlying EBITDA, as defined in note 1, and have been excluded from the calculation of underlying net profit in note 11.

Additionally, to enable a more comprehensive understanding of the Group's financial performance, the Group Consolidated Income Statement by nature of cost, through operating profit, is set out in note 5.

Group Statement of Accounting Policies
(continued)
for the year ended 31 July 2018

Basis of consolidation

The Group consolidated financial statements reflect the consolidation of the results, the assets and the liabilities of the parent undertaking, and all of its subsidiaries, together with the Group's share of the profits/losses of joint ventures.

Subsidiary undertakings

Subsidiary undertakings are those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Where necessary, the accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Disposal of subsidiaries

When the group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount, plus proceeds received, recognised in profit or loss. The fair value of the retained interest is then utilised as the initial carrying amount for purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. Any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Joint arrangements

Under IFRS 11, 'Joint Arrangements', investments in joint arrangements are classified as either joint operations or joint ventures, depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method of accounting, with the Group's investment including goodwill identified on acquisition.

Equity method

Under the equity method, investments are initially recognised at cost, with the carrying amount increased or decreased thereafter to recognise the Group's share of the profits or losses and movements in other comprehensive income after the date of the acquisition. When the Group's share of losses equals or exceeds its interest in the associate or joint venture, which includes any interests that, in substance, form part of the Group's net investment, the Group does not recognise further losses, unless it has incurred a legal or constructive obligation to do so.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates and joint ventures are recognised in the Group's financial statements, only to the extent of the unrelated investor's interests. Unrealised losses are eliminated, unless the transaction provides evidence of an impairment of the asset transferred.

Group Statement of Accounting Policies (continued) for the year ended 31 July 2018

If the ownership interest is reduced, but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss, where appropriate. Dilution gains and losses arising on investments in associates or joint ventures are recognised in the income statement.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture, based on the higher of value in use or fair value less costs to sell, and its carrying value, and recognises any impairment adjacent to share of profit after interest and tax of associates or joint ventures in the income statement. Where necessary, accounting policies of associates and joint ventures have been changed to ensure consistency with the policies adopted by the Group.

Transactions eliminated on consolidation
Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the Group consolidated financial statements. Unrealised gains and income and expenses arising from transactions with associates and joint ventures are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that they do not provide evidence of impairment.

Revenue recognition
Revenue represents the fair value of the sale of goods and services supplied to third parties, after deducting trade discounts and volume rebates, and is exclusive of sales tax. Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, which is usually upon shipment or delivery, depending on the specific terms agreed with individual customers, when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Financing income is recognised on an accrual basis, taking into consideration the sums lent and the actual interest rate applied.

Revenue is recorded when the collection of the amount due is reasonably assured. An estimate is made on the basis of historical sales returns and is recorded to allocate these returns to the same period as the original revenue is recorded. Rebates and discounts are provided for based on agreements or contracts with customers, agreed promotional arrangements and accumulated experience. Any unutilised accrual is released after assessment that the likelihood of such a claim being made is no longer probable.

Group Statement of Accounting Policies
(continued)
for the year ended 31 July 2018

Segmental reporting

Management has determined the operating segments based on the reports regularly reviewed by the Group's Chief Operating Decision Maker ('CODM') in making strategic decisions, allocating resources and assessing performance.

Following the resignation of Owen Killian as Group CEO effective 31 March 2017, the CODM in the intervening period up until the appointment of Kevin Toland as Group CEO on 12 September 2017 was comprised of the Board of Directors. Effective 12 September 2017, the CODM has been identified as the Group CEO.

As reflected in those reports, the operations of the Group are primarily organised into three operating segments, ARYZTA Europe, ARYZTA North America, ARYZTA Rest of World. The Group's principal geographies are Europe, North America and Rest of World.

ARYZTA Europe has leading market positions in the European frozen B2B bakery market. In Europe, ARYZTA has a diversified customer base within the foodservice, large retail and convenience or independent retail channels.

ARYZTA North America has leading positions in the frozen B2B bakery market in the United States and Canada. It has a diversified customer base within the QSR, large retail and other foodservice channels.

ARYZTA Rest of World consists of businesses in Australia, Asia, New Zealand and South America, primarily partnering with international QSR and other foodservice customers.

Segment assets and liabilities consist of property, plant and equipment, goodwill and intangible assets and other assets and liabilities that can be reasonably allocated to the reported segment. Unallocated assets and liabilities principally include joint ventures, current and deferred income tax assets and liabilities, together with financial assets and liabilities. Share of results of joint ventures, net finance costs and income tax are managed on a centralised basis. Therefore, these items are not allocated between operating segments for the purpose of presenting information to the CODM.

Group Statement of Accounting Policies (continued) for the year ended 31 July 2018

Employee benefits

Pension obligations

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement, as the related employee service is received. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan, by estimating the amount of future benefit employees have earned in return for their service in the current and prior periods. The future benefit is discounted to determine the present value of the obligation and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on high-quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

The defined benefit calculations are performed by a qualified actuary using the projected unit credit method on an annual basis. Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in the Group Consolidated Statement of Comprehensive Income, net of related taxes. Current and past service costs are recognised as employment costs in the income statement. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets, and is recognised in financing costs/income in the income statement.

Share-based compensation

As defined in IFRS 2, 'Share-based Payment', the cost of equity instruments is recognised at grant date fair value, with a corresponding increase in equity. The fair value is measured at the grant date and recognised over the period during which the employees become unconditionally entitled to the equity instrument. The fair value of the equity instruments granted is measured using the Black-Scholes valuation model, taking into account the terms and conditions under which the equity instruments were granted. The Group's equity-settled share-based compensation plans are subject to a non-market vesting condition; therefore, the amount recognised is adjusted annually to reflect the current estimate of achieving these conditions and the number of equity instruments expected to eventually vest.

Termination benefits

The Group recognises termination benefits when it has a formal plan to terminate the employment of current employees, which has been approved at the appropriate levels of the organisation and when the entity is demonstrably committed to a termination through announcement of the plan to those affected. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

Group Statement of Accounting Policies
(continued)
for the year ended 31 July 2018

Income taxes

Income tax expense on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income, in which case the related tax is also recognised directly in equity or in other comprehensive income, respectively. Current income tax is the expected tax payable on the taxable income for the period, using tax rates and laws that have been enacted or substantially enacted at the balance sheet date, in the respective countries where the Group and its subsidiaries operate and generate taxable income.

Deferred income tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred income tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. If the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, does not affect accounting or taxable profit or loss, it is not recognised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be recovered. Deferred income tax assets are reduced to the extent it is no longer probable the related tax benefit will be realised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Group Statement of Accounting Policies (continued) for the year ended 31 July 2018

Foreign currency

Items included in the financial statements of the Group's entities are measured using the currency of the primary economic environment in which each entity operates (the 'functional currency'). The consolidated financial statements are presented in euro, the Group's presentation currency, rounded to the nearest thousand, unless otherwise stated.

Transactions in currencies other than the functional currency of each respective entity are converted to the relevant functional currency using the foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted to the relevant functional currency using the foreign exchange rate at the balance sheet date. Foreign exchange differences arising on conversion into the local functional currency are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to euro at the foreign exchange rates at the balance sheet date. Income and expenses of foreign operations are translated to euro at the average exchange rates for the year, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions. Foreign exchange differences arising on translation of the net assets of a foreign operation are recognised in other comprehensive income, as a change in the foreign currency translation reserve.

Exchange gains or losses on long-term intra-group loans and on foreign currency borrowings used to finance or provide a hedge against Group equity investments in non-euro denominated operations are included in other comprehensive income, as a change in the foreign currency translation reserve, to the extent they are neither planned nor expected to be repaid in the foreseeable future, or are expected to provide an effective hedge of the net investment. Any differences that have arisen since transition to IFRS are recognised in the foreign currency translation reserve and are recycled through the Group Consolidated Income Statement on the repayment of the intra-group loan, or on disposal of the related business.

The principal euro foreign exchange currency rates used by the Group for the preparation of these consolidated financial statements are as follows:

Currency	Average 2018	Average 2017	% Change	Closing 2018	Closing 2017	% Change
CHF	1.1629	1.0818	(7.5)%	1.1578	1.1340	(2.1)%
USD	1.1951	1.0938	(9.3)%	1.1651	1.1756	0.9%
CAD	1.5210	1.4483	(5.0)%	1.5219	1.4674	(3.7)%
GBP	0.8863	0.8633	(2.7)%	0.8888	0.8933	0.5%

Group Statement of Accounting Policies (continued) for the year ended 31 July 2018

Dividends
Dividends are recognised in the period in which they are approved by the Company's shareholders.

Property, plant and equipment
Property, plant and equipment is stated at historical cost, less accumulated depreciation and impairment losses. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditures, including repairs and maintenance costs, are recognised in the income statement as an expense as incurred.

Interest on specific and general borrowings used to finance construction costs of property, plant and equipment is capitalised during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Depreciation is calculated to write-off the cost, less estimated residual value, of property, plant and equipment, other than freehold land and assets under construction, on a straight-line basis, by reference to the following estimated useful lives:

Buildings	25 to 50	years
Plant and machinery	3 to 20	years
Motor vehicles	3 to 7.5	years

The residual value of assets, if significant, and the useful life of assets is reassessed annually. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals of property, plant and equipment are recognised on the completion of sale. Gains and losses on disposals are determined by comparing the proceeds received, net of related selling costs, with the carrying amount of the asset and are included in operating profit.

Investment properties
Investment property, principally comprised of land and buildings, is held for capital appreciation and is stated at fair value. The fair value is based on market value, being the estimated amount for which a property could be exchanged in an arm's length transaction. Any gain or loss arising from a change in fair value is recognised in the Group Consolidated Income Statement. When property is transferred to investment property following a change in use, any difference arising at the date of transfer between the carrying amount of the property immediately prior to transfer and its fair value is recognised in equity if it is a gain. Upon disposal of the property, the gain would be transferred to retained earnings. Any loss arising in this manner, unless it represents the reversal of a previously recognised gain, would be recognised immediately in the Group Consolidated Income Statement.

Group Statement of Accounting Policies (continued) for the year ended 31 July 2018

Leased assets

Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

The corresponding rental obligations, net of finance charges, are included in interest-bearing loans and borrowings. The interest element of the payments is charged to the income statement over the lease period, so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. For disclosure purposes, the fair value of finance leases is based on the present value of future cash flows, discounted at appropriate current market rates.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the lease term.

Business combinations and goodwill

Business combinations are accounted for by applying the acquisition method. The cost of each acquisition is measured as the aggregate of the fair value of the consideration transferred, as at the acquisition date, and the fair value of any non-controlling interest in the acquiree.

The consideration transferred includes the fair value of any assets or liabilities resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Where any part of the consideration for a business combination is contingent, the fair value of that component is determined by discounting the estimated amounts payable to their present value at the acquisition date. The discount is unwound as a finance charge in the Group Consolidated Income Statement over the life of the obligation. Subsequent changes to the estimated amounts payable for contingent consideration are recognised as a gain or loss in the Group Consolidated Income Statement.

Where a business combination is achieved in stages, the Group's previously held interest in the acquiree is re-measured to fair value at the acquisition date and included within the consideration, with any gain or loss recognised in the Group Consolidated Income Statement.

Goodwill is initially recognised at cost, being the difference between the cost of the acquisition over the fair value of the net identifiable assets and liabilities assumed. Following initial recognition, goodwill is stated at cost, less any accumulated impairment losses.

Group Statement of Accounting Policies (continued) for the year ended 31 July 2018

When the initial accounting for a business combination is only provisionally determined at the end of the financial year in which the combination occurs, any adjustments to the provisional values allocated to the identifiable assets and liabilities are made within a period of no more than one year from the acquisition date.

Acquisition costs arising in connection with a business combination are expensed as incurred.

Intangible assets

Intangible assets acquired as part of a business combination are initially recognised at fair value, being their deemed cost as at the date of acquisition. These generally include brand and customer-related intangible assets.

Computer software that is not an integral part of an item of computer hardware is also classified as an intangible asset. Where intangible assets are separately acquired, they are capitalised at cost. Cost comprises purchase price and other applicable directly attributable costs. Directly attributable costs that are capitalised as part of the ERP and computer-related intangibles include the employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products or processes, is capitalised, if the product or process is technically and commercially feasible, the attributable expenditure can be reliably measured, and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour or an appropriate proportion of overheads. Capitalised development expenditure is stated at cost, less accumulated amortisation and impairment losses. Other development expenditure is recognised in the income statement as an expense as incurred.

Intangible assets with finite lives are amortised over the period of their expected useful lives in equal annual instalments, generally as follows:

Customer relationships	5 to 22 years
Brands	10 to 25 years
Computer-related intangibles	3 to 5 years
ERP-related intangibles	12 years
Patents and other	3 to 15 years

Subsequent to initial recognition, the expected useful lives and related amortisation of finite life intangible assets are reviewed at least at each financial year-end and, if the expected economic benefits of the asset are different from previous estimates, amortisation is adjusted accordingly. Intangible assets are stated at cost, less accumulated amortisation and any impairment losses incurred.

There are no intangible assets with an indefinite useful life.

Group Statement of Accounting Policies
(continued)
for the year ended 31 July 2018

Impairment of non-financial assets

The carrying amounts of the Group's assets, other than inventories (which are carried at the lower of cost and net realisable value), deferred tax assets (which are recognised based on recoverability) and those financial instruments carried at fair value, are reviewed to determine whether there is an indication of impairment when an event or transaction indicates that there may be, and at least at each reporting date. If any such indication exists, an impairment test is carried out and, if necessary, the asset is written down to its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and an asset's value-in-use. The Group tests goodwill for impairment annually, during the last quarter of the financial year, or more frequently if events or changes in circumstances indicate a potential impairment.

An impairment loss is recognised whenever the carrying amount of an asset, or its cash-generating unit, exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement as an expense. Goodwill is allocated to the various cash-generating units for the purposes of impairment testing. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. An impairment loss for goodwill is not subsequently reversed. An impairment loss for other assets may be reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Inventory

Inventory is stated at the lower of cost, on a first-in, first-out basis, and net realisable value. Cost includes all expenditure incurred in the normal course of business in bringing the products to their present location and condition. Net realisable value is the estimated selling price of inventory on hand, less all further costs to completion and all costs expected to be incurred in marketing, distribution and selling.

Cash and cash equivalents

Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents in the balance sheet comprise cash at bank and on hand, call deposits and other short-term highly liquid investments with original maturities of three months or less.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of net cash and cash equivalents for the purpose of the Group Consolidated Cash Flow Statement.

Disposal groups held-for-sale

Disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

Group Statement of Accounting Policies (continued) for the year ended 31 July 2018

The assets of a disposal group classified as held-for-sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held-for-sale are presented separately from other liabilities in the balance sheet.

An impairment loss is recognised for any initial or subsequent write-down of the disposal group to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the disposal group is recognised at the date of derecognition. Non-current assets that are part of a disposal group are not depreciated or amortised while they are classified as held-for-sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Share capital

Shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity, net of tax, as a deduction from the proceeds.

If any Group company purchases ARYZTA AG's equity share capital, those shares are accounted for as treasury shares in the consolidated financial statements of the Group. Consideration paid for treasury shares, including any directly attributable incremental cost, net of tax, is deducted from equity attributable to the shareholders of the Company, until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's shareholders.

Financial assets and liabilities

Trade and other receivables

Trade and other receivables (excluding prepayments) are initially measured at fair value and are thereafter measured at amortised cost, using the effective interest method, less any provision for impairment. A provision for impairment is recognised in administration expenses when there is objective evidence that the Group will not be able to collect all amounts due, according to the original terms of the receivables. If collection is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. Where risks associated with trade receivables are transferred out of the Group under receivables purchase arrangements, such receivables are derecognised from the balance sheet, except to the extent of the Group's continued involvement or exposure.

Short-term bank deposits

Short-term bank deposits with an original maturity of three months or less, which do not meet the definition of cash and cash equivalents, are classified as other receivables within current assets and are stated at amortised cost in the balance sheet.

Group Statement of Accounting Policies (continued) for the year ended 31 July 2018

Trade and other payables
Trade and other payables are recognised initially at fair value and are subsequently measured at amortised cost, using the effective interest method. Trade and other payables are classified as current liabilities, if payment is due within one year or less, otherwise, they are presented as non-current liabilities.

Provisions
A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and the outflow can be reliably measured. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Derivatives
Derivatives, including forward currency contracts, interest rate swaps and commodity futures contracts are used to manage the Group's exposure to foreign currency risk, interest rate risk and commodity price risk. These derivatives are generally designated as cash flow hedges in accordance with IAS 39, 'Financial Instruments: Recognition and Measurement'.

Derivative financial instruments are initially recorded at fair value on the date the contract is entered into and are subsequently re-measured to fair value, as of each reporting date, using quoted market values. The gain or loss arising on re-measurement is recognised in the income statement, except where the instrument is a designated hedging instrument.

Cash flow hedges
Subject to the satisfaction of certain criteria relating to the documentation of the risk, objectives and strategy for the hedging transaction and the ongoing measurement of its effectiveness, cash flow hedges are accounted for under hedge accounting rules. In such cases, any unrealised gain or loss arising on the effective portion of the derivative instrument is recognised in other comprehensive income, as part of the cash flow hedge reserve. Unrealised gains or losses on any ineffective portion are recognised in the income statement. When the hedged transaction occurs, the related gains or losses in the cash flow hedge reserve are transferred to the income statement.

Net investment hedge
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of or sold.

Interest-bearing loans and borrowings
Interest-bearing borrowings are recognised initially at fair value, net of attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost, using the effective interest rate method.

Group Statement of Accounting Policies (continued) for the year ended 31 July 2018

Fees paid on the establishment of loan facilities are capitalised as transaction costs of the loan, to the extent that it is probable that some or all of the facility will be drawn down, and are amortised over the period of the facility to which the fees relate.

For interest-bearing loans and borrowings with a contractual re-pricing date of less than six months, the nominal amount is considered to approximate fair value for disclosure purposes. For loans with a re-pricing date of greater than six months, the fair value is calculated based on the expected future principal and interest cash flows, discounted at appropriate current market interest rates.

Other equity reserve
As the perpetual callable subordinated instruments ('Hybrid instruments') have no maturity date and repayment is at the option of ARYZTA, they are recognised within other equity reserves at historical cost, net of attributable transaction costs, until such time that management and the Board of Directors have approved settlement of the applicable instrument. Any difference between the amount paid upon settlement of these instruments and the historical cost is recognised directly within retained earnings.

Dividends on these Hybrid instruments accrue at the coupon rate applicable to each respective instrument on an ongoing basis; however, a contractual obligation to settle these dividends in cash only arises when a Compulsory Payment Event, such as payment of a cash dividend to equity shareholders, has occurred within the last twelve months.

Government grants
Grants that compensate the Group for the cost of an asset are shown as deferred income in the balance sheet and are recognised in the income statement in instalments on a basis consistent with the depreciation policy of the relevant assets. Other grants are credited to the income statement to offset the associated expenditure.

