
Annual Report and Accounts 2017

Group Consolidated and Company Financial Statements 2017

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Statement of Directors' Responsibilities for the year ended 31 July 2017

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



Annette Flynn
Chair, Audit Committee
Member of the Board of Directors

21 September 2017

Group Consolidated Income Statement for the year ended 31 July 2017

in EUR '000	Notes	2017	2016
Continuing Operations			
Revenue	1	3,796,770	3,878,871
Cost of sales		(2,766,136)	(2,654,228)
Distribution expenses		(411,702)	(414,410)
Gross profit		618,932	810,233
Selling expenses		(202,747)	(188,656)
Administration expenses		(628,833)	(410,065)
Impairment of goodwill	14	(594,872)	–
Operating (loss)/profit	1	(807,520)	211,512
Share of profit after interest and tax of joint ventures	15	38,380	11,716
(Loss)/profit before financing income, financing costs and income tax	3	(769,140)	223,228
Financing income	4	3,821	3,526
Financing costs	4	(62,272)	(106,706)
Private placement early redemption	21	(182,513)	–
(Loss)/profit before income tax		(1,010,104)	120,048
Income tax credit/(expense)	9	103,966	(4,543)
(Loss)/profit for the year from continuing operations		(906,138)	115,505
Discontinued operations			
Loss for the year from discontinued operations	2	–	(45,721)
(Loss)/profit for the year		(906,138)	69,784
Attributable as follows:			
Equity shareholders - continuing operations		(907,773)	112,729
Equity shareholders - discontinued operations		–	(45,721)
Equity shareholders - total		(907,773)	67,008
Non-controlling interests - continuing operations	27	1,635	2,776
(Loss)/profit for the year		(906,138)	69,784
Basic (loss)/earnings per share			
	Notes	2017 euro cent	2016 euro cent
From continuing operations	11	(1,058.9)	91.1
From discontinued operations	11	–	(51.5)
	11	(1,058.9)	39.6
Diluted (loss)/earnings per share			
	Notes	2017 euro cent	2016 euro cent
From continuing operations	11	(1,058.9)	90.9
From discontinued operations	11	–	(51.4)
	11	(1,058.9)	39.5

The notes on pages 76 to 147 are an integral part of these Group consolidated financial statements.

Group Consolidated Statement of Comprehensive Income for the year ended 31 July 2017

in EUR '000	Notes	2017	2016
(Loss)/profit for the year		(906,138)	69,784
Other comprehensive (loss)/income			
Items that may be reclassified subsequently to profit or loss:			
Foreign exchange translation effects			
– Foreign currency net investments		(76,617)	(49,548)
– Foreign currency borrowings	21	59,716	36,027
– Taxation effect of foreign exchange translation movements	9	(1,532)	198
Cash flow hedges			
– Effective portion of changes in fair value of cash flow hedges		9,036	5,747
– Fair value of cash flow hedges transferred to income statement		6,991	(7,380)
– Deferred tax effect of cash flow hedges	9	(1,647)	376
Share of joint ventures' other comprehensive income	15	180	304
Total of items that may be reclassified subsequently to profit or loss		(3,873)	(14,276)
Items that will not be reclassified to profit or loss:			
Defined benefit plans			
– Actuarial gain/(loss) on Group defined benefit pension plans	25	6,135	(462)
– Deferred tax effect of actuarial (gain)/loss	9	(1,204)	(23)
Total of items that will not be reclassified to profit or loss		4,931	(485)
Total other comprehensive income/(loss)		1,058	(14,761)
Total comprehensive (loss)/income for the year		(905,080)	55,023
Attributable as follows:			
Equity shareholders		(907,313)	53,757
Non-controlling interests	27	2,233	1,266
Total comprehensive (loss)/income for the year		(905,080)	55,023

The notes on pages 76 to 147 are an integral part of these Group consolidated financial statements.

Group Consolidated Balance Sheet as at 31 July 2017

in EUR '000	Notes	2017	2016
Assets			
Non-current assets			
Property, plant and equipment	12	1,386,294	1,594,885
Investment properties	13	19,952	24,787
Goodwill and intangible assets	14	2,651,937	3,617,194
Investments in joint ventures	15	528,188	491,446
Receivables from joint ventures	17	–	3,956
Deferred income tax assets	24	158,767	133,176
Total non-current assets		4,745,138	5,865,444
Current assets			
Inventory	16	252,162	248,719
Trade and other receivables	17	164,271	168,595
Derivative financial instruments	22	4,311	669
Cash and cash equivalents	20	535,570	647,724
Total current assets		956,314	1,065,707
Total assets		5,701,452	6,931,151

The notes on pages 76 to 147 are an integral part of these Group consolidated financial statements.

Group Consolidated Balance Sheet (continued) as at 31 July 2017

in EUR '000	Notes	2017	2016
Equity			
Called up share capital	26	1,172	1,172
Share premium		774,040	774,040
Retained earnings and other reserves		1,426,440	2,397,460
Total equity attributable to equity shareholders		2,201,652	3,172,672
Non-controlling interests	27	–	15,099
Total equity		2,201,652	3,187,771
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	21	383,242	1,963,709
Employee benefits	25	6,644	13,470
Deferred income from government grants	23	18,280	23,945
Other payables	18	36,278	37,678
Deferred income tax liabilities	24	353,164	457,634
Derivative financial instruments	22	704	4,618
Total non-current liabilities		798,312	2,501,054
Current liabilities			
Interest-bearing loans and borrowings	21	1,886,198	403,632
Trade and other payables	18	750,511	778,621
Income tax payable		63,283	49,118
Derivative financial instruments	22	1,496	9,939
Contingent consideration	19	–	1,016
Total current liabilities		2,701,488	1,242,326
Total liabilities		3,499,800	3,743,380
Total equity and liabilities		5,701,452	6,931,151

The notes on pages 76 to 147 are an integral part of these Group consolidated financial statements.

Group Consolidated Statement of Changes in Equity

for the year ended 31 July 2017

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 trans- lation reserve	Retained earnings	Total share- holders equity	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 (note 10)	-	-	-	-	-	-	-	(47,595)	(47,595)	-	(47,595)
Dividends to non-controlling interests (note 27)	-	-	-	-	-	-	-	-	-	(3,350)	(3,350)
Dividends on perpetual callable subordinated instruments (note 26)	-	-	-	-	-	-	-	(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 (note 27)	-	-	-	-	-	-	-	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 76 to 147 are an integral part of these Group consolidated financial statements.

Group Consolidated Statement of Changes in Equity (continued) for the year ended 31 July 2017

31 July 2016 in EUR '000	Share capital	Share premium	Treasury shares	Other equity reserve	Cash flow hedge reserve	Share- based payment reserve	Foreign currency trans- lation reserve	Retained earnings	Total share- holders equity	Non controlling interests	Total
At 1 August 2015	1,172	774,040	(47)	720,456	(10,264)	-	(5,153)	1,723,303	3,203,507	18,436	3,221,943
Profit for the year	-	-	-	-	-	-	-	67,008	67,008	2,776	69,784
Other comprehensive (loss)/income	-	-	-	-	(1,257)	-	(12,961)	967	(13,251)	(1,510)	(14,761)
Total comprehensive (loss)/ income	-	-	-	-	(1,257)	-	(12,961)	67,975	53,757	1,266	55,023
Equity dividends (note 10)	-	-	-	-	-	-	-	(52,710)	(52,710)	-	(52,710)
Dividends to non-controlling interests (note 27)	-	-	-	-	-	-	-	-	-	(4,603)	(4,603)
Dividends on perpetual callable subordinated instruments (note 26)	-	-	-	-	-	-	-	(31,882)	(31,882)	-	(31,882)
Total transactions with owners recognised directly in equity	-	-	-	-	-	-	-	(84,592)	(84,592)	(4,603)	(89,195)
At 31 July 2016	1,172	774,040	(47)	720,456	(11,521)	-	(18,114)	1,706,686	3,172,672	15,099	3,187,771

The notes on pages 76 to 147 are an integral part of these Group consolidated financial statements.

Group Consolidated Cash Flow Statement for the year ended 31 July 2017

in EUR '000	Notes	2017	2016
Cash flows from operating activities			
(Loss)/profit for the year from continuing operations		(906,138)	115,505
Income tax (credit)/expense	9	(103,966)	4,543
Financing income	4	(3,821)	(3,526)
Financing costs	4	62,272	106,706
Private placement early redemption	21	182,513	–
Share of profit after interest and tax of joint ventures	15	(38,380)	(11,716)
Asset disposals and impairments	3	859,716	13,794
Other restructuring-related payments (in excess of) / less than current year costs		(14,982)	1,618
Depreciation of property, plant and equipment	1	126,308	112,030
Amortisation of intangible assets	1	191,329	188,984
Recognition of deferred income from government grants	23	(5,665)	(3,098)
Share-based payments	8	2,005	–
Other		(4,315)	(4,332)
Cash flows from operating activities before changes in working capital		346,876	520,508
Increase in inventory		(18,038)	(16,223)
Decrease in trade and other receivables		2,172	80,902
Increase in trade and other payables		38,245	30,165
Cash generated from operating activities		369,255	615,352
Income tax paid		(13,381)	(18,369)
Net cash flows from operating activities		355,874	596,983

The notes on pages 76 to 147 are an integral part of these Group consolidated financial statements.

Group Consolidated Cash Flow Statement (continued) for the year ended 31 July 2017

in EUR '000	Notes	2017	2016
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		21,696	1,030
Proceeds from sale of investment property		14,522	–
Purchase of property, plant and equipment		(91,552)	(184,019)
Grants received	23	–	10,045
Investment in joint venture	15	–	(450,732)
Acquisitions of businesses, net of cash acquired	29	–	(26,447)
Proceeds from disposal of Origin, net of cash disposed	2	–	225,101
Disposal of businesses, net of cash disposed	3	–	42,060
Purchase of intangible assets		(11,025)	(29,916)
Net receipts from joint ventures	15	3,277	21,509
Contingent consideration paid	19	(896)	(46,916)
Net cash flows from investing activities		(63,978)	(438,285)
Cash flows from financing activities			
Gross drawdown of loan capital	21	1,226,778	290,887
Gross repayment of loan capital	21	(1,209,472)	(43,903)
Private placement early redemption and related cash costs	21	(175,647)	–
Interest paid		(65,635)	(98,934)
Interest received		4,388	3,331
Capital element of finance lease liabilities	21	(1,022)	(26)
Purchase of non-controlling interests	27	(14,485)	–
Dividends paid to non-controlling interests	27	(3,350)	(4,603)
Dividends paid on perpetual callable subordinated instruments		(32,115)	(31,788)
Dividends paid to equity shareholders		(47,595)	(52,710)
Net cash flows from financing activities		(318,155)	62,254
Net (decrease)/increase in cash and cash equivalents	21	(26,259)	220,952
Translation adjustment	21	(20,774)	(12)
Net cash and cash equivalents at start of year	21	468,973	248,033
Net cash and cash equivalents at end of year	21	421,940	468,973

The notes on pages 76 to 147 are an integral part of these Group consolidated financial statements.

Group Statement of Accounting Policies

for the year ended 31 July 2017

Organisation

ARYZTA AG (the 'Company') is domiciled and incorporated in Zurich, Switzerland. The consolidated financial statements for the year ended 31 July 2017 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 preliminarily authorised for issue by the directors on 21 September 2017. Final approval of these financial statements was granted by the directors on 2 October 2017, subject to approval by the shareholders at the General Meeting on 7 December 2017.

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 2016. 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 IFRS 10 – Consolidated financial statements
- Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 1 – Disclosure initiative
- Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortisation
- Amendments to IAS 28 – Investments in associates and joint ventures
- Improvements to IFRSs (2012-2014)

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 2016 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 2017

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)
Amendments to IAS 7 – Disclosure initiative	1 January 2017	2018
Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	2018
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
IAS 40 – Investment Property	1 January 2018	2019
Improvements to IFRSs (2014 - 2016)	1 January 2018	2019
IFRIC 22 – Foreign Currency Transactions and Advance Consideration	1 January 2018	2019
IFRIC 23 – Uncertainty over Income Tax Treatments	1 January 2019	2020
IFRS 16 – Leases	1 January 2019	2020

The Group has undertaken an initial assessment of the potential impact of the new standards, amendments and improvements listed above that become effective during the year ending 31 July 2018. Based on this initial assessment, the Group does not currently believe that the adoption of these standards, amendments and interpretations will have a significant impact on the consolidated results or financial position of the Group.

Group Statement of Accounting Policies (continued) for the year ended 31 July 2017

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 34.

As of 31 July 2017, all outstanding amounts on the Group's Syndicated Bank RCF and Term Loan borrowings have been presented as current liabilities within the Group Consolidated Balance Sheet, reflecting the Group's obligation to repay those facilities within the next 12 months.

While this results in total current liabilities of €2,701,488,000 being greater than total current assets of €956,314,000 as of 31 July 2017, during September 2017 the Group utilised its new five-year unsecured €1,800,000,000 banking agreement to settle all amounts outstanding on the Group's previous Syndicated Bank RCF and Term Loan, resulting in current liabilities decreasing to less than current assets. Therefore, the Group's 31 July 2017 financial statements have continued to be prepared on a going concern basis.

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 impairment of goodwill. In accordance with IAS 1.85, impairment of goodwill has been presented separately on the basis of materiality and to distinguish it from other elements of financial performance.

Management has also identified certain impairment, acquisition, 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 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 2017

Reclassifications and adjustments

The Group has historically recorded net interest cash flows within 'Net cash flows from operating activities' on the Group Consolidated Cash Flow Statement. During the current year, the Group has reviewed this accounting policy to ensure it best represents the function of interest cost within the entity and that the Group's accounting policies are aligned with companies within its peer group. As a result, the Group believes net interest cash flows more appropriately represent the cost of obtaining financial resources utilised within the business and therefore, in accordance with IAS 7, Statement of Cash Flows, has elected to report net interest cash flows within 'Net cash flows from financing activities'.

As the change in accounting policy must be reported retrospectively, the Group has adjusted all prior year comparative amounts impacted by this change in accounting policy and a comparison of the impact of this change is summarised as follows:

in EUR `000	After accounting policy change 2016	Before accounting policy change 2016
Net cash flows from operating activities	596,983	501,380
Net cash flows from investing activities	(438,285)	(438,285)
Net cash flows from financing activities	62,254	157,857
Net increase in cash and cash equivalents	220,952	220,952
Translation adjustment	(12)	(12)
Net cash and cash equivalents at start of year	248,033	248,033
Net cash and cash equivalents at end of year	468,973	468,973

Certain other amounts in the 31 July 2016 Group consolidated financial statement figures and related notes have been reclassified or adjusted to conform to the 31 July 2017 presentation. These other reclassifications or adjustments were made for presentation purposes to better align the Group's financial statement presentation to a more commonly used approach and have no effect on total revenues, expenses, profit/(loss) for the year, total assets, total liabilities, total equity or total cash flow classifications as previously reported.

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.

Group Statement of Accounting Policies (continued) for the year ended 31 July 2017

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 all 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.

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.

Group Statement of Accounting Policies (continued) for the year ended 31 July 2017

Non-current assets held for sale

Non-current assets are classified as assets held for sale or related to discontinuing operations when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable within the next 12 months. They are stated at the lower of carrying amount and fair value, less costs to sell.

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, 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.

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 year-end was comprised of the Board of Directors. Along with this change in the CODM, changes to the way the business was managed were put into place, including an increased focus on EBITDA, as defined within note 1, as the key performance metric of the Group and its stakeholders. As such, management has revised the presentation of note 1 to reflect this change.

As reflected in those reports, the continuing 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.

Origin was consolidated up until the placing of 49 million shares in March 2015, which reduced ARYZTA's holding from 68.1% to 29.0%. Thereafter, Origin was accounted for as an associate held-for-sale, until the remaining holding of 29.0% was disposed in September 2015.

Group Statement of Accounting Policies (continued) for the year ended 31 July 2017

ARYZTA Europe has leading market positions in the European speciality 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 speciality 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.

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

Group Statement of Accounting Policies (continued) for the year ended 31 July 2017

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.

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 that it is no longer probable that 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 2017

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 that 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 2017	Average 2016	% Change	Closing 2017	Closing 2016	% Change
CHF	1.0818	1.0905	0.8%	1.1340	1.0855	(4.5)%
USD	1.0938	1.1106	1.5%	1.1756	1.1162	(5.3)%
CAD	1.4483	1.4748	1.8%	1.4674	1.4562	(0.8)%
GBP	0.8633	0.7602	(13.6)%	0.8933	0.8399	(6.4)%

Group Statement of Accounting Policies (continued) for the year ended 31 July 2017

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 2017

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.

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.

Group Statement of Accounting Policies (continued) for the year ended 31 July 2017

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 25 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.

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

Group Statement of Accounting Policies (continued) for the year ended 31 July 2017

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 cash and cash equivalents for the purpose of the Group Consolidated Cash Flow Statement.

Group Statement of Accounting Policies (continued) for the year ended 31 July 2017

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.

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

Group Statement of Accounting Policies (continued) for the year ended 31 July 2017

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.

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.

Group Statement of Accounting Policies (continued) for the year ended 31 July 2017

Other equity reserve

Perpetual callable subordinated instruments are recognised within other equity reserves, net of attributable transaction costs. These amounts are maintained within other equity reserves at historical cost, until such time that management and the Board of Directors have approved the settlement of such amounts. Any difference between the amount paid upon settlement of instruments without a maturity date and the historical cost is recognised directly within retained earnings. Dividends associated with these instruments are recognised directly within retained earnings.