Transactions with non-controlling interests
The Group treats transactions with non-controlling interests, which do not result in a loss of control, as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired in the carrying value of the net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is then the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Notes to the Group Consolidated Financial Statements
for the year ended 31 July 2018

1 Segment information

1.1 Analysis by business segment

I) Segment revenue and result	ARYZTA Europe		ARYZTA North America		ARYZTA Rest of World		ARYZTA Group	
in EUR `000	2018	2017	2018	2017	2018	2017	2018	2017
Segment revenue	**1,710,662**	1,738,593	**1,467,969**	1,799,059	**256,791**	259,118	**3,435,422**	3,796,770
Underlying EBITDA[1]	**171,977**	211,128	**89,902**	170,096	**39,943**	39,083	**301,822**	420,307
Depreciation	**(57,954)**	(54,009)	**(51,988)**	(62,909)	**(9,908)**	(9,390)	**(119,850)**	(126,308)
ERP amortisation	**(10,576)**	(9,955)	**(6,438)**	(6,734)	**(22)**	–	**(17,036)**	(16,689)
Underlying EBITA	**103,447**	147,164	**31,476**	100,453	**30,013**	29,693	**164,936**	277,310
Amortisation of other intangible assets	**(68,291)**	(57,816)	**(80,066)**	(108,765)	**(7,285)**	(8,059)	**(155,642)**	(174,640)
Net loss on disposal of businesses and impairment of disposal groups held-for-sale	**(47,413)**	–	**(135,903)**	–	–	–	**(183,316)**	–
Impairment of goodwill	**(175,000)**	(103,000)	–	(491,872)	–	–	**(175,000)**	(594,872)
Impairment of intangible assets	–	–	–	(138,642)	–	–	–	(138,642)
Net loss on fixed asset disposals and impairments	**(1,926)**	(1,320)	**(1,098)**	(126,414)	**(1,443)**	1,532	**(4,467)**	(126,202)
Restructuring-related costs	**(6,058)**	(11,682)	**(63,441)**	(37,639)	**(326)**	(1,153)	**(69,825)**	(50,474)
Operating (loss)/profit[2]	**(195,241)**	(26,654)	**(249,032)**	(802,879)	**20,959**	22,013	**(423,314)**	(807,520)
Share of profit after interest and tax of joint ventures[3]							**15,156**	38,380
Net gain on disposal of joint venture[3]							**1,468**	–
Financing income[3]							**2,845**	3,821
Financing costs[3]							**(76,413)**	(62,272)
RCF termination and private placement early redemption[3]							**(12,415)**	(182,513)
Loss before income tax as reported in Group Consolidated Income Statement							**(492,673)**	(1,010,104)

1 'Underlying EBITDA' – presented as earnings before interest, taxation, depreciation and amortisation; before impairment, disposal and restructuring-related costs.

2 Certain central executive and support costs have been allocated against the operating results of each business segment.

3 Joint ventures, finance income/(costs) and income tax are managed on a centralised basis. Therefore, these items are not allocated between business segments for the purposes of presenting information to the Chief Operating Decision Maker.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

II) Segment revenue by location

in EUR `000	Revenue 2018	% of Group Revenue 2018	Revenue 2017	% of Group Revenue 2017
Switzerland (ARYZTA's country of domicile)	**201,631**	**5.9%**	255,231	6.7%
Germany	**609,738**	**17.7%**	587,256	15.5%
Other[1]	**899,293**	**26.2%**	896,106	23.6%
ARYZTA Europe segmental revenue	**1,710,662**	**49.8%**	1,738,593	45.8%
USA	**1,154,561**	**33.6%**	1,465,827	38.6%
Canada	**313,408**	**9.1%**	333,232	8.8%
ARYZTA North America segmental revenue	**1,467,969**	**42.7%**	1,799,059	47.4%
ARYZTA Rest of World segmental revenue[2]	**256,791**	**7.5%**	259,118	6.8%
ARYZTA Group revenue[3]	**3,435,422**	**100.0%**	3,796,770	100.0%
ARYZTA Group revenue from major customer[4]	**383,886**	**11.2%**	379,875	10.0%

1 Other includes foreign countries in the ARYZTA Europe segment, which individually did not represent greater than 10% of ARYZTA Group revenue in the current or prior financial year.

2 No country in the ARYZTA Rest of World segment represented greater than 10% of the ARYZTA Group revenue in the current or prior financial year on an individual country basis.

3 For the purposes of this analysis, customer revenues are allocated based on geographic location of vendor.

4 One single external customer represented greater than 10% of the ARYZTA Group revenue in the current and prior financial year. These revenues were earned across all of the Group's operating segments in the current and prior financial years.

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2018

III) Segment assets	ARYZTA Europe		ARYZTA North America		ARYZTA Rest of World		ARYZTA Group	
in EUR `000	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Segment assets	**1,810,766**	2,172,161	**1,680,415**	2,125,089	**236,552**	266,088	**3,727,733**	4,563,338

Reconciliation to total assets as reported in the Group Consolidated Balance Sheet		
Investments in joint ventures	**420,016**	528,188
Deferred income tax assets	**68,702**	70,045
Derivative financial instruments	**1,268**	4,311
Cash and cash equivalents	**517,854**	535,570
Total assets as reported in Group Consolidated Balance Sheet	**4,735,573**	5,701,452

IV) Segment liabilities	ARYZTA Europe		ARYZTA North America		ARYZTA Rest of World		ARYZTA Group	
in EUR `000	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Segment liabilities	**456,604**	495,550	**349,641**	415,041	**59,471**	72,378	**865,716**	982,969

Reconciliation to total liabilities as reported in Group Consolidated Balance Sheet		
Interest-bearing loans and borrowings	**2,028,118**	2,269,440
Derivative financial instruments	**829**	2,200
Current and deferred income tax liabilities	**168,050**	245,191
Total liabilities as reported in Group Consolidated Balance Sheet	**3,062,713**	3,499,800

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2018

V) Other segment information in EUR `000	ARYZTA Europe 2018	2017	ARYZTA North America 2018	2017	ARYZTA Rest of World 2018	2017	ARYZTA Group 2018	2017
Capital expenditure								
– Property, plant and equipment	**42,500**	49,352	**25,014**	33,253	**9,817**	10,348	**77,331**	92,953
– Intangibles	**3,114**	4,417	**1,749**	3,180	**496**	730	**5,359**	8,327
Total capital expenditure	**45,614**	53,769	**26,763**	36,433	**10,313**	11,078	**82,690**	101,280

1.2 Segmental non-current assets

I) Segment non-current assets by segment in EUR `000	ARYZTA Europe 2018	2017	ARYZTA North America 2018	2017	ARYZTA Rest of World 2018	2017	ARYZTA Group 2018	2017
IFRS 8 non-current assets[1]	**2,025,870**	2,505,768	**1,519,916**	1,851,671	**190,199**	228,932	**3,735,985**	4,586,371

1 Non-current assets as reported under IFRS 8, Operating Segments, include all non-current assets as presented in the Group Consolidated Balance Sheet, with the exception of deferred taxes and derivative financial instruments.

II) Segment non-current assets by location

in EUR `000	Non-current assets 2018	% of Group non-current assets 2018	Non-current assets 2017	% of Group non-current assets 2017
Switzerland (ARYZTA's country of domicile)	**287,511**	**7.7%**	295,683	6.4%
Germany	**492,262**	**13.2%**	722,635	15.8%
Other[1]	**1,246,097**	**33.3%**	1,487,450	32.4%
ARYZTA Europe segmental non-current assets	**2,025,870**	**54.2%**	2,505,768	54.6%
USA	**895,381**	**24.0%**	1,179,431	25.7%
Canada	**624,535**	**16.7%**	672,240	14.7%
ARYZTA North America segmental non-current assets	**1,519,916**	**40.7%**	1,851,671	40.4%
ARYZTA Rest of World segmental non-current assets[2]	**190,199**	**5.1%**	228,932	5.0%
ARYZTA Group non-current assets	**3,735,985**	**100.0%**	4,586,371	100.0%

1 Other includes foreign countries in the ARYZTA Europe segment which individually did not represent greater than 10% of ARYZTA Group non-current assets at the end of the current or prior financial year.

2 No country in the ARYZTA Rest of World segment represented greater than 10% of the ARYZTA Group non-current assets in the current or prior financial year on an individual country basis.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

2 Impairment, disposal and restructuring-related costs

In accordance with IAS 1, 'Presentation of Financial Statements', the Group Consolidated Income Statement is presented by function of expense.

Management has also identified certain impairment, disposal and restructuring-related costs within each functional area, which are presented separately within the Financial Business Review. In order to enable comparability of the Group's underlying results and performance from period to period, the following reconciliation between the IFRS income statement and the amounts presented within the Financial Business Review is provided.

in EUR `000	IFRS Income Statement 2018	Net impairment, disposal, restructuring-related costs 2018	Intangible amortisation 2018	Financial Business Review 2018	IFRS Income Statement 2017	Net impairment, disposal, restructuring-related costs 2017	Intangible amortisation 2017	Financial Business Review 2017
Revenue	**3,435,422**	–	–	**3,435,422**	**3,796,770**	–	–	**3,796,770**
Cost of sales	**(2,543,732)**	44,985	–	**(2,498,747)**	**(2,766,136)**	71,391	–	**(2,694,745)**
Distribution expenses	**(402,561)**	2,022	–	**(400,539)**	**(411,702)**	18	–	**(411,684)**
Gross profit	**489,129**	47,007	–	**536,136**	**618,932**	71,409	–	**690,341**
Selling expenses	**(181,635)**	5,391	–	**(176,244)**	**(202,747)**	1,336	–	**(201,411)**
Administration expenses	**(372,492)**	21,894	155,642	**(194,956)**	**(628,833)**	242,573	174,640	**(211,620)**
Net loss on disposal of businesses and impairment of disposal groups held-for-sale	**(183,316)**	183,316	–	**–**	**–**	–	–	**–**
Impairment of goodwill (note 14)	**(175,000)**	175,000	–	**–**	**(594,872)**	594,872	–	**–**
Operating (loss)/profit	**(423,314)**	432,608	155,642	**164,936**	**(807,520)**	910,190	174,640	**277,310**

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

During the year ended 31 July 2018, the Group incurred the following impairment, disposal and restructuring-related costs, which are presented separately when providing information to the Chief Operating Decision Maker, as reflected within the presentation of segmental underlying EBITDA within note 1. Furthermore, this metric forms the basis for Trailing Twelve Month EBITDA utilised in calculating the Net Debt: EBITDA ratio for banking covenant compliance.

		ARYZTA Europe		ARYZTA North America		ARYZTA Rest of World		ARYZTA Group	
in EUR `000	Notes	2018	2017	2018	2017	2018	2017	2018	2017
Net loss on disposal of businesses and impairment of disposal groups held-for-sale	2.1	**(47,413)**	–	**(135,903)**	–	**–**	–	**(183,316)**	–
Impairment of goodwill	2.2	**(175,000)**	(103,000)	**–**	(491,872)	**–**	–	**(175,000)**	(594,872)
Impairment of intangibles	2.3	**–**	–	**–**	(138,642)	**–**	–	**–**	(138,642)
Impairment and disposal of fixed assets and investment property	2.4	**(1,926)**	(1,320)	**(1,098)**	(126,414)	**(1,443)**	1,532	**(4,467)**	(126,202)
Total net gain/(loss) on disposal of businesses and asset write-downs		**(224,339)**	(104,320)	**(137,001)**	(756,928)	**(1,443)**	1,532	**(362,783)**	(859,716)
Labour-related business interruption		**–**	–	**(41,443)**	(16,349)	**–**	–	**(41,443)**	(16,349)
Severance and other staff-related costs		**(3,256)**	(9,423)	**(11,569)**	(10,791)	**(326)**	(1,153)	**(15,151)**	(21,367)
Contractual obligations		**(314)**	(762)	**(102)**	(6,533)	**–**	–	**(416)**	(7,295)
Advisory and other costs		**(2,488)**	(1,497)	**(10,327)**	(3,966)	**–**	–	**(12,815)**	(5,463)
Total restructuring-related costs	2.5	**(6,058)**	(11,682)	**(63,441)**	(37,639)	**(326)**	(1,153)	**(69,825)**	(50,474)
Total impairment, disposal and restructuring-related costs		**(230,397)**	(116,002)	**(200,442)**	(794,567)	**(1,769)**	379	**(432,608)**	(910,190)

2.1 Net loss on disposal of businesses and impairment of disposal groups held for sale

During January 2018, the Group disposed of a business in Europe, which historically generated approximately €45,000,000 in annual revenues. As the €46,781,000 proceeds received, net of associated transaction costs, exceeded the €45,432,000 carrying value of the net assets disposed, the transaction resulted in a €1,349,000 net gain on disposal.

In addition, two non-core businesses in Europe were re-classified as disposal groups held-for-sale during July 2018. A resulting impairment loss of €48,762,000 on re-measurement to fair value, less costs to sell, has been recognised, as detailed in note 3.

During February 2018, the Group disposed of the Cloverhill Chicago and Cicero facilities in North America, which historically generated approximately €250,000,000 in annual revenues. As the €54,818,000 proceeds received, net of associated transaction costs, were less than the €209,108,000 carrying value of the net assets prior to the disposal agreement, a loss of €135,903,000 was recognized during the year ended 31 July 2018, net of a €18,387,000 cumulative foreign currency translation gain since the initial investment.

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2018

2.2 Impairment of goodwill

Following significant reductions in profitability in Germany and North America, the Group recorded goodwill impairment charges of €103,000,000 in Germany and €491,872,000 in North America during the year ended 31 July 2017.

Following further reductions in estimated future profitability of the existing business, the Group recorded an additional €175,000,000 goodwill impairment charge in Germany during the year ended 31 July 2018.

Profitability in this business has been significantly impacted by the consolidation of bakery capacity into the Eisleben facility during prior years, which has been further compounded by customer volume insourcing and commodity prices during the current year, while the relatively new capacity at this bakery is also still being optimised.

While profitability is expected to improve in the future, including utilising available capacity to support capacity needs for other geographies within the Group, after considering the goodwill and other assets, as well as the respective future cash flow projections, management determined it was appropriate to record an additional goodwill impairment during the current year.

Despite these impairments, the bakery remains a world-class production facility and is expected to make significant future contributions to the group, once spare capacity across the network is optimised and other operational challenges are addressed.

Further detail on these goodwill impairments is included in note 14 in the IFRS financial statements on pages 118 to 121.

2.3 Impairment of intangibles

During the year ended 31 July 2017, ARYZTA North America experienced a significant reduction in volumes, as a result of earlier than anticipated in-sourcing by co-pack customers.

As these customers and the related volumes were primarily associated with the Group's Cloverhill acquisition, the Group reviewed the remaining customer relationship and brand-related intangible assets obtained as part of that acquisition and recorded a €138,642,000 impairment of those intangible assets.

There were no such impairments of intangibles during the year ended 31 July 2018.

2.4 Impairment and disposal of fixed assets and investment property

During the year ended 31 July 2018, the Group incurred a net loss on the disposal of various fixed assets and investment properties totaling €4,467,000.

During the year ended 31 July 2017 the Group incurred €126,202,000 of asset write-downs and impairments, primarily related to assets in ARYZTA North America, including:
- €56,645,000 in relation to additional production capacity not yet fully completed or in service, which without further investment is expected to remain idle;
- €69,769,000 in relation to other North American facilities, which either lost significant activity or which were not projected to achieve sufficient future profitability to recover their carrying value.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

2.5 Restructuring-related costs
During the year ended 31 July 2018, the Group underwent considerable restructuring-related activity as a result of the ongoing consolidation and rationalisation of a number of production, distribution and administrative functions across the Group.

As a result of these activities, the Group has recognised costs, including providing for amounts as required by IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', in the Group Consolidated Income Statement as follows:

Labour related business interruption costs
During the year ended 31 July 2017, the Group encountered significant labour-related business disruption at its Cloverhill facilities in North America.

A substantial number of the legacy labour force at those facilities were supplied through a third-party staffing agency. A federal audit of this third-party agency revealed inadequate documentation, resulting in circa 800 experienced workers leaving the business during Q4 FY2017.

As these individuals had significant knowledge and experience of the baking process and represented over one-third of the workforce at these facilities, a significant decrease in the labour efficiency, waste levels and production volumes occurred at these facilities, as a result of this disruption.

While the Cloverhill business had been profitable every month since its acquisition, following this disruption these locations incurred €16,349,000 of losses during June and July 2017, as well as €41,443,000 of losses during FY 2018, up until disposal in February 2018.

Severance and other staff-related costs
During the year ended 31 July 2018, the Group provided for a total of €15,151,000 (2017: €21,367,000) in severance and other staff-related costs arising from a number of production, distribution and administrative rationalisations across the Group, as well as amounts in respect of key employee retention agreements implemented following the Executive Management departures in March 2017.

Contractual obligations
As a result of decisions made as part of the Group's integration and rationalisation projects, during the year ended 31 July 2018, the Group incurred total costs of €416,000 (2017: €7,295,000) to provide for certain long-term contracts determined to be surplus to the Group's operating requirements.

The associated provision amounts have been calculated on the basis of the remaining period of the relevant lease, or an estimate to the earliest date at which the lease could be terminated or sublet, if shorter.

Advisory and other costs
During the year ended 31 July 2018, the Group incurred €12,815,000 (2017: €5,463,000) in advisory and other professional services costs, arising directly from the strategic and business review activities following the changes in Executive Management.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

3 Disposal groups held-for-sale

During July 2018, the Group identified two non-core businesses in the ARYZTA Europe segment, which historically generated approximately €30,000,000 in annual revenues, for disposal. As plans for these disposals have been approved by the Board of Directors and are sufficiently progressed that they are considered highly probable to be completed within the next 12 months, the assets of these businesses have been accounted for as disposal groups held-for-sale as of 31 July 2018.

As the fair value less costs to sell of these facilities of €7,000,000 was less than the €55,762,000 carrying value of the net assets, a loss on impairment of disposal groups held-for-sale of €48,762,000 has been recognised in the income statement.

In accordance with IFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations', the assets of the disposal groups classified as held-for-sale are presented separately from other assets in the Group Consolidated Balance Sheet as at 31 July 2018.

Analysis of the disposal groups held-for-sale, including the loss recognised on the re-measurement of the assets of the disposal group to fair value less costs to sell, is as follows:

in EUR '000	2018
Carrying value of net assets transferred to disposal groups held-for-sale	55,762
Loss on impairment of disposal groups held-for-sale	(48,762)
Disposal groups held-for-sale at fair value less costs to sell	**7,000**

The assets of the disposal groups held-for-sale are as follows:

in EUR '000	2018
Property, plant and equipment	4,208
Inventory	2,792
Disposal groups held-for-sale at fair value less costs to sell	**7,000**

The fair value has been measured using inputs not observable within the market, and is therefore within level 3 of the fair value hierarchy. The transactions are expected to complete during FY 2019, within one year from the date of classification as held-for-sale on 31 July 2018.

A cumulative €0.9m foreign currency translation loss on net investment, related to these disposal groups, has been recognised through other comprehensive income since initial investment, and remains in foreign currency translation reserve as of 31 July 2018. This amount will be recalculated upon eventual completion of the transactions and will be recycled from other comprehensive income into the income statement at that point.

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2018

4 Financing income and costs

in EUR `000	2018	2017
Financing income		
Total financing income recognised in Group Consolidated Income Statement	**2,845**	3,821
Financing costs		
Interest cost on bank loans and overdrafts	**(76,316)**	(62,140)
Interest cost under finance leases	**(44)**	(81)
Defined benefit plan: net interest cost on plan liabilities (note 24)	**(53)**	(51)
Total financing costs recognised in Group Consolidated Income Statement	**(76,413)**	(62,272)
RCF termination and private placement early redemption (note 20)	**(12,415)**	(182,513)
Recognised directly in other comprehensive income		
Effective portion of changes in fair value of interest rate swaps[1]	**1,411**	2,756
Fair value of interest rate swaps transferred to income statement	**901**	3,970
Total financing gain recognised directly in other comprehensive income	**2,312**	6,726

1 No unrealised gains or losses on any ineffective portion of derivatives have been recognised in the income statement.

5 Other information

Group Consolidated Income statement by nature of cost through to operating profit

in EUR `000	2018	2017
Revenue	**3,435,422**	3,796,770
Raw materials and consumables used	**(1,670,222)**	(1,814,357)
Employment costs (note 7)	**(794,567)**	(846,002)
Storage and distribution costs	**(245,863)**	(254,698)
Amortisation of intangible assets (note 1)	**(172,678)**	(191,329)
Depreciation of property, plant and equipment (note 1)	**(119,850)**	(126,308)
Light, heat and power	**(83,644)**	(89,402)
Operating lease rentals	**(66,876)**	(72,985)
Repairs and maintenance	**(56,550)**	(61,822)
Advertising and marketing	**(43,076)**	(53,741)
Net loss on disposal of businesses and impairment of disposal groups held-for-sale (note 2)	**(183,316)**	–
Impairment of goodwill (note 2)	**(175,000)**	(594,872)
Impairment of intangibles (note 2)	–	(138,642)
Asset disposals and impairments (note 2)	**(4,467)**	(126,202)
Labour related business interruption (note 2)	**(41,443)**	(16,349)
Other restructuring-related costs (note 2)	**(13,231)**	(12,758)
Other direct and indirect costs	**(187,953)**	(204,823)
Operating loss	**(423,314)**	(807,520)

Group revenue categories

Group revenue relates primarily to sale of products.

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2018

6 Directors' compensation

Please refer to the ARYZTA AG Compensation Report on pages 55 to 64 for details on the compensation process and compensation for the year of Directors and Group Executive Management. Also see compensation of key management disclosure as included in note 28.

7 Employment

Average number of persons employed by the Group during the year by function	2018	2017
Production	**14,110**	15,046
Sales and distribution	**3,403**	3,596
Management and administration	**1,382**	1,597
Total Group	**18,895**	20,239

Average number of persons employed by the Group during the year by region	2018	2017
Europe	**8,926**	9,052
North America	**8,019**	9,343
Rest of World	**1,950**	1,844
Total Group	**18,895**	20,239

Aggregate employment costs of the Group

in EUR `000	2018	2017
Wages and salaries	**688,067**	731,676
Social welfare costs	**73,626**	76,399
Severance and other staff-related costs (note 2)	**15,151**	21,367
Defined contribution plans (note 24)	**13,767**	14,233
Defined benefit plans – current service cost (note 24)	**3,225**	3,692
Defined benefit plans – past service gain/(loss) (note 24)	**731**	(1,365)
Employment costs	**794,567**	846,002

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

8 Share-based payments

The Group has outstanding grants of equity-based incentives under the ARYZTA Option Equivalent Plan LTIP and ARYZTA Restricted Stock Unit Plan. The total cost reported in the Group Consolidated Income Statement in relation to equity-settled share-based payments is €2,005,000 (2017: €2,005,000).

The analysis of movements within the LTIP plans is as follows:

8.1 ARYZTA Option Equivalent Plan LTIP

Option Equivalent Plan awards	Weighted conversion price 2018 in CHF	Number of equity entitlements 2018	Weighted conversion price 2017 in CHF	Number of equity entitlements 2017
Outstanding at beginning of the year	**42.30**	**3,660,500**	50.19	4,883,500
Forfeited during the year	**44.66**	**(2,100,000)**	73.82	(1,223,000)
Outstanding at the end of the year	**39.20**	**1,560,500**	42.30	3,660,500
Vested at end of the year	**39.20**	**1,560,500**	39.22	1,565,500

Option Equivalent Plan awards outstanding by conversion price	Conversion price in CHF	Number of equity entitlements	Actual remaining life (years)
Issued during financial year 2010	37.23	**550,000**	**1.1**
Issued during financial year 2012	39.95	**962,500**	**3.2**
Issued during financial year 2013	46.70	**48,000**	**4.3**
As of 31 July 2018	39.20	**1,560,500**	**2.5**

The equity instruments granted under the ARYZTA Option Equivalent Plan LTIP are equity-settled share-based payments as defined in IFRS 2, 'Share-based Payment'. The Group has no legal or constructive obligation to repurchase or settle the Option Equivalent awards in cash.

Vesting of the awards under the Option Equivalent Plan issued during financial year 2016 was conditional on compound annual growth in underlying diluted EPS (including the associated cost of any awards expected to vest) in three consecutive accounting periods exceeding the compound growth in the Euro-zone Core Consumer Price Index, plus 5%, on an annualised basis. The awards were also subject to additional conditions, including notably:

(a) the requirement to remain in service throughout the performance period;
(b) the requirement that ARYZTA's reported ROIC over the expected performance period is not less than 120% of its weighted average cost of capital; and
(c) the requirement that annual dividends to shareholders are at least 15% of underlying EPS during the performance period.

As the above performance conditions were not met, the Option Equivalent Plan awards granted during financial year 2016, for which no expense had been recognised to date, were forfeited during the current year.

The vested Option Equivalent Plan awards still outstanding as of 31 July 2018 can be exercised no longer than ten years after grant date. There were no awards granted under the Option Equivalent Plan during the years ended 31 July 2018 or 31 July 2017.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

8.2 ARYZTA Restricted Stock Unit Plan

Restricted Stock Unit Plan awards outstanding	Weighted conversion price 2018 in CHF	Number of equity entitlements 2018	Weighted conversion price 2017 in CHF	Number of equity entitlements 2017
Outstanding at beginning of the year	**0.00**	**177,957**	–	–
Granted during the year	–	–	0.00	182,807
Exercised during the year	**0.00**	**(64,899)**	–	–
Forfeited during the year	**0.00**	**(22,777)**	0.00	(4,850)
Outstanding at the end of the year	**0.00**	**90,281**	0.00	177,957
Vested at end of the year	–	–	–	–

Restricted Stock Unit Plan awards outstanding	Conversion price in CHF	Number of equity entitlements	Actual remaining life (years)
Issued during financial year 2017	0.00	**90,281**	**8.6**
As of 31 July 2018	0.00	**90,281**	**8.6**

The equity instruments granted under the ARYZTA Restricted Stock Unit Plan are equity-settled share-based payments as defined in IFRS 2, 'Share-based Payment'. The Group has no legal or constructive obligation to repurchase or settle the ARYZTA Restricted Stock Unit Plan awards in cash.

Awards under the ARYZTA Restricted Stock Unit Plan generally vest subject to continuous service by the employee from the grant date as follows:

(a) one-third during the year ending 31 July 2018; and
(b) the remaining two-thirds during the year ending 31 July 2019.

There were no awards granted under the ARYZTA Restricted Stock Unit Plan during the year ended 31 July 2018. The weighted average fair value assigned to share option equivalents granted under the ARYZTA Restricted Stock Unit Plan during the year ended 31 July 2017 was CHF 30.58. The fair value assigned to equity entitlements issued under the ARYZTA Restricted Stock Unit Plan represents the full value of an ordinary share on the date of grant, adjusted for the estimated lost dividends between date of issue and vesting date and adjusted for the nominal value of the shares.

During the year ended 31 July 2018, the performance conditions associated with 64,899 Restricted Stock Unit Plan awards were fulfilled. Therefore, these awards were approved as vested by the Remuneration Committee and were subsequently exercised by employees, in exchange for the same number of shares. The weighted average share price at the time of these exercises was CHF 28.69.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

9 Income taxes

Income tax credit

in EUR `000	2018	2017
Current tax charge	**(27,071)**	(29,652)
Deferred tax credit (note 23)	**49,768**	133,618
Income tax credit	**22,697**	103,966

Reconciliation of average effective tax rate to applicable tax rate

in EUR `000	2018	2017
Loss before income tax	**(492,673)**	(1,010,104)
Less share of profit after interest and tax of joint ventures	**(15,156)**	(38,380)
Loss before tax and before share of profit of joint ventures	**(507,829)**	(1,048,484)
Income tax on loss for the year at 21.2% (2017: 21.2%)[1]	**107,660**	222,279
(Expenses)/income not (deductible)/taxable for tax purposes	**(43,859)**	(75,237)
Income subject to other rates of tax	**31,470**	44,416
Excess deferred tax assets not recognised / derecognised	**(72,076)**	(88,300)
Change in estimates and other prior year adjustments:		
– Current tax	**(37)**	(1,086)
– Deferred tax	**(461)**	1,894
Income tax credit	**22,697**	103,966

Income tax recognised in other comprehensive income

in EUR `000	2018	2017
Relating to foreign exchange translation effects	**(1,301)**	(1,532)
Relating to cash flow hedges	**310**	(1,647)
Relating to Group employee benefit plans actuarial (gains)/losses	**(156)**	(1,204)
Tax recognised directly in other comprehensive income	**(1,147)**	(4,383)

1 21.2% is the standard rate of income tax applicable to trading profits in Zurich, Switzerland.

10 Proposed dividend

No dividend is planned to be proposed for the year ended 31 July 2018.

The dividend for the year ended 31 July 2017 was approved at the Annual General Meeting held on 7 December 2017, to be settled as a scrip dividend via newly issued share capital, based on a ratio of one new share for every 80 shares held. Accordingly, a total of 1,110,253 new shares, with a par value of CHF 0.02 per share, were issued to shareholders holding shares in ARYZTA AG on 29 January 2018, resulting in €33,962,000 being recognised within equity, based on the market price of the shares at the date of approval.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

11 Earnings per share

	2018	2017
Basic loss per share	in EUR '000	in EUR '000
Loss attributable to equity shareholders	**(469,976)**	(907,773)
Hybrid instrument dividend (note 25)	**(32,057)**	(32,099)
Loss used to determine basic EPS	**(502,033)**	(939,872)
Weighted average number of ordinary shares	'000	'000
Ordinary shares outstanding at 1 August[1]	**88,759**	88,759
Effect of shares issued as a scrip dividend	**551**	–
Effect of exercise of equity instruments	**51**	–
Weighted average ordinary shares used to determine basic EPS	**89,361**	88,759
Basic loss per share	**(561.8) cent**	(1,058.9) cent

	2018	2017
Diluted loss per share	in EUR '000	in EUR '000
Loss used to determine basic EPS	**(502,033)**	(939,872)
Weighted average number of ordinary shares (diluted)	'000	'000
Weighted average ordinary shares used to determine basic EPS	**89,361**	88,759
Effect of equity-based incentives with a dilutive impact[2]	**–**	–
Weighted average ordinary shares used to determine diluted EPS	**89,361**	88,759
Diluted loss per share	**(561.8) cent**	(1,058.9) cent

1 Issued share capital excludes treasury shares as detailed in note 25.

2 In accordance with IAS 33, potential ordinary shares are treated as dilutive only when their conversion would decrease profit per share or increase loss per share from continuing operations. As the impacts related to the conversion of equity-based incentives would decrease the loss per share for the years ended 31 July 2018 and 2017, no dilutive effect was taken during these years.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

In addition to the basic and diluted earnings per share measures required by IAS 33, ‘Earnings Per Share’, as calculated above, the Group also presents an underlying diluted earnings per share measure, in accordance with IAS 33 paragraph 73. This additional measure enables comparability of the Group’s underlying results from period to period, without the impact of transactions that do not relate to the underlying business. It is also the Group’s policy to declare dividends based on underlying diluted earnings per share.

As shown below, for purposes of calculating this measure, the Group adjusts the loss used to determine basic EPS by the following items and their related tax impacts:

- excludes intangible amortisation, except ERP intangible amortisation;
- excludes RCF termination & private placement early redemption costs; and
- excludes impairment, disposal and restructuring-related costs.

Underlying diluted earnings per share	2018 in EUR '000	2017 in EUR '000
Loss used to determine basic EPS	**(502,033)**	(939,872)
Amortisation of non-ERP intangible assets (note 1)	**155,642**	174,640
Tax on amortisation of non-ERP intangible assets	**(54,886)**	(32,997)
Share of JV intangible amortisation and restructuring costs, net of tax (note 15)	**7,599**	(17,099)
RCF termination & private placement early redemption (note 20)	**12,415**	182,513
Net gain on disposal of joint venture (note 15)	**(1,468)**	–
Net loss on disposal of businesses and impairment of disposal groups held for sale (note 2)	**183,316**	–
Impairment of goodwill (note 2)	**175,000**	594,872
Impairment of intangibles (note 2)	**–**	138,642
Impairment and disposal of fixed assets and investment property (note 2)	**4,467**	126,202
Restructuring-related costs (note 2)	**69,825**	50,474
Tax on net impairment, disposal and restructuring-related costs	**(260)**	(98,349)
Underlying net profit	**49,617**	179,026
Weighted average ordinary shares used to determine basic EPS	**89,361**	88,759
Underlying basic earnings per share	**55.5 cent**	201.7 cent
Weighted average ordinary shares used to determine basic EPS	**89,361**	88,759
Effect of shares issued as a scrip dividend with a dilutive impact	**170**	–
Effect of equity-based incentives with a dilutive impact	**99**	29
Weighted average ordinary shares used to determine underlying diluted EPS	**89,630**	88,788
Underlying diluted earnings per share	**55.4 cent**	201.6 cent

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

12 Property, plant and equipment

31 July 2018 in EUR '000	Land and buildings	Plant and Machinery	Motor Vehicles	Assets under construction	Total
Net Book Value At 1 August 2017	**480,527**	**878,968**	**4,085**	**22,714**	**1,386,294**
Additions	2,195	17,940	280	56,916	77,331
Transfer from assets under construction	6,127	37,303	438	(43,868)	–
Disposals as part of business disposals	(13,004)	(33,239)	(283)	(1,952)	(48,478)
Transfer to disposal groups classified as held-for-sale	(10,659)	(16,242)	–	(308)	(27,209)
Asset impairments (note 2)	(2,151)	(2,470)	–	518	(4,103)
Asset disposals	(1,416)	(795)	(77)	(85)	(2,373)
Transfer to investment properties (note 13)	(1,168)	–	–	–	(1,168)
Depreciation charge for year	(15,335)	(103,320)	(1,195)	–	(119,850)
Translation adjustments	(6,040)	(10,112)	(175)	(425)	(16,752)
Net Book Value At 31 July 2018	**439,076**	**768,033**	**3,073**	**33,510**	**1,243,692**
At 31 July 2018					
Cost	525,027	1,341,505	7,432	33,510	1,907,474
Accumulated depreciation	(85,951)	(573,472)	(4,359)	–	(663,782)
Net Book Value At 31 July 2018	**439,076**	**768,033**	**3,073**	**33,510**	**1,243,692**

31 July 2017 in EUR '000	Land and buildings	Plant and Machinery	Motor Vehicles	Assets under construction	Total
Net Book Value At 1 August 2016	**515,067**	**928,858**	**3,715**	**147,245**	**1,594,885**
Additions	1,404	27,433	994	63,122	92,953
Transfer from assets under construction	14,521	115,463	837	(130,821)	–
Asset impairments (note 2)	–	(65,787)	–	(57,530)	(123,317)
Asset disposals	(18,034)	(3,456)	(152)	(458)	(22,100)
Transfer to investment properties (note 13)	(8,787)	–	–	–	(8,787)
Depreciation charge for year	(18,776)	(106,249)	(1,283)	–	(126,308)
Translation adjustments	(4,868)	(17,294)	(26)	1,156	(21,032)
Net Book Value At 31 July 2017	**480,527**	**878,968**	**4,085**	**22,714**	**1,386,294**
At 31 July 2017					
Cost	562,442	1,412,155	8,253	22,714	2,005,564
Accumulated depreciation	(81,915)	(533,187)	(4,168)	–	(619,270)
Net Book Value At 31 July 2017	**480,527**	**878,968**	**4,085**	**22,714**	**1,386,294**

Assets held under finance leases

The net book value in respect of assets held under finance leases and accordingly capitalised in property, plant and equipment is as follows:

in EUR '000	Plant and Machinery	Motor Vehicles	Total
At 31 July 2018	**133**	**1,028**	**1,161**
At 31 July 2017	188	1,560	1,748

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2018

13 Investment properties

in EUR '000	2018	2017
Balance at 1 August	**19,952**	24,787
Transfer from property, plant and equipment (note 12)	**1,168**	8,787
Disposals	**(7,375)**	(12,519)
Fair value adjustments (note 2)	**447**	–
Translation adjustment	**382**	(1,103)
Balance at 31 July	**14,574**	19,952

Investment property is principally comprised of properties previously used in operations, which were transferred to investment property upon the determination that they would no longer be used in operations, but instead would be held as an investment for capital appreciation.

During the year ended 31 July 2018, land and building assets that were no longer in operational use were transferred to investment property. The property was located in the ARYZTA Europe segment, and had an estimated fair value of €1,168,000 at the date of transfer, which approximated its carrying value. During the year ended 31 July 2017, land assets in the ARYZTA Rest of World segment that were no longer in operational use were transferred to investment property. The properties had an estimated fair value of €8,787,000 at the date of transfer, which approximated its carrying value.

During the year, a number of properties in the ARYZTA Europe and ARYZTA Rest of World segments were disposed for net cash consideration of €7,597,000. As the proceeds received exceeded the €7,375,000 carrying value of the assets, these transactions resulted in a gain on disposal of €222,000.

During the prior year, a number of properties in the ARYZTA Europe segment were disposed for net cash consideration of €14,522,000. As the proceeds received exceeded the €12,519,000 carrying value of the assets, these transactions resulted in a gain on disposal of €2,003,000, which was recognised within impairment, disposal and restructuring-related costs.

During the year ended 31 July 2018, a net gain of €447,000 of fair value adjustments related to the carrying value of investment properties was recorded in the ARYZTA Europe and ARYZTA Rest of World segments, based on the results of independent valuations. The valuations were arrived at by reference to location, market conditions and status of planned disposals. The fair values of investment properties are considered a Level 3 fair value measurement. No fair value adjustments were recorded to investment properties during the year 31 July 2017. Rental income and operating expenses recognised related to these properties is not significant.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

14 Goodwill and intangible assets

31 July 2018 in EUR '000	Goodwill	Customer Relationships	Brands	Computer-related	ERP-related intangibles	Patents and other	Total
Net Book Value At 1 August 2017	**1,775,000**	**556,293**	**108,453**	**18,721**	**170,996**	**22,474**	**2,651,937**
Additions	–	–	–	2,749	2,610	–	5,359
Impairment of goodwill (note 2)	(175,000)	–	–	–	–	–	(175,000)
Disposals as part of business disposals (note 2)	(142,924)	(21,270)	(5,351)	(101)	(7,748)	(3,334)	(180,728)
Transfer to disposal groups classified as held-for-sale (note 3)	(15,881)	(11,084)	–	(3)	(454)	–	(27,422)
Asset impairments/disposals	–	–	–	(1,038)	(4,244)	–	(5,282)
Amortisation charge for the year	–	(109,486)	(32,892)	(3,501)	(17,036)	(9,763)	(172,678)
Translation adjustments	(27,186)	(9,641)	(1,050)	(294)	(7)	(305)	(38,483)
Net Book Value At 31 July 2018	**1,414,009**	**404,812**	**69,160**	**16,533**	**144,117**	**9,072**	**2,057,703**
At 31 July 2018							
Cost	1,414,009	1,005,404	262,291	38,416	198,385	15,216	2,933,721
Accumulated amortisation	–	(600,592)	(193,131)	(21,883)	(54,268)	(6,144)	(876,018)
Net Book Value At 31 July 2018	**1,414,009**	**404,812**	**69,160**	**16,533**	**144,117**	**9,072**	**2,057,703**

31 July 2017 in EUR '000	Goodwill	Customer Relationships	Brands	Computer-related	ERP-related intangibles	Patents and other	Total
Net Book Value At 1 August 2016	**2,403,671**	**827,196**	**147,098**	**19,124**	**186,546**	**33,559**	**3,617,194**
Additions	–	–	–	6,625	1,702	–	8,327
Impairment of goodwill (note 2)	(594,872)	–	–	–	–	–	(594,872)
Impairment of intangibles (note 2)	–	(133,221)	(5,421)	–	–	–	(138,642)
Asset impairments/disposals	–	–	–	(2,057)	(526)	–	(2,583)
Amortisation charge for the year	–	(130,635)	(29,089)	(4,137)	(16,689)	(10,779)	(191,329)
Translation adjustments	(33,799)	(7,047)	(4,135)	(834)	(37)	(306)	(46,158)
Net Book Value At 31 July 2017	**1,775,000**	**556,293**	**108,453**	**18,721**	**170,996**	**22,474**	**2,651,937**
At 31 July 2017							
Cost	1,775,000	1,315,611	300,318	38,437	214,454	59,481	3,703,301
Accumulated amortisation	–	(759,318)	(191,865)	(19,716)	(43,458)	(37,007)	(1,051,364)
Net Book Value At 31 July 2017	**1,775,000**	**556,293**	**108,453**	**18,721**	**170,996**	**22,474**	**2,651,937**

Intangible asset movements

As set out in note 2, during the year ended 31 July 2018, €45,432,000 of net assets were de-recognised in relation to the disposal of a business in Europe, and €209,108,000 of net assets were de-recognised in relation to the disposal of the Cloverhill Chicago and Cicero facilities in North America. These included €180,728,000 of intangible assets, of which €142,924,000 related to goodwill, and €37,804,000 related to customer relationships, brands and trademarks, software and other intangibles.