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 2017

1 Segment information

1.1 Analysis by business segment

I) Segment revenue and result in EUR '000	ARYZTA Europe		ARYZTA North America		ARYZTA Rest of World		ARYZTA Group	
	2017	2016	2017	2016	2017	2016	2017	2016
Segment revenue¹	1,738,593	1,747,045	1,799,059	1,908,147	259,118	223,679	3,796,770	3,878,871
EBITDA ²	211,128	275,099	170,096	300,132	39,083	34,409	420,307	609,640
Depreciation	(54,009)	(50,143)	(62,909)	(53,276)	(9,390)	(8,611)	(126,308)	(112,030)
ERP Amortisation	(9,955)	(9,179)	(6,734)	(3,564)	–	–	(16,689)	(12,743)
EBITA	147,164	215,777	100,453	243,292	29,693	25,798	277,310	484,867
Amortisation of other intangible assets	(57,816)	(78,192)	(108,765)	(90,114)	(8,059)	(7,935)	(174,640)	(176,241)
Gain/(loss) on disposal of businesses	–	(4,987)	–	5,980	–	–	–	993
Impairment of goodwill	(103,000)	–	(491,872)	–	–	–	(594,872)	–
Impairment of intangible assets	–	–	(138,642)	–	–	–	(138,642)	–
Impairment and disposal of fixed assets	(1,320)	(5,040)	(126,414)	(9,747)	1,532	–	(126,202)	(14,787)
Acquisition and restructuring costs	(11,682)	(57,115)	(37,639)	(24,457)	(1,153)	(1,748)	(50,474)	(83,320)
Operating (loss)/profit³	(26,654)	70,443	(802,879)	124,954	22,013	16,115	(807,520)	211,512
Share of profit after interest and tax of joint ventures ⁴							38,380	11,716
Financing income ⁴							3,821	3,526
Financing costs ⁴							(62,272)	(106,706)
Private placement early redemption ⁴							(182,513)	–
(Loss)/profit before income tax as reported in Group Consolidated Income Statement							(1,010,104)	120,048

1 Revenues from external customers attributed to the Group's country of domicile, Switzerland, are 6.7% (2016: 7.0%) of total Group revenues. Revenues from external customers attributed to material foreign countries are United States 38.6% (2016: 40.0%), Germany 15.5% (2016: 15.0%) and Canada 8.8% (2016: 9.2%). For the purposes of this analysis, customer revenues are allocated based on geographic location of vendor. As is common in this industry, the Group has a large number of customers, of which one customer accounted for 10% of total Group revenues across all ARYZTA operating segments during the year ended 31 July 2017.

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

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

4 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 2017

II) Segment assets	ARYZTA Europe		ARYZTA North America		ARYZTA Rest of World		ARYZTA Group	
	2017	2016	2017	2016	2017	2016	2017	2016
in EUR '000								
Segment assets	2,172,161	2,411,081	2,125,089	2,967,117	266,088	275,982	4,563,338	5,654,180

Reconciliation to total assets as reported in the Group Consolidated Balance Sheet

Investments in joint ventures and related financial assets							528,188	495,402
Derivative financial instruments							4,311	669
Cash and cash equivalents							535,570	647,724
Deferred income tax assets							70,045	133,176
Total assets as reported in Group Consolidated Balance Sheet							5,701,452	6,931,151

III) Segment liabilities	ARYZTA Europe		ARYZTA North America		ARYZTA Rest of World		ARYZTA Group	
	2017	2016	2017	2016	2017	2016	2017	2016
in EUR '000								
Segment liabilities	495,550	508,256	415,041	479,005	72,378	78,104	982,969	1,065,365

Reconciliation to total liabilities as reported in the Group Consolidated Balance Sheet

Interest-bearing loans and borrowings							2,269,440	2,367,341
Derivative financial instruments							2,200	14,557
Current and deferred income tax liabilities							245,191	296,117
Total liabilities as reported in Group Consolidated Balance Sheet							3,499,800	3,743,380

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

IV) Other segment information in EUR `000	ARYZTA Europe		ARYZTA North America		ARYZTA Rest of World		ARYZTA Group	
	2017	2016	2017	2016	2017	2016	2017	2016
Capital expenditure								
– Property, plant and equipment	49,352	108,420	33,253	64,976	10,348	10,916	92,953	184,312
– Intangibles	4,417	14,273	3,180	16,364	730	65	8,327	30,702
Total capital expenditure	53,769	122,693	36,433	81,340	11,078	10,981	101,280	215,014

1.2 Segmental non-current assets

in EUR `000	ARYZTA Europe		ARYZTA North America		ARYZTA Rest of World		ARYZTA Group	
	2017	2016	2017	2016	2017	2016	2017	2016
IFRS 8 non-current assets ¹	2,505,768	2,750,410	1,851,671	2,737,659	228,932	244,199	4,586,371	5,732,268

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. Non-current assets attributed to the Group's country of domicile, Switzerland, are 6.4% of total Group non-current assets (2016: 5.9%). Non-current assets attributed to material foreign countries are: United States 25.7% (2016: 35.9%), Germany 15.8% (2016: 13.9%) and Canada 14.7% (2016: 11.8%).

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

2 Discontinued operations

During September 2015, ARYZTA announced the completion of its offering of its remaining 36.3 million ordinary shares of Origin for €6.30 per share, which raised net proceeds for ARYZTA of €225,101,000. As the fair value of the 29.0% investment in associate held-for-sale at 31 July 2015 was €270,870,000, this resulted in a net loss on disposal in the year ended 31 July 2016 of €45,769,000.

In accordance with IFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations', as Origin previously represented a significant component and separately reported segment of the Group, Origin's results have been separately presented in the Group Financial Statements as Discontinued Operations, up to the date of disposal.

Analysis of the result of discontinued operations, including the loss recognised on disposal of the associate held-for-sale, is as follows:

in EUR `000	2017	2016
Underlying contribution associate held-for-sale	–	48
Cash received, net of transaction costs	–	225,101
Carrying value of 29% interest disposed	–	(270,870)
Loss for the year from discontinued operations	–	(45,721)

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

3 Impairment, acquisition, 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, acquisition, 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	2017				2016			
	IFRS Income Statement	Impairment, acquisition, disposal and restructuring- related costs	Intangible amortisation	Financial Business Review	IFRS Income Statement	Impairment, acquisition, disposal and restructuring- related costs	Intangible amortisation	Financial Business Review
Revenue	3,796,770	–	–	3,796,770	3,878,871	–	–	3,878,871
Cost of sales	(2,766,136)	71,391	–	(2,694,745)	(2,654,228)	32,484	–	(2,621,744)
Distribution expenses	(411,702)	18	–	(411,684)	(414,410)	3,983	–	(410,427)
Gross profit	618,932	71,409	–	690,341	810,233	36,467	–	846,700
Selling expenses	(202,747)	1,336	–	(201,411)	(188,656)	5,040	–	(183,616)
Administration expenses	(628,833)	242,573	174,640	(211,620)	(410,065)	55,607	176,241	(178,217)
Impairment of goodwill (note 14)	(594,872)	594,872	–	–	–	–	–	–
Operating (loss)/profit / EBITA as per Financial Business Review	(807,520)	910,190	174,640	277,310	211,512	97,114	176,241	484,867
Joint Ventures	38,380	(20,660)	3,561	21,281	11,716	804	3,162	15,682
(Loss)/profit before financing income, financing costs and income tax	(769,140)	889,530	178,201	298,591	223,228	97,918	179,403	500,549

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

During the year ended 31 July 2017, the Group incurred the following impairment, acquisition, 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 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.

in EUR `000	Notes	ARYZTA Europe		ARYZTA North America		ARYZTA Rest of World		ARYZTA Group	
		2017	2016	2017	2016	2017	2016	2017	2016
Net gain/(loss) on disposal of businesses	3.1	-	(4,987)	-	5,980	-	-	-	993
Impairment of goodwill (note 14)	3.2	(103,000)	-	(491,872)	-	-	-	(594,872)	-
Impairment of intangibles (note 14)	3.3	-	-	(138,642)	-	-	-	(138,642)	-
Impairment and disposal of fixed assets	3.4	(1,320)	(5,040)	(126,414)	(9,747)	1,532	-	(126,202)	(14,787)
Total net gain/(loss) on disposal of businesses and asset write-downs		(104,320)	(10,027)	(756,928)	(3,767)	1,532	-	(859,716)	(13,794)
Acquisition-related costs		-	(2,330)	-	-	-	-	-	(2,330)
Labour-related business interruption		-	-	(16,349)	-	-	-	(16,349)	-
Severance and other staff-related costs		(9,423)	(48,314)	(10,791)	(15,614)	(1,153)	(1,519)	(21,367)	(65,447)
Contractual obligations		(762)	(1,402)	(6,533)	(5,305)	-	(31)	(7,295)	(6,738)
Advisory and other costs		(1,497)	(5,069)	(3,966)	(3,538)	-	(198)	(5,463)	(8,805)
Total acquisition and restructuring-related costs	3.5	(11,682)	(57,115)	(37,639)	(24,457)	(1,153)	(1,748)	(50,474)	(83,320)
Total impairment, acquisition, disposal and restructuring-related costs		(116,002)	(67,142)	(794,567)	(28,224)	379	(1,748)	(910,190)	(97,114)

3.1 Net gain / (loss) on disposal of businesses

During the year ended 31 July 2016, the Group disposed of two businesses, which historically generated approximately €100,000,000 in total annual revenues. As the €42,060,000 proceeds received, net of associated transaction costs, exceeded the €41,067,000 carrying value of the net assets disposed (including €20,573,000 of goodwill), a net gain on disposal of €993,000 was reflected in the financial statements.

3.2 Impairment of goodwill

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

Current year profitability associated with these locations has been significantly impacted, either by the consolidation of 225 SKUs into the new German bakery capacity in Eisleben and the ongoing commissioning and optimisation of that facility, or by the significant volume declines and increased labour costs in North America.

While profitability in each of these locations is expected to improve in the future, after considering goodwill and other assets within these locations, as well as the respective future cash flow projections, management determined it was appropriate to record these goodwill impairment charges during the current financial year.

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

Despite these impairments, the bakeries remain world class production facilities and are 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 on page 109.

3.3 Impairment of intangibles

As outlined in note 3.2 above, 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 completed during FY 2014, the Group reviewed the remaining customer relationship and brand-related intangible assets obtained as part of that acquisition and, based on the associated future cash flows, recorded a €138,642,000 impairment of those intangible assets (see note 14) 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 North America CGU goodwill impairment testing, as disclosed in note 14.

As of 31 July 2017, the remaining net book values of these specific intangible assets are: €17,013,000 for Cloverhill customer relationships and €6,805,000 for Cloverhill brands.

3.4 Impairment and disposal of fixed assets

During the year ended 31 July 2017, the Group incurred €126,202,000 (2016: €14,787,000) on impairment and disposal of fixed assets.

These amounts primarily related to the impairment of various distribution, manufacturing, and administration assets within the ARYZTA North America segment, 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 have either lost significant activity during the year or which are not projected to achieve sufficient future profitability to recover their carrying value.

Separately, an impairment loss of €1,320,000 was recorded in Europe, primarily related to obsolete production equipment in Switzerland, while a gain of €1,532,000 was recorded in the Rest of World segment, primarily arising from the sale of land.

Of these amounts, €46,824,000 has been reflected within Cost of Sales.

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

3.5 Acquisition and restructuring-related costs

While there were no acquisitions during the year ended 31 July 2017, the Group underwent considerable restructuring-related activity during the year, following the significant reductions in profitability in Germany and North America and departure of four members of Group Executive management.

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:

Acquisition-related costs

During the year ended 31 July 2016, the Group incurred acquisition-related costs such as share purchase tax, due diligence and other professional services fees totalling €2,330,000, primarily related to activities associated with the Group's acquisition of La Rousse Foods, a supplier of fresh, frozen and ambient goods to various restaurants, hotels and caterers in Ireland and the finalisation of the Group's joint venture investment in Picard.

Labour-related business disruption

During the year, the Group encountered a significant labour-related business disruption at its Cloverhill facilities.

A substantial number of the legacy labour force at these facilities was 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 in Q4-2017 and being progressively replaced with new hires. By merit of these employees being agency workers, ARYZTA did not have the ability to verify documentation of these workers, and the immediacy and extent of the risk that existed was not known to the board.

As these individuals had significant knowledge and experience of the baking process and represented over one-third of the workforce at these facilities, there has been a significant decrease in the labour efficiency and production volumes, as well as an impact on increased waste levels 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 within Cost of Sales during June and July 2017. The facility is expected to return to profitability in FY18, but will be loss making for a number of months until then.

Severance and other staff-related costs

The Group provided for a total of €21,367,000 in severance and other staff-related costs during the year ended 31 July 2017. Of this amount €10,368,000 has been recognised in relation to the remaining contractual employment period and the 12-month post contractual term non-compete agreements with four former members of Executive Management, who left the business during the year.

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

The remaining €10,999,000 of costs recognised during the year represent severance costs arising from a number of production, distribution and administrative rationalisations, as well as amounts in respect of key employee retention agreements implemented following the Executive Management departures during the year.

During financial year 2016, the Group incurred €65,447,000 related to costs associated with employees whose service was discontinued following certain rationalisation decisions across the various business locations of the Group, primarily in Europe.

Contractual obligations

The operational decisions made as a result of the Group's integration and rationalisation projects resulted in certain long-term operational contracts becoming onerous. During the year ended 31 July 2017, the Group incurred total costs of €7,295,000 (2016: €6,738,000) to provide for certain long-term contracts determined to be surplus to the Group's operating requirements. Of these amounts, €6,424,000 has been reflected within Cost of Sales. 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 costs and other costs

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

During the year ended 31 July 2016, the Group incurred €8,805,000 in advisory and other costs related directly to the rationalisation of certain bakery assets, integration of the supply chain and distribution functions of recently acquired businesses into the Group's network and costs associated with centralisation of certain administrative functions.

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

4 Financing income and costs

in EUR `000	2017	2016
Financing income		
Total financing income recognised in Group Consolidated Income Statement	3,821	3,526
Financing costs		
Interest cost on bank loans and overdrafts	(62,140)	(106,475)
Interest cost under finance leases	(81)	(98)
Defined benefit plan: net interest cost on plan liabilities (note 25)	(51)	(133)
Total financing costs recognised in Group Consolidated Income Statement	(62,272)	(106,706)
Private placement early redemption (note 21)	(182,513)	–
Recognised directly in other comprehensive income		
Effective portion of changes in fair value of interest rate swaps ¹	2,756	615
Fair value of interest rate swaps transferred to income statement	3,970	–
Total financing gain/(loss) recognised directly in other comprehensive income	6,726	615

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	2017	2016
Revenue	3,796,770	3,878,871
Raw materials and consumables used	(1,814,357)	(1,809,609)
Employment costs (note 7)	(846,002)	(812,669)
Storage and distribution costs	(254,698)	(262,316)
Amortisation of intangible assets (note 1)	(191,329)	(188,984)
Depreciation of property, plant and equipment (note 1)	(126,308)	(112,030)
Light, heat and power	(89,402)	(80,803)
Operating lease rentals	(72,985)	(69,122)
Repairs and maintenance	(61,822)	(63,412)
Advertising and marketing	(53,741)	(44,754)
Net gain on disposal of businesses (note 3)	–	993
Impairment of goodwill (note 3)	(594,872)	–
Impairment of intangibles (note 3)	(138,642)	–
Asset disposals and impairments (note 3)	(126,202)	(14,787)
Acquisition-related costs (note 3)	–	(2,330)
Labour-related business interruption (note 3)	(16,349)	–
Other restructuring-related costs (note 3)	(12,758)	(15,543)
Other direct and indirect costs	(204,823)	(191,993)
Operating (loss)/profit from continuing operations¹	(807,520)	211,512

¹ For the year ended 31 July 2017, management has provided additional disaggregation and alignment of the Group's costs by nature. Amounts for the year ended 31 July 2016 have been reclassified or adjusted accordingly to conform to the 31 July 2017 presentation. These reclassifications or adjustments have no effect on total operating (loss)/profit from continuing operations as previously reported.

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 2017

6 Directors' compensation

Please refer to the ARYZTA AG Compensation Report on pages 49 to 57 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 31.

7 Employment

Average number of persons employed by the Group during the year by function	2017	2016
Production	15,046	14,668
Sales and distribution	3,596	3,627
Management and administration	1,597	1,562
Total Group	20,239	19,857

Average number of persons employed by the Group during the year by operating segment	2017	2016
Europe	9,052	9,255
North America	9,343	9,003
Rest of World	1,844	1,599
Total Group	20,239	19,857

Aggregate employment costs of the Group in EUR '000	2017	2016
Wages and salaries	731,676	658,842
Social welfare costs	76,399	71,999
Severance and other staff-related costs (note 3)	21,367	65,447
Defined contribution plans (note 25)	14,233	13,202
Defined benefit plans - current service cost (note 25)	3,692	4,435
Defined benefit plans - past service gain (note 25)	(1,365)	(1,256)
Employment costs	846,002	812,669

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

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 (2016: Nil).

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 2017 in CHF	Number of equity entitlements 2017	Weighted conversion price 2016 in CHF	Number of equity entitlements 2016
Outstanding at beginning of the year	50.19	4,883,500	55.21	2,574,500
Granted during the year	–	–	44.58	2,624,500
Forfeited during the year	73.82	(1,223,000)	44.48	(315,500)
Outstanding at the end of the year	42.30	3,660,500	50.19	4,883,500
Vested at end of the year	39.22	1,565,500	39.34	1,589,500

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	2.1
Issued during financial year 2012	39.95	962,500	4.2
Issued during financial year 2013	46.70	53,000	5.3
Issued during financial year 2016	44.66	2,095,000	8.3
As of 31 July 2017	42.30	3,660,500	6.2

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 is conditional on compound annual growth in underlying fully 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.

Awards under the Option Equivalent Plan are subject to additional conditions, including notably:

- the requirement to remain in service throughout the performance period;
- the requirement that ARYZTA's reported ROIC over the expected performance period is not less than its weighted average cost of capital for awards granted before financial year 2016, and not less than 120% of its weighted average cost of capital for awards granted thereafter; and
- the requirement that annual dividends to shareholders are at least 15% of underlying EPS during the performance period.

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

The Option Equivalent Plan awards granted in the years before financial year 2016 can be exercised as of the time the performance conditions described above have been met, but no longer than ten years after grant date. Awards granted during financial year 2016, which meet the conditions for vesting after the initial three year performance period, are subject to additional conditions, including notably an additional two year holding period before they can be exercised.

There were no awards granted under the ARYZTA Option Equivalent Plan LTIP during the year ended 31 July 2017. The weighted average fair value assigned to share option equivalents granted under the ARYZTA Option Equivalent Plan LTIP during the year ended 31 July 2016 was CHF 6.80, which was determined using the Black-Scholes valuation model. The significant inputs into the model were the price of the shares as at the grant date, an expected option life of 5.0 years, expected share price volatility of 23.11%, the weighted average exercise price of CHF 44.58 or €40.88, the expected dividend yield of 1.5% and the risk-free rate of (0.54)%.

8.2 ARYZTA Restricted Stock Unit Plan

Restricted Stock Unit Plan awards outstanding	Weighted conversion price 2017 in CHF	Number of equity entitlements 2017	Weighted conversion price 2016 in CHF	Number of equity entitlements 2016
Outstanding at beginning of the year	-	-	-	-
Granted during the year	0.00	182,807	-	-
Forfeited during the year	0.00	(4,850)	-	-
Outstanding at the end of the year	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	177,957	9.6
As of 31 July 2017	0.00	177,957	9.6

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:

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

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. There were no awards granted under the ARYZTA Restricted Stock Unit Plan during the year ended 31 July 2016.