As set out in note 3, during the year ended 31 July 2018, €55,762,000 of assets related to two non-core businesses in Europe were transferred to disposal groups held-for-sale. These included €27,422,000 of intangible assets, of which €15,881,000 related to goodwill and €11,541,000 related to customer relationships and software.

During the year ended 31 July 2017, ARYZTA North America experienced a significant reduction in volumes, as a result of earlier than anticipated in-sourcing by co-pack customers. As these customers and the related volumes were primarily associated with the

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2018

Group's Cloverhill acquisition, the Group reviewed the remaining customer relationship and brand-related intangible assets obtained as part of that transaction and, based on the associated future cash flows, recorded a €138,642,000 impairment of those intangible assets within administration expenses in the Group Consolidated Income Statement. The value-in-use models used to determine the recoverable amounts of these intangible assets were based on management's expectations of the respective future revenues from the acquired customer relationships and brands and applied a discount rate consistent with the rate used in the 2017 ARYZTA North America CGU goodwill impairment testing.

Goodwill Impairment testing

Goodwill acquired through business combinations is allocated at acquisition to the cash-generating units ('CGUs'), or groups of CGUs, that are expected to benefit from the synergies of the business combination.

The business units shown in the following table represent the lowest level at which goodwill is monitored for internal management purposes. Accordingly, this is also the level at which the 2018 goodwill impairment testing was performed. The carrying amount of goodwill allocated to the relevant CGUs, as well as the key assumptions used in the 2018 impairment testing, are summarised as follows:

in EUR '000	**Pre-tax discount rate 2018**	Pre-tax discount rate 2017	**Projection period 2018**	Projection period 2017	**Terminal growth rate 2018**	Terminal growth rate 2017	**Carrying Value 2018**	Carrying Value 2017
UK, Ireland and Netherlands	**8.0%**	8.0%	**3 years**	3 years	**2.0%**	1.9%	**173,625**	209,478
Germany	**8.4%**	8.4%	**3 years**	3 years	**1.9%**	1.9%	**29,906**	204,906
Switzerland	**7.5%**	7.4%	**3 years**	3 years	**1.0%**	1.0%	**229,259**	234,069
France	**9.0%**	8.8%	**3 years**	3 years	**1.9%**	1.8%	**85,354**	85,354
Other Europe[1]	**8.4%**	8.0%	**3 years**	3 years	**1.9%**	1.9%	**60,329**	62,835
ARYZTA Europe							**578,473**	796,642
ARYZTA North America	**8.9%**	8.9%	**3 years**	3 years	**2.3%**	2.2%	**784,479**	922,496
ARYZTA Rest of World	**12.3%**	11.4%	**3 years**	3 years	**2.8%**	3.0%	**51,057**	55,862
							1,414,009	1,775,000

1 Other Europe comprises goodwill in a number of CGUs which are individually insignificant.

The Group tests goodwill for impairment annually, during the last quarter of the financial year, or more frequently if changes in circumstances indicate a potential impairment.

The recoverable amounts of CGUs are based on value-in-use calculations. These calculations use pre-tax cash flow projections based on expected future operating results and related cash flows at the time the impairment test is performed. These projections are based on current operating results of the individual CGU and an assumption regarding future organic growth. For the purposes of the calculation of value-in-use, the cash flows are projected based on current financial budgets, with additional cash flows in subsequent years calculated using a terminal value methodology and discounted using the relevant rate, as disclosed in the table above.

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2018

As a result of significant reductions in profitability in Germany and ARYZTA North America during the year ended 31 July 2017, the Group recorded goodwill impairment charges of €103,000,000 in Germany, within the ARYZTA Europe operating segment, and €491,872,000 in ARYZTA North America.

Following further reductions in estimated future profitability of the existing business, the Group recorded an additional €175,000,000 goodwill impairment charge in Germany during the year ended 31 July 2018. The recoverable amount of Germany goodwill after this charge is €29,906,000, as outlined in the table above.

Profitability in this business has been significantly impacted by the consolidation of bakery capacity into the Eisleben facility during prior years, which has been further compounded by customer volume insourcing and commodity prices during the current year, while the relatively new capacity at this bakery is also still being optimised.

While profitability is expected to improve in the future, including utilising available capacity to support capacity needs for other geographies within the Group, after considering the goodwill and other assets, as well as the respective future cash flow projections, management determined it was appropriate to record an additional goodwill impairment charge during the current year.

Despite these impairments, the bakery remains a world-class production facility and is expected to make significant future contributions to the group, once spare capacity across the network is optimised and other operational challenges are addressed.

The key inputs to the value-in-use models used to determine the recoverable amounts are as disclosed in the table above, including a pre-tax discount rate of 8.4%, as well as a terminal value growth rate beyond the initial three year projection period of 1.9% for the Germany CGU.

Goodwill sensitivity analysis

A significant adverse change in the expected future operational results and cash flows may result in the value-in-use being less than the carrying amount of a CGU, which would result in an impairment. Key assumptions include management's estimates of future profitability, specifically the terminal growth rate, as well as the discount rate.

The terminal growth rates used approximate relevant long-term inflation rates and industry growth trends within each CGU. The discount rates used are based on the relevant risk-free rates, adjusted to reflect the risk associated with the respective future cash flows of that CGU.

Based on the results of the impairment testing undertaken, with the exception of the Germany, Switzerland and ARYZTA North America CGUs, sufficient headroom exists for the other CGUs, such that any reasonably possible movement in any of the underlying assumptions, including a reduction in the terminal growth rate by 1%, or increasing the discount rate by 1%, would not give rise to an impairment charge.

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2018

As the goodwill in the Germany CGU was written down to recoverable value at July 2018, there is no headroom over carrying value of this CGU at year-end, and the recoverable value of the CGU is sensitive to any unfavourable changes in the key assumptions used.

The headroom of the recoverable amounts of the Germany, Switzerland and ARYZTA North America CGUs over the respective carrying amounts at 31 July 2018 is summarized in the table below, as well as the amounts by which the key assumptions would need to change, in isolation, such that the recoverable amounts would equal the carrying values of the CGUs.

in EUR million	Headroom over carrying value	Pre-tax discount rate allowable movement	Terminal growth rate allowable movement
Germany	€0m	0.0%	0.0%
Switzerland	€32m	+0.9%	(0.7%)
ARYZTA North America	€183m	+0.8%	(0.7%)

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

15 Investments in joint ventures

The Group share of joint ventures' net assets is as follows:

in EUR '000	2018	2017
At 1 August	**528,188**	491,446
Share of joint ventures' underlying net profit	**22,755**	21,281
Group share of intangible amortisation	**(2,669)**	(3,561)
Group share of tax on intangible amortisation and associated rate adjustments	**12,686**	21,318
Group share of refinancing-related costs	**(14,536)**	–
Group share of restructuring-related costs	**(3,080)**	(658)
Disposal of investment in joint venture	**(32,825)**	–
Gains through other comprehensive income	**105**	180
Dividends	**(91,018)**	–
Translation adjustments	**410**	(1,818)
At 31 July	**420,016**	528,188

ARYZTA owns a 49% interest in Picard, which operates an asset-light B2C platform focused on premium speciality food. Picard is located primarily in France, is separately managed and has separately funded debt structures, which are non-recourse to ARYZTA. The Group also retains the right to exercise a call option to acquire the remaining outstanding interest in Picard in September 2019, September 2020 or September 2021.

While ARYZTA holds only a minority shareholding and voting rights in Picard, the Group is entitled to jointly approve key business decisions, including approval of proposed members of Picard management and the annual operating budget, which are considered relevant activities. Therefore, the Group's interest in Picard has been presented as a joint venture.

ARYZTA received cash dividends from Picard totaling €91,018,000 during the year, after which the Group's investment carrying value in Picard totals €420,016,000 as of 31 July 2018. While Picard is not considered part of ARYZTA's long-term strategy, disposal of the Group's investment is currently only possible with agreement of both joint venture partners. Therefore, the Group's investment continues to be accounted on a historical cost basis using the equity method of accounting.

The increase in the Group share of restructuring-related costs included in the table above primarily relates to early redemption costs associated with the refinancing of Picard debt structures during FY 2018.

The Group also owned a 50% interest in Signature Flatbreads, a pioneering flatbread producer, producing an innovative range of authentic Indian breads, as well as high-quality international flatbreads, tortillas, pizza bases and pitas. During March 2018, consistent with ARYZTA's strategy to focus on its frozen B2B bakery operations and exit non-core businesses, the Group sold its 50% interest in Signature Flatbreads to its joint venture partners for net proceeds of €34,948,000. This resulted in a net gain on disposal of €1,468,000 compared to the Group's carrying value of €32,825,000, and associated cumulative foreign currency translation reserve losses of €655,000 since the initial investment.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

The amounts included in these Group consolidated financial statements in respect of the current year profits or losses of joint ventures are taken from their latest financial statements, prepared up to their respective year-ends, together with management accounts for the intervening periods to the Group's year-end or to the date of disposal. Both Picard and Signature International Foods India Private Ltd have a year-end of 31 March, while Signature Flatbreads (UK) Ltd has a year-end of 31 July.

The assets, liabilities and overall investments in joint ventures are as follows:

31 July 2018 in EUR '000	Picard	Signature	Total
Cash and cash equivalents	15,963	–	15,963
Other current assets	145,193	–	145,193
Total current assets	**161,156**	**–**	**161,156**
Total non-current assets	**1,898,787**	**–**	**1,898,787**
Trade and other payables	(240,542)	–	(240,542)
Other current liabilities	(11,070)	–	(11,070)
Total current liabilities	**(251,612)**	**–**	**(251,612)**
Total non-current liabilities	**(1,730,645)**	**–**	**(1,730,645)**
Balance at 31 July 2018	**77,686**	**–**	**77,686**
ARYZTA's share in %	49%	–	
ARYZTA's share thereof	37,810	–	37,810
Goodwill	382,206	–	382,206
Investment in joint ventures	**420,016**	**–**	**420,016**

The share of revenues and results of joint ventures are as follows:

31 July 2018 in EUR '000	Picard	Signature	Total	ARYZTA's share thereof
Revenue	1,449,671	83,844	**1,533,515**	
Underlying EBITDA	207,272	11,689	**218,961**	
Depreciation	(31,201)	(3,299)	**(34,500)**	
Underlying EBITA	176,071	8,390	**184,461**	
Finance costs, net	(84,984)	(260)	**(85,244)**	
Pre-tax profits	91,087	8,130	**99,217**	
Income tax	(50,868)	(1,769)	**(52,637)**	
Joint venture underlying net profit	**40,219**	**6,361**	**46,580**	**22,755**
Intangible amortisation	(4,271)	(1,180)	**(5,451)**	**(2,669)**
Tax on intangible amortisation and associated rate adjustments	25,848	212	**26,060**	**12,686**
Refinancing-related costs	(29,867)	–	**(29,867)**	**(14,536)**
Restructuring-related costs	(6,327)	–	**(6,327)**	**(3,080)**
Joint venture profit after tax	**25,602**	**5,393**	**30,995**	**15,156**
Gains through other comprehensive income	217	–	**217**	**105**
Total comprehensive income	**25,819**	**5,393**	**31,212**	**15,261**
ARYZTA's share in %	49%	50%		
ARYZTA's share thereof	**12,565**	**2,696**		**15,261**

Notes to the Group Consolidated Financial Statements (continued)
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16 Inventory

in EUR '000	2018	2017
Raw materials	**47,375**	54,036
Finished goods	**193,193**	186,468
Packaging and other	**3,967**	11,658
Balance at 31 July	**244,535**	252,162

A total expense of €29,979,000 (2017: €25,437,000) was recognised in the Group Consolidated Income Statement arising from write-down of inventory.

17 Trade and other receivables

in EUR '000	2018	2017
Current		
Trade receivables, net	**71,651**	75,312
Amounts due from related parties (note 28)	**135**	5
VAT recoverable	**15,670**	20,897
Prepayments and accrued income	**28,816**	37,275
Other receivables	**37,698**	30,782
Balance at 31 July	**153,970**	164,271

18 Trade and other payables

in EUR '000	2018	2017
Non-current		
Other payables	**49,664**	36,278
Balance at 31 July	**49,664**	36,278
Current		
Trade payables	**356,877**	396,864
Amounts due to related parties (note 28)	**228**	220
Accruals and other payables[1]	**304,547**	319,182
Employee-related tax and social welfare	**12,210**	13,746
VAT payable	**10,473**	11,467
Hybrid instrument accrued dividend (note 25)	–	9,032
Balance at 31 July	**684,335**	750,511

1 Accruals and other payables consist primarily of balances due for goods and services received not yet invoiced and for staff compensation.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

19 Cash and cash equivalents

In accordance with IAS 7, 'Statement of Cash Flows', cash and cash equivalents comprise cash balances held for the purposes of meeting short-term cash commitments and investments, which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts are included within current interest-bearing loans and borrowings in the Group Consolidated Balance Sheet.

The cash and cash equivalents included in the Group Consolidated Cash Flow Statement are analysed as follows:

in EUR '000	**2018**	2017
Cash at bank and on hand	**517,854**	535,570
Bank overdrafts	**(175,868)**	(113,630)
Included in the Group Consolidated Cash Flow Statement	**341,986**	421,940

Cash at bank and on hand earns interest at floating rates based on daily deposit bank rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

20 Interest-bearing loans and borrowings

Details of the Group's interest bearing loans and borrowings are outlined below.

in EUR `000	2018	2017
Included in non-current liabilities		
Loans	**1,772,062**	382,551
Finance leases	**253**	691
Non-current interest-bearing loans and borrowings	**1,772,315**	383,242
Included in current liabilities		
Loans	**79,531**	1,771,734
Bank overdrafts (note 19)	**175,868**	113,630
Total bank loans and overdrafts	**255,399**	1,885,364
Finance leases	**404**	834
Current interest-bearing loans and borrowings	**255,803**	1,886,198
Total bank loans and overdrafts	**2,027,461**	2,267,915
Total finance leases	**657**	1,525
Total interest-bearing loans and borrowings	**2,028,118**	2,269,440

Analysis of net debt in EUR `000	1 August 2017	Cash flows	Non-cash movements	Translation adjustment	31 July 2018
Cash and cash equivalents	535,570	(7,397)	–	(10,319)	517,854
Overdrafts	(113,630)	(60,303)	–	(1,935)	(175,868)
Cash, net of overdrafts	**421,940**	**(67,700)**	**–**	**(12,254)**	**341,986**
Loans	(2,154,285)	313,023	(17,857)	7,526	(1,851,593)
Finance leases	(1,525)	716	140	12	(657)
Net debt	**(1,733,870)**	**246,039**	**(17,717)**	**(4,716)**	**(1,510,264)**

During September 2016, the Group utilised the available capacity of the Syndicated Bank RCF, the term loan facility and existing cash resources to redeem its outstanding Private Placements, which totalled €1,209.5m at the time of redemption. In connection with this early redemption the Group incurred €182.5m of costs, including a make-whole cost of €169.4m, other redemption-related cash costs of €6.2m and also wrote-off €6.9m of existing private placement capitalised borrowing costs.

During December 2016, the Group issued a number of Schuldschein tranches totalling €386m, which have maturities between three and seven years. These proceeds were used to reduce the amount outstanding on the Group's term loan facility.

During July 2017, the Group agreed to the terms of a new five-year unsecured €1,800m refinancing of its Syndicated Bank RCF and term loan facility, comprising a €1,000m amortising term loan and a €800m revolving credit facility.

On 22 September 2017, this financing was used to repay in full the existing revolving credit and term loan facilities outstanding at that time. In connection with this early repayment, the Group incurred €12.4m of costs, including the write-off of €11.9m of existing RCF and term loan capitalised borrowing costs, and other redemption-related cash costs of €0.5m.

Details on the Group's financial covenants are included in note 25 on pages 148 and 149.

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2018

The terms of outstanding loans are as follows:

2018	Currency	Financial year of maturity	Nominal Value in EUR'000	Carrying amount in EUR'000
Syndicated Bank RCF	Various	2023	611,815	601,205
Syndicated Bank Term Loan[1]	Various	2023	878,937	867,279
Schuldschein Variable	EUR	2020	185,500	184,852
Schuldschein Variable	EUR	2022	119,500	119,082
Schuldschein Variable	EUR	2024	8,000	7,972
Schuldschein Fixed	EUR	2020	20,000	19,930
Schuldschein Fixed	EUR	2022	33,000	32,885
Schuldschein Fixed	USD	2022	9,871	9,835
Schuldschein Fixed	USD	2024	8,583	8,553
Total outstanding loans at 31 July 2018			**1,875,206**	**1,851,593**

1 The schedule of mandatory repayments by financial year on the amortising Syndicated Bank Term Loan is as follows: FY 2019 – €80m; FY 2020 – €80m; FY 2021 – €169m; FY 2022 – €300m and FY 2023 – €250m.

2017	Currency	Financial year of maturity	Nominal Value in EUR'000	Carrying amount in EUR'000
Syndicated Bank RCF[1]	Various	2019	415,951	412,171
Syndicated Bank RCF[1]	Various	2021	777,961	770,023
Term Loan Facility[1]	EUR	2019	590,000	589,540
Schuldschein Variable	EUR	2020	185,500	184,660
Schuldschein Variable	EUR	2022	119,500	118,960
Schuldschein Variable	EUR	2024	8,000	7,964
Schuldschein Fixed	EUR	2020	20,000	19,910
Schuldschein Fixed	EUR	2022	33,000	32,851
Schuldschein Fixed	USD	2022	9,783	9,738
Schuldschein Fixed	USD	2024	8,506	8,468
Total outstanding loans at 31 July 2017			**2,168,201**	**2,154,285**

1 Syndicated Bank RCF and Term Loan Facility included in current liabilities at 31 July 2017.

The weighted average effective interest rate in respect of the Group's interest-bearing loans was as follows:

	2018	2017
Total bank loans	**3.2%**	2.2%

The pre-tax weighted average cost of capital associated with the Group's financing structures was 8.5% (2017: 8.1%).