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

9 Income taxes

Income tax (credit)/expense

in EUR `000	2017	2016
Current tax charge	29,652	22,657
Deferred tax credit (note 24)	(133,618)	(18,114)
Income tax (credit)/expense	(103,966)	4,543

Reconciliation of average effective tax rate to applicable tax rate

in EUR `000	2017	2016
(Loss)/profit before income tax	(1,010,104)	120,048
Less share of profit after interest and tax of joint ventures	(38,380)	(11,716)
(Loss)/profit before tax and before share of profit of JVs	(1,048,484)	108,332

Income tax on (loss)/profit for the year at 21.2% (2016: 21.2%) ¹	(222,279)	22,966
Expenses/(income) not deductible/(taxable) for tax purposes	75,237	(11,164)
Income subject to other rates of tax	(44,416)	(5,168)
Excess deferred tax assets not recognised	88,300	–
Change in estimates and other prior year adjustments:		
– Current tax	1,086	(1,491)
– Deferred tax	(1,894)	(600)
Income tax (credit)/expense	(103,966)	4,543

Income tax recognised in other comprehensive income

in EUR `000	2017	2016
Relating to foreign exchange translation effects	1,532	(198)
Relating to cash flow hedges	1,647	(376)
Relating to Group employee benefit plans actuarial gains/(losses) (note 25)	1,204	23
Tax recognised directly in other comprehensive income	4,383	(551)

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

10 Proposed dividend

At the Annual General Meeting on 7 December 2017, shareholders will be invited to approve a proposed dividend of CHF 0.3489 (€0.3024) per share, to be settled as a scrip dividend via newly issued share capital. If approved, the dividend will be issued to shareholders on 1 February 2018. A dividend of CHF 0.5731 per share was paid during the year, as approved by shareholders at the Annual General Meeting on 13 December 2016.

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

11 Earnings per share

	2017 in EUR '000	2016 in EUR '000
Basic (loss)/earnings per share		
(Loss)/profit attributable to equity shareholders – continuing operations	(907,773)	112,729
Perpetual callable subordinated instrument accrued dividend (note 26)	(32,099)	(31,882)
(Loss)/profit used to determine basic EPS – continuing operations	(939,872)	80,847
Loss used to determine basic EPS – discontinued operations	–	(45,721)
(Loss)/profit used to determine basic EPS – total	(939,872)	35,126
Weighted average number of ordinary shares	'000	'000
Ordinary shares outstanding at 1 August ¹	88,759	88,759
Effect of exercise of equity instruments during the year	–	–
Weighted average ordinary shares used to determine basic EPS	88,759	88,759
Basic (loss)/earnings per share from continuing operations	(1,058.9) cent	91.1 cent
Basic loss per share from discontinued operations	–	(51.5) cent
Basic (loss)/earnings per share	(1,058.9) cent	39.6 cent
Diluted (loss)/earnings per share	in EUR '000	in EUR '000
(Loss)/profit used to determine basic EPS – continuing operations	(939,872)	80,847
Loss used to determine basic EPS – discontinued operations	–	(45,721)
(Loss)/profit used to determine basic EPS – total	(939,872)	35,126
Weighted average number of ordinary shares (diluted)	'000	'000
Weighted average ordinary shares used to determine basic EPS	88,759	88,759
Effect of equity-based incentives with a dilutive impact ²	–	170
Weighted average ordinary shares used to determine diluted EPS	88,759	88,929
Diluted (loss)/earnings per share from continuing operations	(1,058.9) cent	90.9 cent
Diluted loss per share from discontinued operations	–	(51.4) cent
Diluted (loss)/earnings per share	(1,058.9) cent	39.5 cent

¹ Issued share capital excludes treasury shares as detailed in note 26.

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 impact related to the conversion of equity-based incentives would decrease the loss per share for the year ended 31 July 2017, no dilutive effect was given to outstanding equity based incentives during that period.

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

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 fully 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 fully diluted earnings per share.

As shown below, for purposes of calculating this measure, the Group adjusts reported net profit/(loss) by the following items and their related tax impacts:

- includes the perpetual callable subordinated instrument accrued dividend as a finance cost, as already included in the calculation of basic and diluted EPS;
- excludes intangible amortisation, except ERP intangible amortisation;
- excludes private placement early redemption costs; and
- excludes impairment, acquisition, disposal and restructuring-related costs.

	2017	2016
	in EUR '000	in EUR '000
Underlying fully diluted earnings per share		
(Loss)/profit used to determine basic EPS - continuing operations	(939,872)	80,847
Amortisation of non-ERP intangible assets (note 1)	174,640	176,241
Tax on amortisation of non-ERP intangible assets	(32,997)	(36,715)
Share of joint venture intangible amortisation and restructuring-related costs, net of tax (note 15)	(17,099)	3,966
Private placement early redemption (note 21)	182,513	-
Impairment of goodwill (note 3)	594,872	-
Impairment of intangibles (note 3)	138,642	-
Impairment and disposal of fixed assets (note 3)	126,202	13,794
Acquisition and restructuring-related costs (note 3)	50,474	83,320
Tax on impairment, acquisition, disposal and restructuring	(98,349)	(9,911)
Underlying net profit - continuing operations	179,026	311,542
Loss used to determine basic EPS - discontinued operations	-	(45,721)
Underlying contribution as associate - discontinuing operations	-	(48)
Loss on disposal of discontinued operations	-	45,769
Underlying net profit - discontinued operations	-	-
Underlying net profit - total	179,026	311,542
Weighted average ordinary shares used to determine basic EPS	88,759	88,759
Underlying basic earnings per share - total	201.7 cent	351.0 cent
Weighted average ordinary shares used to determine basic EPS	88,759	88,759
Effect of equity-based incentives with a dilutive impact	29	170
Weighted average ordinary shares used to determine underlying fully diluted EPS	88,788	88,929
Underlying fully diluted earnings per share - total	201.6 cent	350.3 cent

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

12 Property, plant and equipment

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 3)	–	(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

31 July 2016 in EUR '000	Land and buildings	Plant and Machinery	Motor Vehicles	Assets under construction	Total
Net Book Value At 1 August 2015	506,321	873,735	1,768	161,439	1,543,263
Additions	6,427	70,253	1,292	106,340	184,312
Transfer from assets under construction	28,027	87,876	1,235	(117,138)	–
Arising on business combination (note 29)	3,860	30	561	–	4,451
Arising on business disposals (note 3)	(2,878)	(1,988)	–	–	(4,866)
Asset impairments / disposals	(109)	(3,394)	(115)	(1,551)	(5,169)
Depreciation charge for year	(20,343)	(90,695)	(992)	–	(112,030)
Translation adjustments	(6,238)	(6,959)	(34)	(1,845)	(15,076)
Net Book Value At 31 July 2016	515,067	928,858	3,715	147,245	1,594,885

At 31 July 2016

Cost	607,165	1,479,247	8,395	147,245	2,242,052
Accumulated depreciation	(92,098)	(550,389)	(4,680)	–	(647,167)
Net Book Value At 31 July 2016	515,067	928,858	3,715	147,245	1,594,885

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 2017	188	1,560	1,748
At 31 July 2016	263	2,306	2,569

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

13 Investment properties

in EUR '000	2017	2016
Balance at 1 August	24,787	25,916
Development costs	–	365
Transfer from property, plant and equipment (note 12)	8,787	–
Disposals	(12,519)	–
Translation adjustment	(1,103)	(1,494)
Balance at 31 July	19,952	24,787

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

During the year, land assets that were no longer in operational use were transferred to investment property. The properties were located in the ARYZTA Rest of World segment, and 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 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 has been recognised within impairment, acquisition, disposal and restructuring-related costs.

Rental income and operating expenses recognised related to these properties is not significant. No material fair value adjustments were recorded to investment properties during the years ended 31 July 2017 and 31 July 2016, as the existing carrying values continued to approximate fair value.

14 Goodwill and intangible assets

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 3)	(594,872)	–	–	–	–	–	(594,872)
Impairment of intangibles (note 3)	–	(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

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

31 July 2016 in EUR '000	Goodwill	Customer Relationships	Brands	Computer-related	ERP-related intangibles	Patents and other	Total
Net Book Value At 1 August 2015	2,435,928	952,900	171,990	14,542	177,500	44,409	3,797,269
Additions	–	–	–	6,766	23,936	–	30,702
Arising on business combination (note 29)	6,918	16,500	2,800	–	–	–	26,218
Arising on business disposals (note 3)	(20,573)	–	–	(62)	–	–	(20,635)
Asset impairments / disposals	–	–	–	(34)	(1,801)	–	(1,835)
Amortisation charge for the year	–	(136,350)	(26,235)	(2,933)	(12,743)	(10,723)	(188,984)
Translation adjustments	(18,602)	(5,854)	(1,457)	845	(346)	(127)	(25,541)
Net Book Value At 31 July 2016	2,403,671	827,196	147,098	19,124	186,546	33,559	3,617,194
At 31 July 2016							
Cost	2,403,671	1,496,912	321,446	53,802	213,447	61,290	4,550,568
Accumulated amortisation	–	(669,716)	(174,348)	(34,678)	(26,901)	(27,731)	(933,374)
Net Book Value At 31 July 2016	2,403,671	827,196	147,098	19,124	186,546	33,559	3,617,194

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 2017 goodwill impairment testing was performed. The carrying amount of goodwill allocated to the relevant CGUs, as well as the key assumptions used in the 2017 impairment testing, are summarised as follows:

in EUR '000	Pre-tax discount rate 2017	Projection period	Terminal growth rate	Carrying Value 2017	Carrying Value 2016
UK, Ireland and Netherlands	8.0%	3 years	1.9%	209,478	211,409
Germany	8.4%	3 years	1.9%	204,906	307,906
Switzerland	7.4%	3 years	1.0%	234,069	244,529
France	8.8%	3 years	1.8%	85,354	85,354
Other Europe ¹	8.0%	3 years	1.9%	62,835	62,024
ARYZTA Europe				796,642	911,222
ARYZTA North America	8.9%	3 years	2.2%	922,496	1,435,709
ARYZTA Rest of World	11.4%	3 years	3.0%	55,862	56,740
				1,775,000	2,403,671

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

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

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.