Repayment schedule – loans and overdrafts (nominal values) in EUR `000	**2018**	2017
Less than one year	**255,868**	1,897,542
Between one and five years	**1,778,623**	367,783
After five years	**16,583**	16,506
	2,051,074	2,281,831

Repayment schedule – finance leases in EUR `000	**Minimum lease payments 2018**	**Interest 2018**	**Present value of payments 2018**	Minimum lease payments 2017	Interest 2017	Present value of payments 2017
Less than one year	**424**	**20**	**404**	875	41	834
Between one and five years	**263**	**10**	**253**	716	25	691
	687	**30**	**657**	1,591	66	1,525

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21 Financial instruments and financial risk

The fair values of financial assets, financial liabilities, property, plant and equipment at fair value, investment property and disposal groups held-for-sale together with the carrying amounts shown in the balance sheet, are as follows:

in EUR `000	Fair value hierarchy	Fair Value through income statement 2018	Hedge instruments 2018	Loans and receivables 2018	Liabilities at amortised cost 2018	Total carrying amount 2018	Fair value 2018
Trade and other receivables (excluding prepayments)		–	–	109,484	–	109,484	109,484
Cash and cash equivalents		–	–	517,854	–	517,854	517,854
Derivative financial assets	*Level 2*	–	1,268	–	–	1,268	1,268
Property, plant and equipment	*Level 3*	7,188	–	–	–	7,188	7,188
Investment properties	*Level 3*	14,574	–	–	–	14,574	14,574
Assets of disposal groups held-for-sale	*Level 3*	7,000	–	–	–	7,000	7,000
Total financial assets		**28,762**	**1,268**	**627,338**	**–**	**657,368**	**657,368**
Trade and other payables (excluding non-financial liabilities)		–	–	–	(711,316)	(711,316)	(711,316)
Bank overdrafts		–	–	–	(175,868)	(175,868)	(175,868)
Bank borrowings		–	–	–	(1,851,593)	(1,851,593)	(1,866,472)
Finance lease liabilities		–	–	–	(657)	(657)	(657)
Derivative financial liabilities	*Level 2*	–	(829)	–	–	(829)	(829)
Total financial liabilities		**–**	**(829)**	**–**	**(2,739,434)**	**(2,740,263)**	**(2,755,142)**

in EUR `000	Fair value hierarchy	Fair Value through income statement 2017	Hedge instruments 2017	Loans and receivables 2017	Liabilities at amortised cost 2017	Total carrying amount 2017	Fair value 2017
Trade and other receivables (excluding prepayments)		–	–	106,099	–	106,099	106,099
Cash and cash equivalents		–	–	535,570	–	535,570	535,570
Derivative financial assets	*Level 2*	–	4,311	–	–	4,311	4,311
Property, plant and equipment	*Level 3*	7,124	–	–	–	7,124	7,124
Investment properties	*Level 3*	19,952	–	–	–	19,952	19,952
Total financial assets		**27,076**	**4,311**	**641,669**	**–**	**673,056**	**673,056**
Trade and other payables (excluding non-financial liabilities)		–	–	–	(761,576)	(761,576)	(761,576)
Bank overdrafts		–	–	–	(113,630)	(113,630)	(113,630)
Bank borrowings		–	–	–	(2,154,285)	(2,154,285)	(2,174,668)
Finance lease liabilities		–	–	–	(1,525)	(1,525)	(1,525)
Derivative financial liabilities	*Level 2*	–	(2,200)	–	–	(2,200)	(2,200)
Total financial liabilities		**–**	**(2,200)**	**–**	**(3,031,016)**	**(3,033,216)**	**(3,053,599)**

Estimation of fair values

Set out below are the major methods and assumptions used in estimating the fair values of the financial assets and liabilities disclosed in the preceding tables.

Fair value hierarchy

The tables at the beginning of this note summarise the financial instruments carried at fair value, by valuation method. Fair value classification levels have been assigned to the Group's financial instruments carried at fair value. The different levels assigned are defined as follows:

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2018

Level 1: Prices quoted in active markets
Level 2: Valuation techniques based on observable market data
Level 3: Valuation techniques based on unobservable inputs

Trade and other receivables/payables
All trade and other receivables or payables, other than the forward purchase obligation, are carried at amortised cost, less any impairment provision. For any trade and other receivables or payables with a remaining life of less than six months or demand balances, the carrying value, less impairment provision where appropriate, is deemed to approximate fair value.

Cash and cash equivalents, including short-term bank deposits
For short-term bank deposits and cash and cash equivalents, all of which have an original and remaining maturity of less than three months, the nominal amount is deemed to approximate fair value.

Derivatives (forward currency contracts and interest rate swaps)
Forward currency contracts are marked to market using quoted forward exchange rates at the balance sheet date. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

Property, Plant and Equipment at fair value through income statement
Property, Plant and Equipment, includes certain industrial land and machinery, in the North America segment, which was written down in prior years based on fair value, less costs to sell, and which continues to be stated at fair value through the income statement. The fair value of these assets are based on the estimated amount for which the industrial land and machinery could be exchanged in an arm's length transaction. As the fair value is based on inputs not observable within the market, it has been classified as a Level 3 asset.

Investment property
Investment property, principally comprised of land and buildings, is held for capital appreciation. Investment property is stated at fair value through the income statement. The fair value is based on market value, being the estimated amount for which a property could be exchanged in an arm's length transaction, determined based on the results of independent valuations. The valuations were arrived at by reference to location, market conditions including the prices of transactions of similar properties, adjusted as appropriate, and status of planned disposals. As the fair value is based on inputs not observable within the market, it has been classified as a Level 3 asset.

Disposal groups held-for-sale
The assets of disposal groups held-for-sale are held at fair value less costs to sell. The fair value is the estimated recoverable value determined based on the status of the business sale processes and valuations of the underlying land and building assets within the disposal groups. As the fair value is based on inputs not observable within the market, it has been classified as a Level 3 asset.

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Interest-bearing loans and borrowings
For interest-bearing loans and borrowings with a contractual re-pricing date of less than six months, the nominal amount is considered to approximate fair value for disclosure purposes. For loans with a re-pricing date of greater than six months, the fair value is calculated based on the expected future principal and interest cash flows, discounted at appropriate current market interest rates.

Finance lease liabilities
Fair value is based on the present value of future cash flows discounted at implicit interest rates.

Forward purchase obligation
During March 2012, the Group entered into a forward purchase contract to acquire the remaining 40% interest in HiCoPain AG. Based on the terms of this agreement, the non-controlling interest shareholder continued to participate in the risk and rewards of the business until the final exit date in December 2016, at which time ARYZTA obtained 100% control of the business.

At the time of the agreement, estimated consideration and related costs were recorded as a reduction in retained earnings of the Group. As the non-controlling interest shareholder no longer participated in the risks and rewards of the business following the final exit date, the remaining non-controlling interest of €13,982,000 was eliminated directly as an increase in retained earnings of the Group.

The liability of €14,485,000 related to the HiCoPain forward purchase contract was carried at fair value through profit and loss until settled during FY 2017. In accordance with the terms of that agreement, the fair value of this financial instrument was based on the estimated net book value of HiCoPain AG upon the final exit of the non-controlling interest shareholder. As the fair value of this obligation was based on inputs not observable within the market, it was classified as a Level 3 financial liability.

Contingent consideration
Where any part of the consideration for a business combination is deferred or contingent, the fair value of that component is determined by discounting the estimated amounts payable to their present value at the acquisition date. The discount is unwound as a finance charge in the Group Consolidated Income Statement over the life of the obligation. Subsequent changes to the estimated amounts payable for contingent consideration are recognised as a gain or loss in the Group Consolidated Income Statement. As the fair value of this obligation is based on inputs not observable within the market, it has been classified as a Level 3 financial liability.

Movement in level 3 financial liabilities

in EUR `000	**2018**	2017
Balance at 1 August	–	15,894
Purchase of non-controlling interests	–	(14,485)
Payments of contingent consideration	–	(896)
Amounts recognised in profit and loss	–	(51)
Translation adjustments	–	(462)
Balance at 31 July	–	–

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

Risk exposures

Group risk management

Risk management is a fundamental element of the Group's business practice at all levels and encompasses different types of risks. This overall Group risk management process includes the performance of a risk assessment that is described in more detail in note 30. Financial risk management specifically is described in further detail below.

Financial risk management

The Group's international operations expose it to different financial risks that include:

- credit risks;
- liquidity risks;
- foreign exchange rate risks;
- interest rate risks; and
- commodity price risks.

The Group has a risk management programme in place, which seeks to limit the impact of these risks on the financial performance of the Group. The Board has determined the policies for managing these risks. It is the policy of the Board to manage these risks in a non-speculative manner.

Credit risk

Exposure to credit risk

Credit risk arises from credit issued to customers on outstanding receivables and outstanding transactions, as well as cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions.

Cash and short-term bank deposits

Cash and short-term bank deposits are invested with institutions with the highest short-term credit rating, with limits on amounts held with individual banks or institutions at any one time. Management does not expect any losses from non-performance by these counterparties.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. There is no concentration of credit risk by dependence on individual customers or geographies.

The Group has detailed procedures for monitoring and managing the credit risk related to its trade receivables based on experience, customer's track record and historic default rates. Individual risk limits are generally set by customer, and risk is only accepted above such limits in defined circumstances. The utilisation of credit limits is regularly monitored. Impairment provisions are used to record impairment losses, unless the Group is satisfied that no recovery of the amount owed is possible. At that point the amount is considered irrecoverable and is written off directly against the trade receivable.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have been incurred, but not yet identified.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

The Group also manages credit risk through the use of a receivables purchase arrangement with a financial institution. Under the terms of this non-recourse agreement, the Group has transferred credit risk and control of certain trade receivables, amounting to €224,658,000 (2017: €239,299,000). The Group has continued to also recognise an asset within Trade and other receivables, of €25,518,000 (2017: €20,034,000), representing the fair value and maximum extent of its continuing involvement or exposure. This maximum exposure was determined based on a Reserve Calculation Ratio (approximately 10%), as per the terms of the receivables purchase arrangement. Total expenses associated with this receivables purchase agreement during the year ended 31 July 2018 were €3,033,000 (2017: €2,287,000).

The undiscounted cash outflows required to repurchase these derecognised financial assets would be equal to the receivables transferred, net of the Group's remaining continuing involvement asset. The estimated maturity of any such cash outflows would be expected to be less than 6 months, as the Group's Trade and other receivables are also generally settled in less than 6 months. As the carrying value of the receivables transferred and the continuing involvement retained both equal fair value, no gain or loss has arisen, either at the date of transfer or in connection with the Group's continuing involvement in these assets.

The carrying amount of financial assets, net of impairment provisions, represents the Group's maximum credit exposure. The maximum exposure to credit risk at year-end was as follows:

in EUR `000	**Carrying amount 2018**	Carrying amount 2017
Cash and cash equivalents	**517,854**	535,570
Trade and other receivables	**109,484**	106,099
Derivative financial assets	**1,268**	4,311
	628,606	645,980

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was as follows:

in EUR `000	**Carrying amount 2018**	Carrying amount 2017
Europe	**43,144**	45,555
North America	**4,709**	4,886
Rest of World	**23,798**	24,871
	71,651	75,312

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

The aging of trade receivables at the reporting date was as follows:

in EUR `000	Gross 2018	Provision for impairment 2018	Gross 2017	Provision for impairment 2017
Not past due	**44,031**	**472**	32,394	140
Past due 0–30 days	**21,159**	**294**	36,329	302
Past due 31–120 days	**7,214**	**1,144**	5,744	1,545
Past due more than 121 days	**7,119**	**5,962**	9,970	7,138
	79,523	**7,872**	84,437	9,125

The Group payment terms are typically 0–60 days. All other receivables are due in less than six months. Other than the receivables provided for in the impairment above, receivables are deemed to be fully recoverable.

The analysis of movement in impairment provisions in respect of trade receivables was as follows:

in EUR `000	2018	2017
Balance at 1 August	**9,125**	9,238
Utilised during the year	**(2,736)**	(2,509)
Provided during the year	**1,722**	2,650
Translation adjustment	**(239)**	(254)
Balance at 31 July	**7,872**	9,125

Notes to the Group Consolidated Financial Statements (continued)
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Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's objective is to maintain a balance between flexibility and continuity of funding, so that not more than 40% of total bank borrowing facilities should mature in the next twelve-month period. At 31 July 2018, 4% of the Group's total borrowings will mature within the next 12 months.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

2018 in EUR `000	Carrying amount	Contractual cash flows	6 mths or less	6 – 12 mths	1 – 2 years	2 – 5 years	More than 5 years
Non-derivative financial liabilities							
Fixed rate bank loans	(71,203)	(77,862)	(1,252)	(393)	(21,647)	(45,792)	(8,778)
Variable rate bank loans	(1,780,390)	(1,984,487)	(65,416)	(64,785)	(311,920)	(1,534,293)	(8,073)
Finance lease liabilities	(657)	(687)	(276)	(148)	(177)	(86)	–
Bank overdrafts	(175,868)	(175,868)	(175,868)	–	–	–	–
Trade and other payables	(711,316)	(711,316)	(641,991)	(19,661)	(19,224)	(13,265)	(17,175)
Derivative financial instruments							
Currency forward contracts used for hedging							
– Inflows	–	111,678	104,906	6,772	–	–	–
– Outflows	(829)	(112,507)	(105,624)	(6,883)	–	–	–
	(2,740,263)	**(2,951,049)**	**(885,521)**	**(85,098)**	**(352,968)**	**(1,593,436)**	**(34,026)**

2017 in EUR `000	Carrying amount	Contractual cash flows	6 mths or less	6 – 12 mths	1 – 2 years	2 – 5 years	More than 5 years
Non-derivative financial liabilities							
Fixed rate bank loans	(70,967)	(79,304)	(1,249)	(389)	(1,638)	(66,942)	(9,086)
Variable rate bank loans	(2,083,318)	(2,131,492)	(1,804,330)	(2,352)	(4,718)	(311,824)	(8,268)
Finance lease liabilities	(1,525)	(1,591)	(445)	(430)	(507)	(209)	–
Bank overdrafts	(113,630)	(113,630)	(113,630)	–	–	–	–
Trade and other payables	(761,576)	(761,576)	(698,205)	(27,093)	(5,458)	(5,045)	(25,775)
Derivative financial instruments							
Interest rate swaps used for hedging	(1,916)	(1,916)	(606)	(606)	(704)	–	–
Currency forward contracts used for hedging							
– Inflows	–	3,038	3,038	–	–	–	–
– Outflows	(284)	(3,322)	(3,322)	–	–	–	–
	(3,033,216)	**(3,089,793)**	**(2,618,749)**	**(30,870)**	**(13,025)**	**(384,020)**	**(43,129)**

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

Accounting for derivatives and hedging activities
The fair value of derivative financial assets and liabilities at the balance sheet date is set out in the following table:

in EUR `000	Assets 2018	Liabilities 2018	Assets 2017	Liabilities 2017
Cash flow hedges				
Currency forward contracts	**873**	**(829)**	4,311	(284)
Interest rate swaps	**395**	**–**	–	(1,916)
At 31 July	**1,268**	**(829)**	4,311	(2,200)

Cash flow hedges
Cash flow hedges are hedges of highly probable forecasted future income or expenses. In order to qualify for hedge accounting, the Group is required to document the relationship between the item being hedged and the hedging instrument and demonstrate, at inception, that the hedge relationship will be highly effective on an ongoing basis. The hedge relationship must be tested for effectiveness on subsequent reporting dates.

There is no significant difference between the timing of the cash flows and the income statement effect of cash flow hedges.

Market risk
Market risk is the risk that changes in market prices and indices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments.

Foreign exchange risk
In addition to the Group's operations carried out in eurozone economies, it has significant operations in the UK, Switzerland and North America. As a result, the Group Consolidated Balance Sheet is exposed to currency fluctuations including, in particular, Sterling, US dollar, Canadian dollar and Swiss franc movements. The Group manages its balance sheet having regard to the currency exposures arising from its assets being denominated in a wide range of currencies.

Net investment hedges
As part of its approach towards mitigating its exposure to foreign currency risk, the Group will, when required, fund foreign currency investments in the currency of the related assets.

These relationships are typically designated by the Group as net investment hedges of foreign currency exposures on net investments in foreign operations using the borrowings as the hedging instrument. These hedge designations allow the Group to mitigate the risk of foreign currency exposures on the carrying amount of net assets in foreign operations in its Group consolidated financial statements.

The borrowings designated in net investment hedge relationships are measured at fair value, with the effective portion of the change in value of the borrowings being recognised directly through other comprehensive income in the foreign currency translation reserve. Any ineffectiveness arising on such hedging relationships is recognised immediately in the income statement.

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2018

Currency swaps

The Group also hedges a portion of its transactional currency exposure through the use of currency swaps. Transactional exposures arise from sales or purchases by an operating unit in currencies other than the unit's functional currency. The Group uses forward currency contracts to eliminate the currency exposures on certain foreign currency purchases. The forward currency contracts must be in the same currency and match the settlement terms of the hedged item.

The following table details the Group's exposure to transactional foreign currency risk at 31 July 2018:

2018 in EUR `000	GBP	USD	CAD	CHF	EUR	Other	Total
Trade receivables	17,914	2,999	–	–	4,996	683	26,592
Other receivables	119	80	–	–	92	1	292
Cash and cash equivalents	1,651	8,444	44	187	7,608	281	18,215
Trade payables	(12,586)	(6,101)	(44)	(29)	(16,297)	(3,878)	(38,935)
Other payables	(8,401)	(2,345)	(776)	(4,165)	(2,515)	1,329	(16,873)
Derivative financial instruments	(5)	552	(46)	–	(137)	7	371
At 31 July 2018	**(1,308)**	**3,629**	**(822)**	**(4,007)**	**(6,253)**	**(1,577)**	**(10,338)**

The following table details the Group's exposure to transactional foreign currency risk at 31 July 2017:

2017 in EUR `000	GBP	USD	CAD	CHF	EUR	Other	Total
Trade receivables	8,114	16,040	–	6,089	9,889	3,252	43,384
Other receivables	–	59	–	–	12	–	71
Cash and cash equivalents	2,458	6,279	45	41	13,810	383	23,016
Trade payables	(4,387)	(14,458)	(2,065)	(398)	(27,180)	(3,947)	(52,435)
Other payables	(784)	(2,585)	–	(5,904)	(405)	(69)	(9,747)
Derivative financial instruments	282	(1,406)	229	–	2,304	(3)	1,406
At 31 July 2017	**5,683**	**3,929**	**(1,791)**	**(172)**	**(1,570)**	**(384)**	**5,695**

Notes to the Group Consolidated Financial Statements (continued)
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Currency sensitivity analysis

A 10% strengthening or weakening of the euro against the foreign currencies below at 31 July would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis as in the prior year.

2018 in EUR `000	10% strengthening income statement	10% strengthening equity	10% weakening income statement	10% weakening equity
GBP	118	(519)	(130)	571
USD	(280)	52,889	308	(58,178)
CAD	71	3,524	(78)	(3,876)
CHF	364	–	(401)	–
At 31 July 2018	273	55,894	(301)	(61,483)

2017 in EUR `000	10% strengthening income statement	10% strengthening equity	10% weakening income statement	10% weakening equity
GBP	(491)	283	540	(311)
USD	(485)	87,333	534	(96,067)
CAD	184	4,575	(202)	(5,032)
CHF	16	–	(17)	–
At 31 July 2017	(776)	92,191	855	(101,410)

The impact on equity from changing exchange rates results principally from foreign currency loans designated as net investment hedges. This impact would be offset by the revaluation of the hedged net assets, which would also be recorded in equity.

Interest rate risk

The Group's debt bears both variable and fixed rates of interest as per the original contracts. Fixed rate debt is achieved through the issuance of fixed rate debt or the use of interest rate swaps. At 31 July, the interest rate profile of the Group's interest-bearing financial instruments was as follows:

in EUR `000	**Carrying amount 2018**	Carrying amount 2017
Fixed rate instruments		
Bank borrowings	**(71,203)**	(70,967)
Finance lease liabilities	**(657)**	(1,525)
	(71,860)	(72,492)
Variable rate instruments		
Cash and cash equivalents	**517,854**	535,570
Bank overdrafts	**(175,868)**	(113,630)
Bank borrowings	**(1,780,390)**	(2,083,318)
Total interest-bearing financial instruments	**(1,510,264)**	(1,733,870)

Notes to the Group Consolidated Financial Statements (continued)
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Cash flow sensitivity analysis for variable rate liabilities

A change of 50 bps in interest rates at the reporting date would have had the effect as shown below on the Group Consolidated Income Statement and equity. This analysis assumes that all other variables, in particular interest earned on cash and cash equivalents and foreign currency exchange rates, remain constant. The analysis is performed on the same basis as in the prior year.

2018 in EUR `000	Principal amount	Impact of 50 bp increase on income statement	Impact of 50 bp increase on equity
Bank overdrafts	(175,868)	(879)	–
Variable rate bank borrowings	(1,780,390)	(8,902)	–
Interest rate swaps	214,574	–	1,073
Cash flow sensitivity, net	**(1,741,684)**	**(9,781)**	**1,073**

2017 in EUR `000	Principal amount	Impact of 50 bp increase on income statement	Impact of 50 bp increase on equity
Bank overdrafts	(113,630)	(568)	–
Variable rate bank borrowings	(2,083,318)	(10,417)	–
Interest rate swaps	212,657	–	1,063
Cash flow sensitivity, net	**(1,984,291)**	**(10,985)**	**1,063**

Commodity price risk

The Group purchases and sells certain commodities for the purposes of receipt or delivery and uses derivative contracts to protect itself from movements in prices other than exchange differences. These contracts are classified as ‘own use’ contracts, as they were entered into and continue to be held for the purpose of the receipt or delivery of the non-financial item, in accordance with the business unit’s expected purchase, sale or usage requirements. ‘Own use’ contracts are outside the scope of IAS 39, ‘Financial Instruments: Recognition and Measurement’, and are accounted for on an accrual basis. Where a commodity contract is not entered into, or does not continue to be held, to meet the Group’s own purchase, sale or usage requirements, it is treated as a derivative financial instrument, and the recognition and measurement requirements of IAS 39 are applied.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

22 Deferred income from government grants

in EUR `000	2018	2017
At 1 August	**18,280**	23,945
Recognised in Group Consolidated Income Statement	**(3,871)**	(5,665)
Translation adjustment	**(1)**	–
At 31 July	**14,408**	18,280

23 Deferred income tax

The deductible and taxable temporary differences at the balance sheet date, in respect of which deferred income tax has been recognised, are analysed as follows:

in EUR `000	2018	2017
Deferred income tax assets (deductible temporary differences)		
Goodwill	**6,259**	88,722
Property, plant and equipment and ERP	**5,090**	8,665
Employee compensation	**5,322**	4,656
Pension related	**2,670**	4,570
Financing related	**1,475**	4,599
Tax loss carry-forwards and tax credits	**47,770**	39,502
Other	**6,375**	8,053
	74,961	158,767
Deferred income tax liabilities (taxable temporary differences)		
Intangible assets	**(110,334)**	(171,256)
Property, plant and equipment and ERP	**(82,284)**	(78,674)
Employee compensation	**(37)**	–
Pension related	**(2,434)**	(2,299)
Financing related	**(4,291)**	(8,252)
Unremitted earnings	**–**	(78,457)
Other	**(13,498)**	(14,226)
	(212,878)	(353,164)

Unrecognised deferred income taxes

The deductible temporary differences, as well as the unused tax losses and tax credits, for which no deferred tax assets are recognised expire as follows:

in EUR `000	2018	2017
Within one year	**133**	118
Between one and five years	**1,711**	3,541
After five years	**248,248**	158,314
Total unrecognised tax losses	**250,092**	161,973

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2018

Deferred income tax liabilities of €5,634,000 (2017: €6,429,000) have not been recognised for withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries, as the timing of the reversal of these temporary differences is controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Movements in net deferred tax assets/(liabilities), during the year, were as follows:

2018 in EUR `000	Goodwill	Intangible assets	Property, plant & equipment and ERP	Employee compensation	Pension related	Financing related	Tax losses, credits and unremitted earnings	Other	**Total**
At 1 August 2017	88,722	(171,256)	(70,009)	4,656	2,271	(3,653)	(38,955)	(6,173)	**(194,397)**
Recognised in Group Consolidated Income Statement	(5,829)	54,886	(9,170)	648	(1,759)	(551)	7,847	3,696	**49,768**
Recognised in Group Consolidated Statement of Comprehensive Income	–	–	–	–	(156)	1,279	–	(2,270)	**(1,147)**
Transferred to disposal groups held-for-sale (note 3)	–	1,031	630	–	–	–	–	–	**1,661**
Arising on disposal of business (note 2)	(77,449)	2,233	(47)	–	–	5	77,449	(38)	**2,153**
Translation adjustments and other	815	2,772	1,402	(19)	(120)	104	1,429	(2,338)	**4,045**
At 31 July 2018	6,259	(110,334)	(77,194)	5,285	236	(2,816)	47,770	(7,123)	**(137,917)**

2017 in EUR `000	Goodwill	Intangible assets	Property, plant & equipment and ERP	Employee compensation	Pension related	Financing related	Tax losses, credits and unremitted earnings	Other	**Total**
At 1 August 2016	–	(210,635)	(114,193)	4,682	3,881	(2,621)	13,603	(19,175)	**(324,458)**
Recognised in Group Consolidated Income Statement	95,359	34,573	46,988	218	(405)	467	(56,282)	12,700	**133,618**
Recognised in Group Consolidated Statement of Comprehensive Income	–	–	–	–	(1,204)	(1,647)	–	(1,532)	**(4,383)**
Translation adjustments and other	(6,637)	4,806	(2,804)	(244)	(1)	148	3,724	1,834	**826**
At 31 July 2017	88,722	(171,256)	(70,009)	4,656	2,271	(3,653)	(38,955)	(6,173)	**(194,397)**

On 22 December 2017, the US Tax Cuts and Jobs Act ('the Act') was enacted into law. This Act brings about fundamental changes to the US tax system, both from an individual and corporate tax perspective. As a result of the Act, the statutory rate of US federal corporate income tax was reduced from 35% to 21% with effect from 1 January 2018. The reduction in the US corporate income tax rate to 21% under the Act required revaluation of ARYZTA's US deferred tax assets and liabilities.

The disposal of Cloverhill during FY18 has also resulted in a reduction in deferred tax attributes associated with these assets.

The Act also introduced a one-time mandatory deemed repatriation tax on historical earnings & profits of certain US owned foreign corporations and exempted from tax future dividends paid to the US. As a result, the FY17 unremitted earnings' deferred tax liability, which solely related to the US, was removed in FY18.

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2018

24 Employee benefits

The Group operates a number of defined benefit and defined contribution pension plans in various jurisdictions. The majority of plans are externally funded with plan assets held in corresponding separate trustee-administered funds, governed by local regulations and practice in each country.

The trustees of the various pension funds are required by law to act in the best interests of the plan participants and are responsible for investment strategy and plan administration. The level of benefits available to members depends on length of service and either their average salary over their period of employment, their salary in the final years leading up to retirement or in some cases historical salaries, depending on the rules of the individual plan.

Long-term employee benefits included in the Group Consolidated Balance Sheet comprises the following:

in EUR `000	2018	2017
Total deficit in defined benefit plans	**5,053**	4,757
Other[1]	**1,922**	1,887
Total	**6,975**	6,644

1 Other includes provisions to meet unfunded pension fund deficiencies in a variety of insignificant subsidiaries.

The valuations of the defined benefit schemes used for the purposes of the following disclosures are those of the most recent actuarial reviews carried out at 31 July 2018 by an independent, qualified actuary. The valuations have been performed using the projected unit method.

Employee benefit plan risks

The employee benefit plans expose the Group to a number of risks, the most significant of which are:

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. If assets underperform this yield, this will create a deficit. The plans hold a significant proportion of equities which, though expected to outperform corporate bonds in the long-term, create volatility and risk. The allocation to equities is monitored to ensure it remains appropriate given the long-term objectives of the plans.

Changes in bond yields

An increase in corporate bond yields will decrease the value placed on liabilities of the plans, although this will be partially offset by a decrease in the value of the bond holdings within the plans.

Inflation risk

In certain plans the benefit obligations are linked to inflation, with the result that higher inflation will lead to higher liabilities (although caps on the level of inflationary increases are in place). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2018

Life expectancy
In the event that members live longer than assumed, a further deficit will emerge.

The Group ensures that the investment positions are managed with an asset-liability matching ('ALM') framework that has been developed to achieve long-term investments that are in line with the obligations under the pension plans. Within this framework, the Group's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency.

Financial assumptions
The main assumptions used were determined based on management experience and expectations in each country, as well as actuarial advice based on published statistics.

An average of these assumptions across all plans were as follows:

	2018	2017
Rate of increase in salaries	**1.83%**	1.78%
Discount rate on plan liabilities	**0.98%**	0.65%

The mortality assumptions imply the following life expectancies, in years, of an active member on retiring at age 65, 20 years from now:

	2018	2017
Male	**24.3**	24.3
Female	**26.4**	26.3

The mortality assumptions imply the following life expectancies, in years, of an active member, aged 65, retiring now:

	2018	2017
Male	**22.5**	22.4
Female	**24.5**	24.4

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2018

The sensitivity of the defined benefit obligation to changes in the principal financial actuarial assumptions is set out below. The present value of the defined benefit obligation has been calculated using the projected unit credit method, which is the same as that applied in calculating the defined benefit obligation recognised in the Group Consolidated Balance Sheet. The impact on the defined benefit obligation as at 31 July 2018 is on the basis that only one principal financial actuarial assumption is changed, with all other assumptions remaining unchanged.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Assumption	Change in Assumption	Impact on plan liabilities
Discount rate	**Increase/decrease 0.50%**	Decrease by 4.4% /increase by 5.2%
Salary growth rate	**Increase/decrease 0.50%**	Increase by 0.8% /decrease by 0.9%

Net pension liability
in EUR `000

	2018	2017
Total fair value of assets	**58,411**	59,225
Present value of plan liabilities	**(63,464)**	(63,982)
Deficit in the plans	**(5,053)**	(4,757)
Related deferred tax asset (note 23)	**236**	2,271
Net pension liability	**(4,817)**	(2,486)

Fair value of plan assets
in EUR `000

	Quoted	Non-quoted	2018	2017
Cash and cash equivalents	1,634	–	**1,634**	2,280
Equity instruments	19,559	–	**19,559**	17,961
Debt instruments	17,582	138	**17,720**	21,546
Property	4,907	12,355	**17,262**	15,194
Other	–	2,236	**2,236**	2,244
Total fair value of assets	43,682	14,729	**58,411**	59,225

Movement in the fair value of plan assets
in EUR `000

	2018	2017
Fair value of plan assets at 1 August	**59,225**	60,050
Interest income	**354**	90
Employer contributions	**2,558**	2,826
Employee contributions	**2,238**	2,479
Benefit payments made	**(2,364)**	(2,463)
Plan settlements	**(3,808)**	(3,392)
Actuarial return on plan assets (excluding interest income)	**2,087**	3,240
Translation adjustments	**(1,879)**	(3,605)
Fair value of plan assets at 31 July	**58,411**	59,225

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2018

Movement in the present value of plan obligations

in EUR `000	2018	2017
Present value of plan obligations at 1 August	**(63,982)**	(71,437)
Current service cost	**(3,225)**	(3,692)
Past service (cost)/gain	**(731)**	1,365
Interest expense on plan obligations	**(407)**	(141)
Employee contributions	**(2,238)**	(2,479)
Benefit payments made	**2,364**	2,463
Plan settlements	**3,808**	3,392
Actuarial changes in demographic and financial assumptions	**1,927**	3,878
Actuarial experience adjustments	**(2,890)**	(983)
Translation adjustments	**1,910**	3,652
Present value of plan obligations at 31 July	**(63,464)**	(63,982)

Movement in net liability recognised in the Group Consolidated Balance Sheet

in EUR `000	2018	2017
Net liability in plans at 1 August	**(4,757)**	(11,387)
Current service cost (note 7)	**(3,225)**	(3,692)
Past service (cost)/gain (note 7)	**(731)**	1,365
Employer contributions	**2,558**	2,826
Net interest expense	**(53)**	(51)
Actuarial gain on Group defined benefit pension plans	**1,124**	6,135
Translation adjustments	**31**	47
Net liability in plans at 31 July	**(5,053)**	(4,757)

The estimated contributions expected to be paid during the year ending 31 July 2019 in respect of the Group's defined benefit plans are €2,616,000.

Analysis of defined benefit expense recognised in the Group Consolidated Income Statement

in EUR `000	2018	2017
Current service cost (note 7)	**3,225**	3,692
Past service cost/(gain) (note 7)	**731**	(1,365)
Non-financing expense	**3,956**	2,327
Included in financing costs, net	**53**	51
Net charge to Group Consolidated Income Statement	**4,009**	2,378

Additionally, a charge of €13,767,000 (2017: €14,233,000) was recorded in the Group Consolidated Income Statement in respect of the Group's defined contribution plans.

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2018

Defined benefit pension expense recognised in Group Consolidated Statement of Comprehensive Income in EUR `000	2018	2017
Return on plan assets (excluding interest income)	**2,087**	3,240
Experience losses on plan liabilities	**(2,890)**	(983)
Changes in demographic and financial assumptions	**1,927**	3,878
Actuarial gain	**1,124**	6,135
Deferred tax effect of actuarial gain (note 9)	**(156)**	(1,204)
Actuarial gain recognised in Group Consolidated Statement of Comprehensive Income	**968**	4,931

History of experience gains and losses:	2018	2017
Difference between expected and actual return on plan assets:		
– Amount (in €`000)	**2,087**	3,240
– % of Plan assets	**3.57%**	5.47%
Experience losses on plan obligations:		
– Amount (in €`000)	**(2,890)**	(983)
– % of Plan obligations	**(4.55)%**	(1.54)%
Total actuarial gains recognised in Group Consolidated Statement of Comprehensive Income:		
– Amount (in €`000)	**1,124**	6,135
– % of Plan obligations	**1.77%**	9.59%

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2018

25 Shareholders equity

Registered shares of CHF 0.02 each – authorised, issued and fully paid	2018 `000	2018 in EUR `000	2017 `000	2017 in EUR `000
At 1 August	**91,811**	**1,172**	91,811	1,172
Issue of registered shares (CHF 0.02)	**1,110**	**19**	–	–
At 31 July	**92,921**	**1,191**	91,811	1,172

At the Annual General Meeting on 7 December 2017, the shareholders approved the resolution to modify Article 5 of the Articles of Association (Authorised capital for general purposes). The Board of Directors was authorised to exclude the subscription rights of the shareholders and to allocate them to third parties if the shares are used for the following purposes:

(1) acquisition of companies, parts of companies or equity holdings or for new investment projects or for financing of such transactions (maximum of 9,181,053 fully paid-up registered shares),
(2) broadening the shareholder constituency (maximum of 4,590,526 fully paid-up registered shares), or
(3) for the purpose of the participation of employees (maximum of 3,060,351 fully paid-up registered shares).

The dividend for the year ended 31 July 2017 was proposed to be settled as a scrip dividend via newly issued share capital, based on a ratio of one new share for every 80 shares held, and was approved at the Annual General Meeting held on 7 December 2017. Accordingly, a total of 1,110,253 new shares, with a par value of CHF 0.02 per share, were issued to shareholders holding shares in ARYZTA AG on 29 January 2018, resulting in €33,962,000 being recognised within equity, based on the market price of the shares at the date of approval.

Pursuant to these modifications, and following the scrip dividend, the Board of Directors is currently authorised to increase the share capital at any time until 9 December 2019, by an amount not exceeding CHF 161,416.00, through the issue of up to a maximum of 8,070,800 fully paid-up registered shares with a nominal value of CHF 0.02 each.

Treasury shares of CHF 0.02 each - authorised, called up and fully paid	2018 `000	2018 in EUR `000	2017 `000	2017 in EUR `000
At 1 August	**3,052**	**47**	3,052	47
Release of treasury shares upon vesting and exercise of equity entitlements	**(65)**	**(1)**	–	–
At 31 July	**2,987**	**46**	3,052	47

During the year ended 31 July 2018, the performance conditions associated with 64,899 Restricted Stock Unit Plan awards were fulfilled. Therefore, these awards were approved as vested by the Remuneration Committee and were subsequently exercised by employees, in exchange for the same number of shares. The weighted average share price at the time of these exercises was CHF 28.69. These shares were issued out of shares previously held in treasury by ARYZTA Grange Company UC, a wholly-owned subsidiary within the ARYZTA AG Group.

There were no treasury share transactions during the year ended 31 July 2017.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

Other equity reserve

in EUR `000	**2018**	2017
At 1 August and 31 July	**720,456**	720,456

In April 2013, the Group raised CHF 400,000,000 through the issuance of a Perpetual Callable Subordinated Instrument ('Hybrid Instrument'), which was recognised at a carrying value of €319,442,000 within equity. This Hybrid Instrument has no maturity date, and as the first call option was not exercised by ARYZTA in April 2018, the coupon is now 6.045%, plus the 3-month CHF LIBOR.

In October 2014, the Group raised CHF 190,000,000 through the issuance of a Hybrid Instrument. This Hybrid Instrument offers a coupon of 3.5% and has no maturity date, with an initial call option date by ARYZTA in April 2020. In the event that the call option is not exercised, the coupon would be 4.213%, plus the 3-month CHF LIBOR.

In November 2014, the Group raised €250,000,000 through the issuance of an additional Hybrid Instrument. This Hybrid Instrument offers a coupon of 4.5% and has no maturity date, with an initial call option date by ARYZTA in March 2019. In the event that the call option is not exercised, the coupon would be 6.77%, plus the 5 year euro swap rate.

The two Hybrid instruments issued during the year ended 31 July 2015 were recognised at a combined value of €401,014,000 within equity.

As the Hybrid instruments have no maturity date and repayment is at the option of ARYZTA, they are recognised within other equity reserves at historical cost, net of attributable transaction costs, until such time that management and the Board of Directors have approved settlement of the applicable instrument. Any difference between the amount paid upon settlement of these instruments and the historical cost is recognised directly within retained earnings.

Dividends on these Hybrid instruments accrue at the coupon rate applicable to each respective instrument on an ongoing basis; however, a contractual obligation to settle these dividends in cash only arises when a Compulsory Payment Event, such as payment of a cash dividend to equity shareholders, has occurred within the last twelve months.

Because the Group has not paid a cash dividend to equity shareholders during the last 12 months, as of 31 July 2018 the Group is under no contractual obligation to settle the Hybrid instrument dividends in cash. Therefore, these deferred dividends have not been accrued as separate financial liabilities, but instead remain within equity, in accordance with IAS 32 'Financial Instruments'. Should a Compulsory Payment Event occur in the future, all Hybrid instrument deferred dividends will become due in cash.

Movements related to the Hybrid instrument dividends and related cash payments over the last two years were as follows:

in EUR `000	**2018**	**2017**
Balance at 1 August	(9,032)	(9,353)
Hybrid instrument dividend	(32,057)	(32,099)
Hybrid instrument dividend paid	–	32,155
Translation adjustments	18	265
Balance at 31 July	**(41,071)**	**(9,032)**

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

Cash flow hedge reserve
The cash flow hedge reserve comprises of the effective portion of the cumulative net change in the fair value of cash flow hedging instruments.

Share-based payment reserve
This reserve comprises amounts credited to reserves in connection with equity awards, less the amount related to any such awards that become vested.

Foreign currency translation reserve
The foreign currency translation reserve comprises all foreign exchange differences, since the date of the Group's transition to IFRS, arising from translation of the net assets of the Group's non-euro-denominated functional currency operations into euro, the Group's presentation currency.

Capital management
The capital managed by the Group consists of total equity of €1,672,860,000 (2017: €2,201,652,000). The Group has set the following goals for the management of its capital:

– To maintain prudent Net Debt: EBITDA[1] and interest cover (EBITDA: Net interest, including Hybrid dividend[1]) ratios to support a prudent capital base and ensure a long-term sustainable business.
– To achieve a return for investors in excess of the Group's weighted average cost of capital.
– To apply a dividend policy that takes into account the Group's financial performance and position, the Group's future outlook and other relevant factors including tax and other legal considerations.