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. The recoverable amounts of Germany and ARYZTA North America goodwill after these charges are €204,906,000 and €922,496,000, respectively, as outlined in the table above.

The impairment charges are the result of current year profitability associated with these locations having been significantly impacted, either by the consolidation of 225 SKUs into the new German bakery capacity in Eisleben and the ongoing commissioning and optimisation of that facility, or by the significant volume declines and increased labour costs in North America.

While profitability in each of these locations is expected to improve in the future, after considering goodwill and other assets within these locations, as well as the respective future cash flow projections, management determined it was appropriate to record these goodwill impairment charges during the current financial year.

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% for Germany and 8.9% for North America, as well as a terminal value growth rate beyond the initial three year projection period of 1.9% for Germany and 2.2% for North America.

The amount of these goodwill impairments were determined after taking into account the impact of the impairment of intangibles and fixed asset impairments and disposals, as discussed in note 3, on the overall CGU carrying values tested.

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.

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

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 North America and Germany 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.

As the goodwill in the North America and Germany CGUs was written down to recoverable value during FY 2017, the value in use of these CGUs are sensitive to changes in the key assumptions used. An illustration of the sensitivities to reasonably possible changes in key assumptions at 31 July 2017, in isolation, are as follows:

in EUR million	North America		Germany	
	Increase by 1%	Decrease by 1%	Increase by 1%	Decrease by 1%
Pre-tax discount rate	(196)	265	(71)	96
Terminal growth rate	437	(286)	155	(100)

Intangible asset impairment testing

As outlined above, 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 completed during FY 2014, the Group reviewed the remaining customer relationship and brand-related intangible assets obtained as part of that acquisition 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 North America CGU goodwill impairment testing above.

As of 31 July 2017, the remaining net book value of these specific intangible assets are: €17,013,000 for the Cloverhill customer relationships and €6,805,000 for the Cloverhill brands.

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

15 Investments in joint ventures

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

in EUR '000	2017	2016
At 1 August	491,446	32,067
Share of joint ventures' underlying net profit	21,281	15,682
Group share of intangible amortisation	(3,561)	(3,425)
Group share of tax on intangible amortisation and associated rate adjustments	21,318	263
Group share of restructuring-related costs	(658)	(804)
Investment in joint venture	–	450,732
Gains through other comprehensive income	180	304
Translation adjustments	(1,818)	(3,373)
At 31 July	528,188	491,446

During August 2015, the Group acquired a 49% interest in Picard, which operates an asset-light business-to-consumer platform focused on premium speciality food. Picard is located primarily in France, but also has some international franchises outside of France.

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.

The Group also retains the right to exercise a call option to acquire the remaining outstanding interest in Picard between FY2019 and FY2021. Picard remains separately managed and has separately funded debt structures, which are non-recourse to ARYZTA.

The increase in the Group share of tax on joint venture intangible amortisation and associated rate adjustments included in the table above primarily relates to the anticipated reduction in the corporate income tax rate in France, as passed in the 2017 Budget Act effective beginning in 2020. This anticipated tax rate change resulted in a reduction in the long-term tax rate used to calculate the deferred tax liability associated with the Picard trademark from 34.43% to 28.92%, resulting in a deferred income tax benefit during the current financial year.

The Group also owns a 50% interest in Signature Flatbreads, a pioneering flatbread producer in the UK and India, producing an innovative range of authentic Indian breads, as well as high-quality international flatbreads, tortillas, pizza bases and pitas.

At 31 July 2016, the Group had a vendor loan note receivable from Signature Flatbreads (UK) Ltd of €3,956,000, including accrued interest receivable (note 17). The principal of €3,277,000 and the remaining accrued interest receivable were repaid in full during the year ended 31 July 2017.

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

The amounts included in these Group consolidated financial statements in respect of the current year post-acquisition 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. 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 2017 in EUR '000	Picard	Signature	Total
Cash and cash equivalents	115,045	3,833	118,878
Other current assets	133,590	22,901	156,491
Total current assets	248,635	26,734	275,369
Total non-current assets	1,904,928	50,885	1,955,813
Trade and other payables	(230,521)	(20,331)	(250,852)
Other current liabilities	(11,049)	(506)	(11,555)
Total current liabilities	(241,570)	(20,837)	(262,407)
Total non-current liabilities	(1,673,113)	(12,568)	(1,685,681)
Balance at 31 July 2017	238,880	44,214	283,094
ARYZTA's share in %	49%	50%	
ARYZTA's share thereof	116,261	22,107	138,368
Goodwill	382,206	7,614	389,820
Investment in joint ventures	498,467	29,721	528,188

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

31 July 2017 in EUR '000	Picard	Signature	Total	ARYZTA's share thereof
Revenue	1,398,030	117,819	1,515,849	
EBITDA	203,117	15,902	219,019	
Depreciation	(29,580)	(6,397)	(35,977)	
EBITA	173,537	9,505	183,042	
Finance costs, net	(95,012)	(922)	(95,934)	
Pre-tax profits	78,525	8,583	87,108	
Income tax	(41,305)	(2,250)	(43,555)	
Joint venture underlying net profit	37,220	6,333	43,553	21,281
Intangible amortisation	(4,272)	(2,964)	(7,236)	(3,561)
Tax on intangible amortisation and associated rate adjustments	43,468	323	43,791	21,318
Restructuring-related costs	(1,351)	–	(1,351)	(658)
Joint venture profit after tax	75,065	3,692	78,757	38,380
Gains through other comprehensive income	371	–	371	180
Total comprehensive income	75,436	3,692	79,128	38,560
ARYZTA's share in %	49%	50%		
ARYZTA's share thereof	36,714	1,846		38,560

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

16 Inventory

in EUR '000	2017	2016
Raw materials	54,036	53,475
Finished goods	186,468	177,009
Packaging and other	11,658	18,235
Balance at 31 July	252,162	248,719

A total expense of €25,437,000 (2016: €17,461,000) was recognised in the Group Consolidated Income Statement arising from write-down of inventory.

17 Trade and other receivables

in EUR '000	2017	2016
Non-current		
Loan notes due from joint venture	–	3,956
Current		
Trade receivables, net	75,312	99,607
VAT recoverable	20,897	20,581
Prepayments and accrued income	37,275	24,992
Other receivables	30,787	23,415
Balance at 31 July	164,271	168,595

18 Trade and other payables

in EUR '000	2017	2016
Non-current		
Other payables	36,278	37,678
Balance at 31 July	36,278	37,678
Current		
Trade payables	396,864	382,560
Amounts due to related parties (note 31)	220	333
Accruals and other payables ¹	328,214	358,618
Employee-related tax and social welfare	13,746	11,716
VAT payable	11,467	10,516
Forward purchase obligation (note 27)	–	14,878
Balance at 31 July	750,511	778,621

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 2017

19 Contingent consideration

Contingent consideration comprised the net present value of amounts expected to be payable arising on business combinations.

in EUR '000	2017	2016
Balance at 1 August	1,016	48,660
Arising on business combination (note 29)	–	572
Payments of contingent consideration	(896)	(46,916)
Released to income statement	(51)	(1,140)
Translation adjustment	(69)	(160)
Balance at 31 July	–	1,016

20 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	2017	2016
Cash at bank and on hand	535,570	647,724
Bank overdrafts (note 21)	(113,630)	(178,751)
Included in the Group Consolidated Cash Flow Statement	421,940	468,973

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 2017

21 Interest-bearing loans and borrowings

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

in EUR '000	2017	2016
Included in non-current liabilities		
Loans	382,551	1,962,339
Finance leases	691	1,370
Non-current interest-bearing loans and borrowings	383,242	1,963,709
Included in current liabilities		
Loans	1,771,734	223,974
Bank overdrafts (note 20)	113,630	178,751
Total bank loans and overdrafts	1,885,364	402,725
Finance leases	834	907
Current interest-bearing loans and borrowings	1,886,198	403,632
Total bank loans and overdrafts	2,267,915	2,365,064
Total finance leases	1,525	2,277
Total interest-bearing loans and borrowings	2,269,440	2,367,341

Analysis of net debt in EUR '000	1 August 2016	Cash flows	Non-cash movements	Translation adjustment	31 July 2017
Cash	647,724	(88,971)	–	(23,183)	535,570
Overdrafts	(178,751)	62,712	–	2,409	(113,630)
Cash and cash equivalents	468,973	(26,259)	–	(20,774)	421,940
Loans	(2,186,313)	(17,306)	(10,382)	59,716	(2,154,285)
Finance leases	(2,277)	1,022	(280)	10	(1,525)
Net debt	(1,719,617)	(42,543)	(10,662)	38,952	(1,733,870)

During August 2016, the Group exercised its option to increase its Syndicated Bank RCF by CHF 150m, to a total available capacity of CHF 1,550m.