Net debt amounted to €1,510,264,000 at 31 July 2018 (2017: €1,733,870,000).

The Group employs two ratio targets to monitor its financing covenants:

– The Group's Net Debt: EBITDA[1] ratio is below 4.0x – the ratio was 3.83x at 31 July 2018 (2017: 4.15x).
– The Group's interest cover (EBITDA: Net interest, including Hybrid dividend[1]) is above 3.0x – the ratio was 3.72x at 31 July 2018 (2017: 4.64x).

These ratios are reported to the Board of Directors at regular intervals through internal financial reporting.

During September 2018, the Group received the unanimous consent of its lenders to amend its existing Facilities Agreement to provide additional flexibility to pursue its new business strategy and implement a share capital increase as part of its deleveraging plan. The amendments to the Facilities Agreement include the following:

– An increase of the leverage covenant (Net Debt: EBITDA[1]) from:
  – 4.0x to 5.75x for the period ending on 31 January 2019;
  – 3.5x to 5.25x for the period ending on 31 July 2019; and
  – reverting to previous ratio of 3.5x for the periods thereafter.

1 Calculated as per Syndicated Bank Facilities Agreement terms.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

– A decrease of the interest cover covenant (EBITDA: Net interest, including Hybrid dividend) from:
  – 3.0x to 2.0x for the period ending on 31 January 2019;
  – 3.0x to 2.0x for the period ending on 31 July 2019; and
  – reverting to 3.0x for the periods thereafter.

– A margin increase to:
  – 3.5% until 31 December 2018; and
  – 4.0% from 1 January 2019.

Upon the successful completion of the proposed equity raise, the above conditions revert to the conditions as per the Facilities Agreement. If the proposed equity raise has not successfully completed by 31 May 2019, there will be an additional test of the covenants as of the twelve month period ending 31 October 2019.

No dividend is planned to be proposed for the year ended 31 July 2018.

26 Commitments

26.1 Commitments under operating leases
Non-cancellable operating lease rentals are payable as set out below. These amounts represent minimum future lease payments, in aggregate, that the Group is required to make under existing lease agreements.

in EUR `000	2018	2017
Within one year	57,121	59,467
In two to five years	163,960	171,706
After more than five years	107,625	125,866
Total	328,706	357,039

26.2 Capital commitments
Capital expenditure contracted for at the end of the year, but not yet incurred, is as follows:

in EUR `000	2018	2017
Property, plant and equipment	13,765	5,477
Intangible assets	–	692
Total	13,765	6,169

26.3 Other commitments
The Company is party to cross guarantees on ARYZTA Group borrowings. The Company has also guaranteed the liabilities of subsidiaries within the ARYZTA Group. The Company treats these guarantees as a contingent liability, until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

27 Contingent liabilities
The Group is subject to litigation risks and legal claims that arise in the ordinary course of business, for which the outcomes are not yet known. These claims are not currently expected to give rise to any material significant future cost or contingencies.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

28 Related party transactions

In the normal course of business, the Group undertakes transactions with its joint ventures and other related parties. A summary of transactions with these related parties is as follows:

in EUR `000	2018	2017
Purchase of goods	(141)	(147)
Provision of services	1,832	1,937
Receiving of services	–	(57)

Purchase of goods and provision of services relate primarily to transactions with joint ventures during the year.

The trading balances owing to the Group from related parties were €135,000 (2017: €5,000) and the trading balances owing from the Group to these related parties were €228,000 (2017: €220,000).

Compensation of key management

For the purposes of the disclosure requirements of IAS 24, 'Related Party Disclosures', the term 'key management personnel' (i.e. those persons having authority and responsibility for planning, directing and controlling the activities of the Group) comprises the Board of Directors and the Group Executive Management, which manage the business and affairs of the Group. A summary of the compensation to key management is as follows:

in EUR `000	2018	2017[1]
Short-term employee benefits	5,515	10,161
Post-employment benefits	–	4,970
Other long-term benefits	456	675
Termination benefits	–	–
Total key management compensation	**5,971**	15,806

1 Compensation expense recognised during FY 2017 includes the entire remaining contractual employment obligation for former members of executive management that left the Group during FY 2017, as well as the entire associated 12 month, post contractual period, non-compete agreement.

Jim Leighton was elected to the ARYZTA Board of Directors at the 2017 AGM. In June 2018, ARYZTA entered into a consultancy arrangement with him under which he will provide advisory services on the implementation of ARYZTA's three-year €200m cost reduction plan, Project Renew. The compensation payable to Mr Leighton under the arrangement amounts to €125,000, over the period of the consultancy, of which €29,000 accrued during FY18 and is included in the amounts above.

None of the non-executive members of the Board of Directors has fulfilled any operational management functions for companies of the ARYZTA Group in the three years immediately preceding the period. Related-party transactions with any members of the Board of Directors or Executive Management did not exceed €100,000 in aggregate during the year ended 31 July 2018.

Further detailed disclosure in relation to the compensation entitlements of the Board of Directors and Executive Management is provided in the Compensation Report on pages 55 to 64.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

29 Post balance sheet events – after 31 July 2018
During September 2018, the Group received the unanimous consent of its lenders to amend its existing Facilities Agreement to provide additional flexibility to pursue its new business strategy and implement a share capital increase as part of its deleveraging plan. The amendments to the Facilities Agreement are detailed in Note 25 on pages 148 and 149.

30 Risk assessment
The Board and senior management continue to invest significant time and resources in identifying specific risks across the Group, and in developing a culture of balanced risk minimisation. The Group has formal risk assessment processes in place through which risks are identified and associated mitigating controls are evaluated. These processes are driven by local management, who are best placed to identify the significant ongoing and emerging risks facing the business. The outputs of these risk assessment processes are subject to various levels of review by Group management and Internal Audit, and a consolidated Risk Map denoting the potential frequency, severity and velocity of identified risks is reviewed by the Board of Directors on at least an annual basis. Risks identified, and associated mitigating controls, are also subject to audit as part of various operational, financial, health and safety audit programmes.

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2018

31 Accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses.

Information about significant areas of estimation, uncertainty, and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Group consolidated financial statements are described below:

Note	Name
Note 14	Goodwill and intangible assets
Note 15	Joint ventures
Notes 9 & 23	Income taxes and deferred income tax

Testing of assets for impairment, particularly goodwill, involves determination of the cash-generating units, estimating the respective future cash flows and applying the appropriate discount rates, in order to determine an estimated recoverable value of those cash-generating units, as set out in note 14.

As set out in note 15, joint ventures, while Picard is not considered part of ARYZTA's long-term strategy, and is therefore non-core to the group, disposal of the Group's investment is currently only possible with agreement of both joint venture partners. Therefore, the Group's investment continues to be accounted on a historical cost basis using the equity method of accounting.

Income taxes, as set out in note 9, and deferred taxes, as set out in note 23, are subject to management estimate. The Group Consolidated Balance Sheet includes deferred taxes relating to temporary differences, which are based on forecasts of the corresponding entity's taxable income and reversal of these temporary differences, forecasted over a period of several years. As actual results may differ from these forecasts, these deferred taxes may need to be adjusted accordingly.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2018

32 Significant subsidiaries and joint ventures

A list of all of the Group's significant subsidiary and joint venture undertakings, as at 31 July 2018 and 2017, are provided in the table below. For the purposes of this note, a significant subsidiary is one that has third-party revenues equal to, or in excess of, 2% of total Group revenue and/or consolidated Group assets equal to, or in excess of, 2% of total Group assets. A significant joint venture is one in which the Group's share of profits after tax is equal to, or in excess of, 2% of total Group operating profit and/or the carrying value of the investment is equal to, or in excess of, 2% of total Group assets.

Name	Nature of business	Currency	Share capital millions	Group % share 2018	Group % share 2017	Registered office
(a) Significant subsidiaries – Europe						
ARYZTA Food Solutions Ireland UC	Food distribution	EUR	0.635	100	100	1
ARYZTA Bakeries Ireland UC	Food manufacturing and distribution	EUR	1.016	100	100	1
ARYZTA Technology Ireland UC	Asset management company	EUR	0.000	100	100	1
Delice de France Limited	Food distribution	GBP	0.250	100	100	2
France Distribution SAS	Food distribution	EUR	0.108	100	100	3
ARYZTA Food Solutions Schweiz AG	Food distribution	CHF	3.500	100	100	4
ARYZTA Bakeries Deutschland GmbH	Food manufacturing and distribution	EUR	3.072	100	100	5
ARYZTA Food Solutions GmbH	Food distribution	EUR	0.025	100	100	6
Pré Pain B.V.	Food manufacturing and distribution	EUR	0.018	100	100	7
ARYZTA Polska Sp. z o.o.	Food manufacturing and distribution	PLN	61.000	100	100	8
Fornetti Kft	Food manufacturing and distribution	HUF	500.000	100	100	9
(b) Significant subsidiaries – North America						
ARYZTA LLC	Food manufacturing and distribution	USD	705.000	100	100	10
ARYZTA Limited	Food manufacturing and distribution	CAD	255.818	100	100	11
ARYZTA Canada Co.	Food manufacturing and distribution	CAD	113.400	100	100	12
(c) Significant subsidiaries – Rest of World						
ARYZTA Australia Pty Limited	Food manufacturing and distribution	AUD	17.000	100	100	13
ARYZTA Do Brazil Alimentos Ltda	Food manufacturing and distribution	BRL	33.588	100	100	14
(d) Significant joint venture						
Lion/Polaris Lux Holdco S.à r.l. (Picard)	Food distribution	EUR	0.100	49	49	15

Registered Offices:

1. Grangecastle Business Park, New Nangor Road, Clondalkin, Dublin 22, Ireland.
2. 149 Brent Road, Southall, Middlesex UB2 5LJ, England.
3. ZAC de Bel Air, 14–16 Avenue Joseph Paxton, Ferrières en Brie, 77164, France.
4. Ifangstrasse 9, 8952 Schlieren-Zurich, Switzerland.
5. Industriestraße 4, 06295 Lutherstadt Eisleben, Germany.
6. Konrad Goldmann Strasse 5 b, 79100 Freiburg im Breisgau, Germany.
7. Kleibultweg 94, Oldenzaal, 7575 BX, the Netherlands.
8. ul. Zachodnia 10, 05-825 Grodzisk Mazowiecki, Poland.
9. 6000 Kecskemét, Városföld 8683/104.hrsz. dulo 92, Hungary.
10. 6080 Center Drive, Suite 900, Los Angeles, CA 90045, United States of America.
11. 58 Carluke Road West, Ancaster, Ontario L9G 3L1, Canada.
12. 1100-1959 Upper Water Street, Halifax, Nova Scotia, B3J 3N2, Canada.
13. 14 Homepride Avenue, Liverpool, NSW 2170, Australia.
14. Av. Brigadeiro Faria Lima 1.336, 3° Andar 01451-001 São Paulo, Brazil.
15. 7, Rue Lou Hemmer, L-1748 Luxembourg-Findel, Grand Duchy of Luxembourg.

The country of registration is also the principal location of activities in each case.

Report of the statutory auditor to the General Meeting of ARYZTA AG on the consolidated financial statements 2018

Opinion

We have audited the consolidated financial statements of ARYZTA AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 July 2018 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements (pages 75 to 153) give a true and fair view of the consolidated financial position of the Group as at 31 July 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

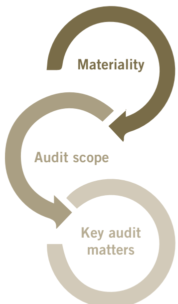
Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall Group materiality: EUR 7,425,000

We concluded full scope audit work at six reporting entities in five countries. With our full scope we covered 66% of the Group's revenue. In addition, specified procedures were performed on a further five reporting entities in four countries representing a further 16% of the Group's revenue.

As key audit matter the following area of focus has been identified:

– Recoverability of goodwill

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group financial statements are a consolidation of over 130 reporting entities, comprising the Group's operating businesses and centralised functions. We identified six reporting entities that, in our view, required a full scope audit, due to their size or risk

Report of the statutory auditor to the General Meeting of ARYZTA AG on the consolidated financial statements 2018 (continued)

profile. These six reporting entities are based in the United States of America, Germany, France, Switzerland and Ireland. Specific audit procedures on certain balances and transactions were performed at a further five reporting entities.

In order to fulfil our responsibilities for the direction, supervision and performance of the Group audit, we were involved in the work performed by reporting entity audit teams by performing selected site visits, reviewing the working papers of selected component audit teams, participating in selected clearance meetings with management and having detailed discussions around audit approach and matters reported to us.

Audit procedures over the consolidation, significant Group functions such as treasury and taxation and goodwill impairment were performed directly by the Group audit team. Overall, our audit scope accounted for 82% of Group revenues and 75% of Group assets.

Materiality
The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	EUR 7,425,000
How we determined it	2.25% of Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), rounded as defined by the bank covenant
Rationale for the materiality benchmark applied	We chose EBITDA as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by the relevant users of the financial statements and because pre-tax results are significantly impacted by depreciation and amortization.

We agreed with the Audit Committee that we would report to them misstatements above EUR 742,500 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons. Misstatements that only result in balance sheet reclassifications are reported to the Audit Committee if they are above EUR 4,800,000.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Report of the statutory auditor to the General Meeting of ARYZTA AG on the consolidated financial statements 2018 (continued)

Recoverability of Goodwill

Key audit matter	How our audit addressed the key audit matter
As of 31 July 2018, the carrying value of goodwill was EUR 1.4 billion, which represents approximately 30% of total assets and approximately 85% of net assets. Goodwill is allocated to seven cash generating units (CGUs). Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate a potential impairment. In performing the impairment, the company compares the recoverable amount, generally determined by estimating the value in use, to the carrying amount. To the extent that the recoverable amount of a cash generating unit is lower than its carrying amount, an impairment charge is recognised. The determination of the recoverable amount for each CGU involves significant estimation and judgment, specifically related to the projection of future business performance and profitability for a period of three years, estimation of terminal growth rates and determination of a discount rate for each cash generating unit. Through the performance of the company's goodwill impairment testing as of 31 July 2018, it was determined that there was an impairment of €175 million within the Germany CGU. Refer to pages 94-96 (Group Statement of Accounting Policies) and pages 118-121 (Note 14).	– We assessed the company's allocation of goodwill to the CGUs, by taking into consideration the consistency of the CGUs with the prior year, with internal management reporting and with how the business is managed within and across geographies. – We obtained the company's impairment analysis for each CGU and performed the following procedures, among others: – Utilized internal valuation specialists to assess the technical correctness of the value in use model and the consistency of the model with prior years. – Tested the mathematical accuracy of the model and traced amounts to underlying financial statement and other information, as applicable. – Traced the three year projections to the budget that was subject to scrutiny and approval by the Board of Directors and gained an understanding of the process undertaken to develop the projections, in order to determine whether the process was robust, appropriately considered relevant economic and customer-specific factors and involved an appropriate level of oversight and involvement of the Board of Directors. In addition, we discussed the projections with the company in order to obtain an understanding of various factors that were built into the assumptions. – Compared terminal growth rate assumptions to relevant economic forecasts. – Utilized internal valuation specialists to assess the pre-tax discount rates applied by the company, by performing an independent calculation of the weighted average cost of capital. – We obtained the company's sensitivity analyses around key assumptions to ascertain the effect of changes to those assumptions on the value in use estimates and re-calculated these sensitivities. In addition, we performed our own sensitivity analyses by changing various key assumptions to assess whether these would result in an impairment. – We considered the reasonableness of the sum of the value in use estimates in relation to the overall market capitalization of the company. Based on the work performed, we found the model and the key assumptions used by the company in its determination of the value in use estimates to be reasonable to conclude that the carrying amount of the goodwill of each cash generating unit as per 31 July 2018 is recoverable and the goodwill impairment recorded during the year to be reasonable.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the standalone financial statements and the remuneration report of ARYZTA AG and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

Report of the statutory auditor to the General Meeting of ARYZTA AG on the consolidated financial statements 2018 (continued)

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the

Report of the statutory auditor to the General Meeting of ARYZTA AG on the consolidated financial statements 2018 (continued)

related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

pwc PricewaterhouseCoopers AG

Sandra Böhm | Carrie Rohner

Audit expert
Auditor in charge

Zurich, 1 October 2018

Company Income Statement
for the year ended 31 July 2018

in CHF `000	2018	2017
Revenues from licences and management fees from Group companies	**10,974**	8,920
Dividend income from Group companies	**213,040**	139,181
Personnel expenses	**(3,425)**	(2,498)
Other operating expenses to Group companies	**(14,419)**	(4,376)
Other operating expenses	**(16,053)**	(10,660)
Depreciation and amortisation	**(274)**	(226)
Impairment of investment in Group Companies	**(110,000)**	–
Operating profit	**79,843**	130,341
Financial income from Group companies	**86,409**	81,584
Financial expenses	**(129,005)**	(81,920)
Profit before income tax	**37,247**	130,005
Income tax	**(293)**	(1,186)
Profit for the year	**36,954**	128,819

Company Balance Sheet
as at 31 July 2018

in CHF `000	2018	2017
Assets		
Current assets		
Cash and cash equivalents	**1,091**	2,115
Other current receivables		
– from third parties	**14,394**	14,177
– from Group companies	**427**	974
Total current assets	**15,912**	17,266
Long-term assets		
Financial assets		
– loans to Group companies	**3,449,240**	3,482,822
Investments		
– investments in Group companies	**2,004,581**	2,114,581
Property, plant and equipment	**124**	782
Total long-term assets	**5,453,945**	5,598,185
Total assets	**5,469,857**	5,615,451

Company Balance Sheet (continued) as at 31 July 2018

in CHF `000	2018	2017
Liabilities		
Short-term liabilities		
Trade payable		
– to third parties	**1,470**	581
Short-term interest bearing liabilities		
– to third parties	**979,233**	2,796,852
Other short-term liabilities		
– to third parties	**197,783**	226,803
– to Group companies	**63,490**	67,935
Accrued expenses	**63,694**	29,374
Total short-term liabilities	**1,305,670**	3,121,545
Long-term liabilities		
Long-term interest-bearing liabilities		
– to third parties	**2,223,327**	590,000
Liabilities to Group companies	**278,522**	278,522
Total long-term liabilities	**2,501,849**	868,522
Total liabilities	**3,807,519**	3,990,067
Equity		
Share capital	**1,858**	1,836
Legal reserves from capital contribution	**1,030,684**	1,028,524
Legal reserves for own shares from capital contribution	**115,689**	117,871
Retained earnings	**514,107**	477,153
Total equity	**1,662,338**	1,625,384
Total equity and liabilities	**5,469,857**	5,615,451

Notes to the Company Financial Statements

1 Basis of presentation

The financial statements of ARYZTA AG, with a registered address of Talacker 41, 8001 Zurich, have been prepared in accordance with the requirements of Swiss law.

The Company's accounting period for the year is from 1 August 2017 to 31 July 2018.

2 Accounting policies

Financial Assets
Financial assets are valued at acquisition cost, less adjustments for foreign currency movements and any other impairment of value.

Investments
Investments are initially recognised at cost. These investments are assessed annually and adjusted to their recoverable amount, where necessary.

Foreign currency translation
Assets and liabilities in currencies other than Swiss francs are translated to Swiss francs using year-end rates of exchange. Income and expenses denominated in foreign currencies are recognised in Swiss francs at the applicable rate of exchange on the date of the transactions.

Dividends
Dividend income resulting from financial investments is recorded upon approval of the dividend distribution.

Revenue from licences and management fees
Revenues from licences and management fees from Group companies are recognised in the period in which they fall due.