During August 2016, the Group also signed a new €1,000m term loan facility, with substantially similar financial terms to the Syndicated Bank RCF.

During September 2016, the Group utilised the available capacity of the Syndicated Bank RCF, the term loan facility and existing cash resources to redeem all of 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.

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

As of 31 July 2017, all outstanding amounts on the Group's Syndicated Bank RCF and Term Loan borrowings have been presented as current liabilities within the Group Consolidated Balance Sheet, reflecting the Group's obligation to repay those facilities within the next 12 months.

Also, see changes to the Group's interest-bearing loans and borrowings subsequent to year-end, as included in note 32.

The terms of outstanding loans are as follows:

2017	Currency	Calendar 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	2019	185,500	184,660
Schuldschein Variable	EUR	2021	119,500	118,960
Schuldschein Variable	EUR	2023	8,000	7,964
Schuldschein Fixed	EUR	2019	20,000	19,910
Schuldschein Fixed	EUR	2021	33,000	32,851
Schuldschein Fixed	USD	2021	9,783	9,738
Schuldschein Fixed	USD	2023	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 were settled subsequent to year end and are included in current liabilities at 31 July 2017.

2016	Currency	Calendar year of maturity	Nominal Value in EUR'000	Carrying amount in EUR'000
Syndicated Bank RCF	Various	2019	438,327	433,638
Syndicated Bank RCF	Various	2021	553,340	544,901
Private placement 2014				
Series A	USD	2020	89,590	88,954
Series B	USD	2022	223,974	222,381
Series C	USD	2024	125,426	124,534
Series D	EUR	2024	25,000	24,822
Private placement 2010				
Series C	USD	2018	53,754	53,361
Series D	USD	2021	134,385	133,403
Series E	USD	2022	89,590	88,935
Series F	EUR	2020	25,000	24,817
Private placement 2009				
Series A	USD	2021	71,671	71,119
Series B	USD	2024	35,836	35,560
Series C	USD	2029	71,671	71,119
Private placement 2007				
Series B	USD	2017	223,974	223,974
Series C	USD	2019	44,795	44,795
Total outstanding loans at 31 July 2016			2,206,333	2,186,313

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

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

	2017	2016
Total bank loans	2.2%	4.5%

The pre-tax weighted average cost of capital associated with the Group's financing structures was 8.1% (2016: 8.0%).

Repayment schedule – loans and overdrafts (nominal values)

in EUR '000	2017	2016
Less than one year	1,897,542	402,725
Between one and five years	367,783	1,339,191
After five years	16,506	643,168
	2,281,831	2,385,084

Repayment schedule – finance leases in EUR '000	Minimum lease payments	Interest	Present value of payments	Minimum lease payments	Interest	Present value of payments
	2017	2017	2017	2016	2016	2016
Less than one year	875	41	834	966	59	907
Between one and five years	716	25	691	1,412	42	1,370
After five years	–	–	–	–	–	–
	1,591	66	1,525	2,378	101	2,277

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

22 Financial instruments and financial risk

The fair values of financial assets, liabilities and investment property together with the carrying amounts shown in the balance sheet, are as follows:

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
Investment properties	Level 3	19,952	–	–	–	19,952	19,952
Total financial assets		19,952	4,311	641,669	–	665,932	665,932
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)

in EUR '000	Fair value hierarchy	Fair Value through income statement 2016	Hedge instruments 2016	Loans and receivables 2016	Liabilities at amortised cost 2016	Total carrying amount 2016	Fair value 2016
Trade and other receivables (excluding prepayments)		–	–	126,978	–	126,978	126,978
Cash and cash equivalents		–	–	647,724	–	647,724	647,724
Derivative financial assets	Level 2	–	669	–	–	669	669
Investment properties	Level 3	24,787	–	–	–	24,787	24,787
Total financial assets		24,787	669	774,702	–	800,158	800,158
Trade and other payables (excluding non-financial liabilities)		–	–	–	(779,189)	(779,189)	(779,189)
Bank overdrafts		–	–	–	(178,751)	(178,751)	(178,751)
Bank borrowings		–	–	–	(2,186,313)	(2,186,313)	(2,380,949)
Finance lease liabilities		–	–	–	(2,277)	(2,277)	(2,277)
Derivative financial liabilities	Level 2	–	(14,557)	–	–	(14,557)	(14,557)
Forward purchase obligation	Level 3	(14,878)	–	–	–	(14,878)	(14,878)
Contingent consideration	Level 3	(1,016)	–	–	–	(1,016)	(1,016)
Total financial liabilities		(15,894)	(14,557)	–	(3,146,530)	(3,176,981)	(3,371,617)

Notes to the Group Consolidated Financial Statements (continued)

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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:

- 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.

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. As the fair value is based on inputs not observable within the market, it has been classified as a Level 3 asset.

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.

Notes to the Group Consolidated Financial Statements (continued)

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Forward purchase obligation

The liability related to the HiCoPain forward purchase contract (note 18 and 27) was carried at fair value through profit and loss during FY 2016 and 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	2017	2016
Balance at 1 August	15,894	63,845
Arising on business combination (note 29)	–	572
Purchase of non-controlling interests (note 27)	(14,485)	–
Payments of contingent consideration (note 19)	(896)	(46,916)
Amounts recognised in profit and loss (note 19)	(51)	(1,140)
Translation adjustments	(462)	(467)
Balance at 31 July	–	15,894

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

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 33. 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.

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

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.

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 €239,299,000 (2016: €226,256,000). The Group has continued to recognise an asset of €20,034,000 (2016: €17,797,000), representing the maximum extent of its continuing involvement or exposure.

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 2017	Carrying amount 2016
Cash and cash equivalents	535,570	647,724
Trade and other receivables	106,099	126,978
Derivative financial assets	4,311	669
	645,980	775,371

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was as follows:

in EUR `000	Carrying amount 2017	Carrying amount 2016
Europe	45,555	69,260
North America	4,886	6,483
Rest of World	24,871	23,864
	75,312	99,607

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

The aging of trade receivables at the reporting date was as follows:

in EUR `000	Gross 2017	Provision for impairment 2017	Gross 2016	Provision for impairment 2016
Not past due	32,394	140	42,312	417
Past due 0–30 days	36,329	302	47,282	195
Past due 31–120 days	5,744	1,545	11,202	1,596
Past due more than 121 days	9,970	7,138	8,049	7,030
	84,437	9,125	108,845	9,238

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	2017	2016
Balance at 1 August	9,238	6,503
Arising on business combination	–	439
Utilised during the year	(2,509)	(1,566)
Provided during the year	2,650	4,047
Translation adjustment	(254)	(185)
Balance at 31 July	9,125	9,238

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 generally not more than 40% of total bank borrowing facilities should mature in any twelve-month period. As of 31 July 2017, all outstanding amounts on the Group's Syndicated Bank RCF and Term Loan borrowings have been presented as current liabilities within the Group Consolidated Balance Sheet, resulting in 83% of the Group's total borrowings maturing within the next 12 months.

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.

The new financing was utilised on 22 September 2017 to repay in full the revolving credit and term loan facilities put in place last year. The new facility extends the maturity profile of the Group's debt to just over 4 years and reduces the portion of the Group's total borrowings maturing within the next 12 months to 7%.

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

The following are the contractual maturities of financial liabilities, including estimated interest payments:

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)

2016 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	(1,207,774)	(1,525,328)	(30,182)	(254,156)	(100,992)	(417,958)	(722,040)
Variable rate bank loans	(978,539)	(1,051,889)	(6,570)	(6,570)	(13,140)	(1,025,609)	–
Finance lease liabilities	(2,277)	(2,378)	(518)	(448)	(961)	(451)	–
Bank overdrafts	(178,751)	(178,751)	(178,751)	–	–	–	–
Trade and other payables	(779,189)	(779,189)	(707,649)	(33,862)	(4,369)	(10,284)	(23,025)
Forward purchase obligation	(14,878)	(14,878)	(14,878)	–	–	–	–
Derivative financial instruments							
Interest rate swaps used for hedging	(8,642)	(8,642)	(2,012)	(2,012)	(2,921)	(1,697)	–
Currency forward contracts used for hedging							
– Inflows	–	326,789	316,414	10,375	–	–	–
– Outflows	(5,915)	(332,704)	(321,758)	(10,946)	–	–	–
	(3,175,965)	(3,566,970)	(945,904)	(297,619)	(122,383)	(1,455,999)	(745,065)

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

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 2017	Liabilities 2017	Assets 2016	Liabilities 2016
Cash flow hedges				
Currency forward contracts	4,311	(284)	669	(5,915)
Interest rate swaps	–	(1,916)	–	(8,642)
At 31 July	4,311	(2,200)	669	(14,557)

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 2017

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 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

The following table details the Group's exposure to transactional foreign currency risk at 31 July 2016:

2016 in EUR '000	GBP	USD	CAD	CHF	EUR	Other	Total
Trade receivables	9,214	1,387	1,086	6,764	7,884	4,232	30,567
Other receivables	187	91	98	–	233	20	629
Cash and cash equivalents	5,146	5,327	46	83	15,389	509	26,500
Trade payables	(3,453)	(26,852)	(4,874)	(102)	(24,672)	(3,744)	(63,697)
Other payables	(1,021)	(5,319)	(544)	(23)	(2,766)	(5)	(9,678)
Derivative financial instruments	(1,765)	(10,380)	(318)	–	(1,267)	(18)	(13,748)
At 31 July 2016	8,308	(35,746)	(4,506)	6,722	(5,199)	994	(29,427)

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

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.