Treasury shares
Treasury shares are recognised at acquisition cost and include shares held directly or by any ARYZTA AG Group company.

3 Full-time equivalents

The number of full-time equivalents in ARYZTA AG is not greater than 50. Please refer to page 110 of the Group Consolidated Financial Statements to view the Group's full-time equivalents.

Notes to the Company Financial Statements (continued)

4 Loans, guarantees and pledges in favour of third parties

The Company has the following outstanding bonds, which are included within interest bearing loans and borrowings.

	2018 in CHF '000	2017 in CHF '000	Interest Rate	Maturity
Hybrid Instrument 2013	**400,000**	400,000	5.3%	No specified maturity date
Hybrid Instrument 2014	**190,000**	190,000	3.5%	No specified maturity date

During July 2017, the Group agreed to the terms of a new five-year unsecured €1,800m refinancing of its Syndicated Bank RCF and term loan facility, comprising a €1,000m amortising term loan and a €800m revolving credit facility. On 22 September 2017, this financing was used to repay the existing revolving credit and term loan facilities outstanding at that time in full.

The short-term portion of the Company's interest-bearing loans and borrowings relates primarily to amounts drawn by the Company against positive cash balances of other entities within the Group's overall cash pooling arrangement. These cash pooling overdrafts are repayable on demand and form an integral part of the Group's cash and debt management structure.

The Company is party to cross guarantees on ARYZTA Group borrowings. The Company has also guaranteed the liabilities of subsidiaries within the ARYZTA Group. The Company treats these guarantees as a contingent liability, until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

5 Details of investments

The Company holds direct investments in the following entities, all of which are intermediate holding companies or intercompany financing entities within the ARYZTA Group.

Company (Domicile)		Share capital millions 2018	Share capital millions 2017	Percentage 2018	Percentage 2017
ARYZTA Holdings Asia Pacific BV (Amsterdam, NL)	EUR	**0.020**	0.020	**100**	100
ARYZTA Holdings Germany AG (Zurich, CH)	CHF	**0.100**	0.100	**100**	100
ARYZTA Holdings Ireland Limited (St Helier, JE)	EUR	**–**	–	**100**	100
ARYZTA Finance II AG (Cham, CH)	EUR	**0.087**	0.087	**100**	100
Hiestand Beteiligungsholding AG (CH) & Co. KG (Gerolzhofen, DE)[1]	EUR	**0.026**	0.026	**100**	100
ARYZTA Food Europe AG (Zurich, CH)	CHF	**6.450**	6.450	**100**	100
Summerbake GmbH (Klotze, DE)	EUR	**0.025**	0.025	**100**	100

1 The amount disclosed represents limited liability capital.

As a result of reductions in profitability within Hiestand Beteiligungsholding AG (CH) & Co. KG and its subsidiaries during recent years and reductions in estimated future profitability during the current year, the Company recorded a CHF 110,000,000 impairment of its investment in this wholly-owned subsidiary during the year ended 31 July 2018.

Notes to the Company Financial Statements (continued)

6 Share capital

	2018 `000	2018 in CHF`000	2017 `000	2017 in CHF`000
Shares of CHF 0.02 each – authorised, issued and fully paid				
As at 1 August	**91,811**	**1,836**	91,811	1,836
Issued during the year	**1,110**	**22**	–	–
As at 31 July	**92,921**	**1,858**	91,811	1,836

	2018 `000	2018 in CHF`000	2017 `000	2017 in CHF`000
Shares of CHF 0.02 each				
Conditional capital	**–**	**–**	–	–
Authorised capital	**8,071**	**161**	9,181	184

At the Annual General Meeting on 7 December 2017, the shareholders approved the resolution to modify Article 5 of the Articles of Association (Authorised capital for general purposes). The Board of Directors was authorised to exclude the subscription rights of the shareholders and to allocate them to third parties if the shares are used for the following purposes:
(1) acquisition of companies, parts of companies or equity holdings or for new investment projects or for financing of such transactions (maximum of 9,181,053 fully paid-up registered shares),
(2) broadening the shareholder constituency (maximum of 4,590,526 fully paid-up registered shares), or
(3) for the purpose of the participation of employees (maximum of 3,060,351 fully paid-up registered shares).

The dividend for the year ended 31 July 2017 was proposed to be settled as a scrip dividend via newly issued share capital, based on a ratio of one new share for every 80 shares held, and was approved at the Annual General Meeting held on 7 December 2017. Accordingly, a total of 1,110,253 new shares, with a par value of CHF 0.02 per share.

Pursuant to these modifications, and following the scrip dividend, the Board of Directors is currently authorised to increase the share capital at any time until 9 December 2019, by an amount not exceeding CHF 161,416.00, through the issue of up to a maximum of 8,070,800 fully paid-up registered shares with a nominal value of CHF 0.02 each.

The registered share capital of the Company as at 31 July 2018, amounts to CHF 1,858,415.74, and is divided into 92,920,787 registered shares with a par value of CHF 0.02 per share, of which 89,933,679 are outstanding and 2,987,108 are classified as treasury shares.

Shareholders are entitled to dividends as declared and approved. The ARYZTA shares rank pari passu in all respects with each other.

Notes to the Company Financial Statements (continued)

7 Treasury shares owned by the Company or one of its subsidiaries

	2018 `000	2018 in CHF`000	2017 `000	2017 in CHF`000
As at 1 August	**3,052**	**117,871**	3,052	117,871
Release of treasury shares upon vesting and exercise of equity entitlements	**(65)**	**(2,182)**	–	–
As at 31 July	**2,987**	**115,689**	3,052	117,871

During the year ended 31 July 2018, the performance conditions associated with 64,899 Restricted Stock Unit Plan awards were fulfilled. Therefore, these awards were approved as vested by the Remuneration Committee and were subsequently exercised by employees, in exchange for the same number of shares. The weighted average share price at the time of these exercises was CHF 28.69. These shares were issued out of shares previously held in treasury by ARYZTA Grange Company UC, a wholly-owned subsidiary within the ARYZTA AG Group.

There were no treasury share transactions during the year ended 31 July 2017.

8 Participations

As at 31 July 2018, the Company has been notified of the following shareholdings or voting rights (adjusted, where applicable, for the effects of the scrip dividend), which amount to 3% or more of the Company's issued ordinary share capital:

	Number of shares 2018	Number of shares % 2018	Number of shares 2017	Number of shares % 2017
Cobas Asset Management	**9,309,685**	**10.02%**	2,897,454	3.16%
Causeway Capital Management LLC	**6,967,763**	**7.50%**	6,881,741	7.50%
CI Financial Corp.	**4,673,420**	**5.03%**	2,843,081	3.10%
Black Creek Investment Management Inc.	**4,660,950**	**5.01%**	4,603,407	5.01%
Financière de l'Echiquier	**4,636,210**	**4.99%**	–	–
ARYZTA Treasury shares	**2,987,108**	**3.21%**	3,052,007	3.32%
BlackRock, Inc.	**2,809,135**	**3.02%**	–	–
Norges Bank	**–**	**–**	2,848,734	3.10%

Any significant shareholder notifications during the year, and since 31 July 2018, are available from the Group's website at:
www.aryzta.com/investor-centre/shareholder-notifications.

9 Pension fund liability

The pension fund liability was CHF 20,913 at 31 July 2018 (2017: CHF 17,620).

Notes to the Company Financial Statements (continued)

10 Non-executive Directors and Executive Management share interests

Please refer to the ARYZTA AG Compensation Report on pages 55 to 64 for details on the compensation process and compensation for the year of Non-executive Directors and Group Executive Management.

Non-executive Directors' and Executive Management's share interests
The Directors and Company Secretary had no interests, other than those shown below, in the ordinary shares in, or loan stock of, the Company or other Group undertakings.

Beneficial interests at 31 July were as follows:

Shares in ARYZTA at CHF 0.02 each	No. of shares 2018	No. of shares 2017
Directors		
Gary McGann	**14,700**	5,650
Chuck Adair	**5,062**	5,000
Dan Flinter	**1,215**	1,200
Annette Flynn	**1,012**	1,000
Jim Leighton[1]	–	N/A
Andrew Morgan	–	–
Kevin Toland[1]	**8,840**	N/A
Rolf Watter	**7,137**	7,050
Wolfgang Werlé[1]	**N/A**	2,336
Executive Management		
Claudio Gekker	–	N/A
John Heffernan	**1,274**	N/A
Dave Johnson	–	N/A
Pat Morrissey[2]	**N/A**	131,922
Dermot Murphy[2]	**N/A**	35,000
Anthony Murphy	–	N/A
Robert O'Boyle	**10,127**	10,000
Frederic Pflanz	–	N/A
Gregory Sklikas	–	N/A
Total	**49,367**	199,158

1 Effective 7 December 2017, W. Werlé retired from the Board and J. Leighton and K. Toland were elected to the Board.

2 During FY 2018, P. Morrissey and D. Murphy resigned from Group Executive management.

No loans or advances were made to members of the Board of Directors or to Executive Management during the financial year, or were outstanding at 31 July 2018 (2017: none).

Notes to the Company Financial Statements
(continued)

Executive Management's interests in equity instruments
Executive Management were granted no Option Equivalent Awards under the Option Equivalent Plan during FY 2018. As shown in the ARYZTA AG Compensation Report, Executive Management compensation table on page 61, no expense was recognised for Executive Management LTIP awards in FY 2018 or FY 2017.

The following table details awards outstanding under the Option Equivalent Plan in favour of Executive Management:

	Options carried forward 1 August 2017	Granted during the year	Forfeited during the year	Closing position 31 July 2018	Of which Vesting criteria have been fulfilled[1]
Executive Management					
Kevin Toland	–	–	–	–	–
Frederic Pflanz	–	–	–	–	–
John Heffernan	–	–	–	–	–
Anthony Murphy	–	–	–	–	–
Dave Johnson	–	–	–	–	–
Gregory Sklikas	–	–	–	–	–
Robert O'Boyle	32,500	–	(10,000)	22,500	22,500
Claudio Gekker	20,000	–	(20,000)	–	–
Total current executive management	**52,500**	**–**	**(30,000)**	**22,500**	**22,500**
Owen Killian	1,160,000	–	(410,000)	750,000	750,000
Patrick McEniff	910,000	–	(300,000)	610,000	610,000
Ronan Minahan	120,000	–	(120,000)	–	–
Pat Morrissey	220,000	–	(120,000)	100,000	100,000
Dermot Murphy	125,000	–	(75,000)	50,000	50,000
John Yamin	150,000	–	(150,000)	–	–
Total former executive management	**2,685,000**	**–**	**(1,175,000)**	**1,510,000**	**1,510,000**
Total current and former executive management	**2,737,500**	**–**	**(1,205,000)**	**1,532,500**	**1,532,500**

1 The weighted average exercise price of all Option Equivalent Plan awards that remain outstanding and for which the vesting conditions have been met is CHF 39.20.

Notes to the Company Financial Statements
(continued)

11 Post balance sheet events – after 31 July 2018

During September 2018, the Group received the unanimous consent its lenders to amend its existing Facilities Agreement to provide additional flexibility to pursue its new business strategy and implement a share capital increase as part of its deleveraging plan. The amendments to the Facilities Agreement include the following:

- An increase of the leverage covenant (Net Debt: EBITDA[1]) from:
  - 4.0x to 5.75x for the period ending on 31 January 2019;
  - 3.5x to 5.25x for the period ending on 31 July 2019; and
  - reverting to previous ratio of 3.5x for the periods thereafter.

- A decrease of the interest cover covenant (EBITDA: Net interest, including Hybrid dividend[1]) from:
  - 3.0x to 2.0x for the period ending on 31 January 2019;
  - 3.0x to 2.0x for the period ending on 31 July 2019; and
  - reverting to 3.0x for the periods thereafter.

- A margin increase to:
  - 3.5% until 31 December 2018; and
  - 4.0% from 1 January 2019.

Upon the successful completion of the proposed equity raise, the above conditions revert to the conditions as per the Facilities Agreement. If the proposed equity raise has not successfully completed by 31 May 2019, there will be an additional test of the covenants as of the twelve month period ending 31 October 2019.

1 Calculated as per Syndicated Bank Facilities Agreement terms.

Company Appropriation of Available Earnings

Appropriation of available earnings

The Board of Directors will propose to the Annual General Meeting of Shareholders the following appropriation of earnings:

in CHF `000	2018	2017
Balance of retained earnings carried forward	**477,153**	348,334
Net profit for the year	**36,954**	128,819
Closing balance of retained earnings	**514,107**	477,153
Dividend payment from retained earnings	**–**	–
Balance of retained earnings to be carried forward	**514,107**	477,153

Report of the statutory auditor to the General Meeting of ARYZTA AG on the financial statements 2018

Opinion

We have audited the financial statements of ARYZTA AG, which comprise the balance sheet as at 31 July 2018, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 159 to 168) as at 31 July 2018 comply with Swiss law and the company's articles of incorporation.

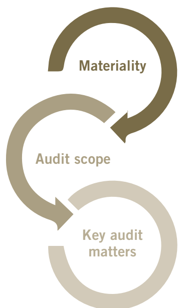
Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall materiality: CHF 27.8 million

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter the following area of focus has been identified:

– Valuation of investments in subsidiaries

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality	CHF 27.8 million
How we determined it	0.5% of total assets, rounded
Rationale for the materiality benchmark applied	We chose total assets as the measure because, in our view, it is the benchmark that is most relevant for a holding company that mainly holds investments and is not profit oriented, and is a generally accepted benchmark according to auditing standards.

Report of the statutory auditor to the General Meeting of ARYZTA AG on the financial statements 2018 (continued)

We agreed with the Audit Committee that we would report to them misstatements above CHF 2.78 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investments in subsidiaries

Key audit matter	How our audit addressed the key audit matter
Investments in subsidiaries total CHF 2.0 billion (36.6% of total assets) as of 31 July 2018. Investments are carried at initial cost value and are subject to an annual impairment assessment. To identify indicators of impairment of investments, management compared the carrying value of the investments with the investee's net assets. For investments with indicators of impairment, management prepared an estimate of the recoverable amount using cash flow projections subject to scrutiny and approval by the Board of Directors of ARYZTA AG. In general discrete valuation is made for each single investment. Certain investments are subject to a group valuation approach due to their homogeneous nature. As a result of the current year assessment, the investments in subsidiaries balance was reduced by CHF 110 million. We consider the valuation of investments as a particularly significant area due to the size of the carrying value and judgement involved in assessing the recoverability of these assets. The valuation methods used involve considerable judgment with respect to assumptions about the future performance of the business.	We evaluated and tested management's process to identify impairment indicators by reperforming the comparison for an appropriate sample of investments. We evaluated and challenged the reasonableness of the key assumptions applied by management in its determination of the recoverable amount, specifically: – Cash flow projections in the forecast, by comparing them to the budgets rolled up into the strategic plan approved by the Board of Directors of Aryzta AG. – Assessment of prior year forecast accuracy by comparing actual results with the figures included in the prior year budgets. – Mid and long term growth rates, by comparing them to economic and industry forecasts. – Discount rate, by assessing the cost of capital for the company. We performed our own sensitivity analysis around key assumptions to ascertain the extent of change in those assumptions that either individually or collectively would be result in the investments being impaired. Based on the work performed, we found that the assessments were consistently performed and were based on reasonable assumptions to determine that the investments are recoverable, or that the resulting adjustment to their recoverable amount calculated by management was reasonable.

Report of the statutory auditor to the General Meeting of ARYZTA AG on the financial statements 2018 (continued)

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

Report of the statutory auditor to the General Meeting of ARYZTA AG on the financial statements 2018 (continued)

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

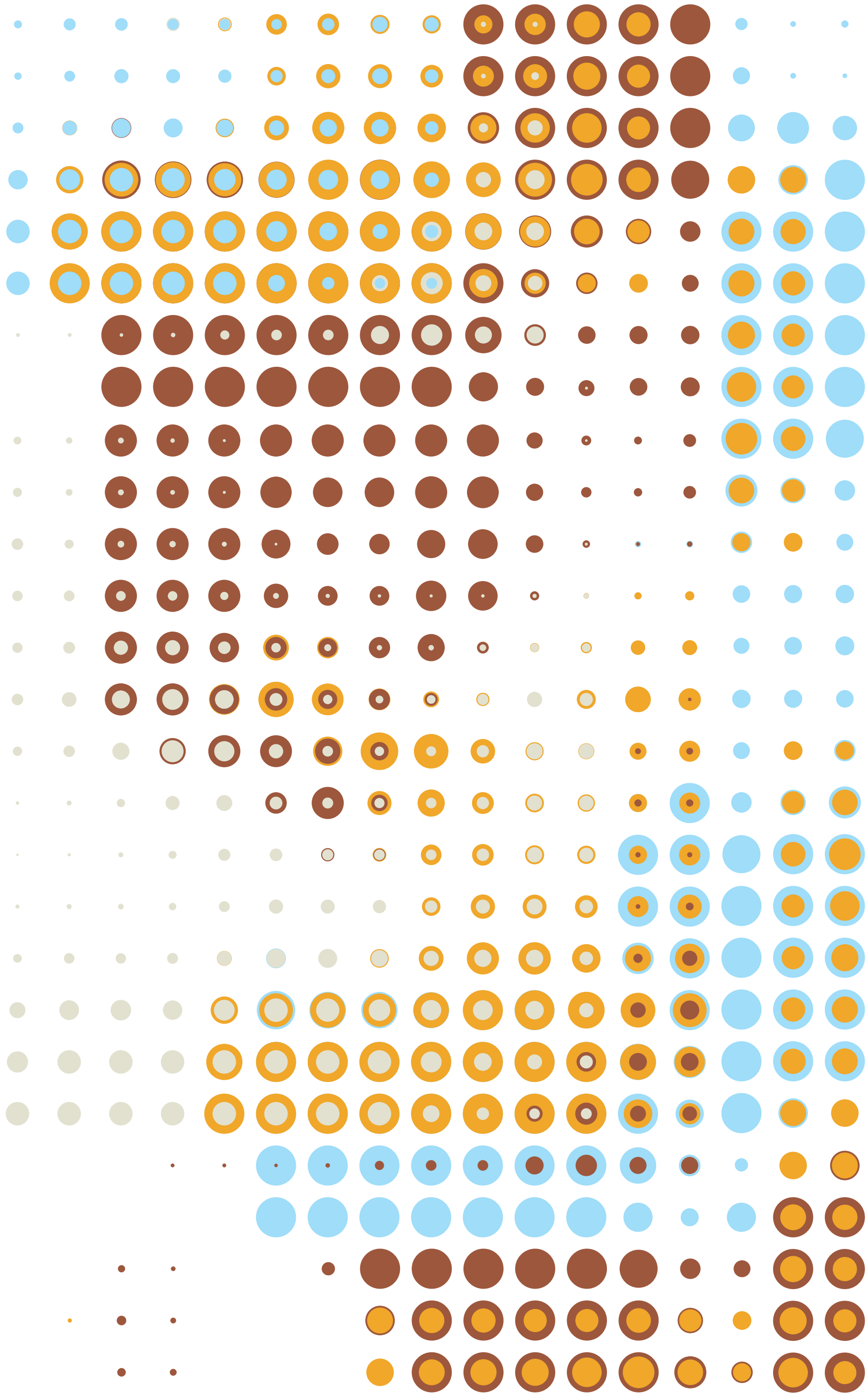
We recommend that the financial statements submitted to you be approved.

pwc PricewaterhouseCoopers AG

Sandra Böhm
Audit expert
Auditor in charge

Carrie Rohner

Zurich, 1 October 2018



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Key dates to September 2019

Annual General Meeting 2018	1 November 2018
First-quarter trading update	26 November 2018
Announcement of half-year results 2019	11 March 2019
Third-quarter trading update	28 May 2019
Announcement of the 2019 annual results	30 September 2019

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