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)

2016 in EUR `000	10% strengthening income statement	10% strengthening equity	10% weakening income statement	10% weakening equity
GBP	(916)	11,255	1,119	(13,756)
USD	2,306	48,159	(2,818)	(58,861)
CAD	381	7,036	(465)	(8,600)
CHF	(611)	–	747	–
At 31 July 2016	1,160	66,450	(1,417)	(81,217)

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 2017	Carrying amount 2016
Fixed rate instruments		
Bank borrowings	(70,967)	(1,207,774)
Finance lease liabilities	(1,525)	(2,277)
	(72,492)	(1,210,051)
Variable rate instruments		
Cash and cash equivalents	535,570	647,724
Bank overdrafts	(113,630)	(178,751)
Bank borrowings	(2,083,318)	(978,539)
Total interest-bearing financial instruments	(1,733,870)	(1,719,617)

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

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.

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

2016 in EUR `000	Principal amount	Impact of 50 bp increase on income statement	Impact of 50 bp increase on equity
Bank overdrafts	(178,751)	(894)	–
Variable rate bank borrowings	(978,539)	(4,893)	–
Interest rate swaps	508,359	–	2,542
Cash flow sensitivity, net	(648,931)	(5,787)	2,542

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)

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23 Deferred income from government grants

in EUR `000	2017	2016
At 1 August	23,945	16,998
Received during the year	–	10,045
Recognised in Group Consolidated Income Statement	(5,665)	(3,098)
At 31 July	18,280	23,945

24 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	2017	2016
Deferred income tax assets (deductible temporary differences)		
Goodwill	88,722	–
Property, plant and equipment and ERP	8,665	8,856
Employee compensation	4,656	4,682
Pension related	4,570	4,967
Financing related	4,599	1,341
Tax loss carry-forwards and tax credits	39,502	92,429
Other	8,053	20,901
	158,767	133,176
Deferred income tax liabilities (taxable temporary differences)		
Intangible assets	(171,256)	(210,635)
Property, plant and equipment and ERP	(78,674)	(123,049)
Pension related	(2,299)	(1,086)
Financing related	(8,252)	(3,962)
Unremitted earnings	(78,457)	(78,826)
Other	(14,226)	(40,076)
	(353,164)	(457,634)

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	2017	2016
Within one year	118	–
Between one and five years	3,541	3,187
After five years	158,314	23,348
Total unrecognised tax losses	161,973	26,535

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

Deferred income tax liabilities of €6,429,000 (2016: €8,560,000) 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:

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)

2016 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 2015	–	(246,116)	(92,103)	4,725	4,729	(10,104)	(3,437)	767	(341,539)
Recognised in Group Consolidated Income Statement	–	36,715	(23,672)	(20)	(822)	6,979	16,889	(17,955)	18,114
Recognised in Group Consolidated Statement of Comprehensive Income	–	–	–	–	(23)	376	–	198	551
Arising on business combination (note 29)	–	(2,413)	–	–	–	–	–	–	(2,413)
Translation adjustments and other	–	1,179	1,582	(23)	(3)	128	151	(2,185)	829
At 31 July 2016	–	(210,635)	(114,193)	4,682	3,881	(2,621)	13,603	(19,175)	(324,458)

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

25 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	2017	2016
Total deficit in defined benefit plans	4,757	11,387
Other ¹	1,887	2,083
Total	6,644	13,470

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 2017 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.

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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:

	2017	2016
Rate of increase in salaries	1.78%	1.78%
Discount rate on plan liabilities	0.65%	0.19%

The mortality assumptions imply the following life expectancies, in years, of an active member on retiring at age 65, 20 years from now:

	2017	2016
Male	24.3	24.2
Female	26.3	26.2

The mortality assumptions imply the following life expectancies, in years, of an active member, aged 65, retiring now:

	2017	2016
Male	22.4	22.3
Female	24.4	24.3

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

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 2017 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 4.7% /increase by 5.6%
Salary growth rate	Increase/decrease 0.50%	Increase/decrease by 0.8%

Net pension liability in EUR `000	2017	2016
Total fair value of assets	59,225	60,050
Present value of plan liabilities	(63,982)	(71,437)
Deficit in the plans	(4,757)	(11,387)
Related deferred tax asset (note 24)	2,271	3,881
Net pension liability	(2,486)	(7,506)

Fair value of plan assets in EUR `000	Quoted	Non-quoted	2017	2016
Cash and cash equivalents	2,280	–	2,280	1,151
Equity instruments	13,600	4,361	17,961	16,727
Debt instruments	15,798	5,748	21,546	27,322
Property	2,236	12,958	15,194	13,537
Other	833	1,411	2,244	1,313
Total fair value of assets	34,747	24,478	59,225	60,050

Movement in the fair value of plan assets in EUR `000	2017	2016
Fair value of plan assets at 1 August	60,050	66,826
Interest income	90	641
Employer contributions	2,826	3,113
Employee contributions	2,479	2,657
Benefit payments made	(2,463)	(3,567)
Plan settlements	(3,392)	(6,540)
Actuarial return on plan assets (excluding interest income)	3,240	(695)
Translation adjustments	(3,605)	(2,385)
Fair value of plan assets at 31 July	59,225	60,050

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

Movement in the present value of plan obligations in EUR `000	2017	2016
Present value of plan obligations at 1 August	(71,437)	(80,313)
Current service cost	(3,692)	(4,435)
Past service gain	1,365	1,256
Settlement gain	–	2,049
Interest expense on plan obligations	(141)	(774)
Employee contributions	(2,479)	(2,657)
Benefit payments made	2,463	3,567
Plan settlements	3,392	6,540
Actuarial changes in demographic and financial assumptions	3,878	(3,748)
Actuarial experience adjustments	(983)	3,981
Arising on disposal of business	–	503
Translation adjustments	3,652	2,594
Present value of plan obligations at 31 July	(63,982)	(71,437)

Movement in net liability recognised in the Group Consolidated Balance Sheet in EUR `000	2017	2016
Net liability in plans at 1 August	(11,387)	(13,487)
Current service cost (note 7)	(3,692)	(4,435)
Past service gain (note 7)	1,365	1,256
Settlement gain	–	2,049
Employer contributions	2,826	3,113
Net interest expense (note 4)	(51)	(133)
Actuarial gain/(loss) on Group defined benefit pension plans	6,135	(462)
Arising on disposal of business	–	503
Translation adjustments	47	209
Net liability in plans at 31 July	(4,757)	(11,387)

The estimated contributions expected to be paid during the year ending 31 July 2018 in respect of the Group's defined benefit plans are €2,628,000.

Analysis of defined benefit expense recognised in the Group Consolidated Income Statement in EUR `000	2017	2016
Current service cost	3,692	4,435
Past service gain	(1,365)	(1,256)
Settlement gain	–	(2,049)
Non-financing expense	2,327	1,130
Included in financing costs, net	51	133
Net charge to Group Consolidated Income Statement	2,378	1,263

Additionally, a charge of €14,233,000 (2016: €13,202,000) 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 2017

Defined benefit pension expense recognised in Group Consolidated Statement of Comprehensive Income in EUR `000	2017	2016
Return on plan assets (excluding interest income)	3,240	(695)
Experience (losses)/gains on plan liabilities	(983)	3,981
Changes in demographic and financial assumptions	3,878	(3,748)
Actuarial gain/(loss)	6,135	(462)
Deferred tax effect of actuarial (gain)/loss (note 9)	(1,204)	(23)
Actuarial gain/(loss) recognised in Group Consolidated Statement of Comprehensive Income	4,931	(485)

History of experience gains and losses:	2017	2016
<i>Difference between expected and actual return on plan assets and losses:</i>		
– Amount (in €`000)	3,240	(695)
– % of Plan assets	5.47%	(1.16)%

<i>Experience (losses)/gains on plan obligations:</i>		
– Amount (in €`000)	(983)	3,981
– % of Plan obligations	(1.54)%	5.57%

<i>Total actuarial gains/(losses) recognised in Group Consolidated Statement of Comprehensive Income:</i>		
– Amount (in €`000)	6,135	(462)
– % of Plan obligations	9.59%	(0.65)%

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

26 Shareholders equity

Registered shares of CHF 0.02 each – authorised, issued and fully paid	2017 '000	2017 in EUR '000	2016 '000	2016 in EUR '000
At 1 August and 31 July	91,811	1,172	91,811	1,172

At the Annual General Meeting on 8 December 2015, the shareholders approved the resolution to modify Article 5 of the Articles of Association (Authorised capital for general purposes). Pursuant to these modifications, the Board of Directors is now authorised to increase the share capital at any time until 7 December 2017, by an amount not exceeding CHF 183,621.06, through the issue of up to a maximum of 9,181,053 fully paid-up registered shares with a nominal value of CHF 0.02 each.

Furthermore, 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).

Treasury shares of CHF 0.02 each - authorised, called up and fully paid	2017 '000	2017 in EUR '000	2016 '000	2016 in EUR '000
At 1 August and 31 July	3,052	47	3,052	47

There were no options exercised or other treasury share transactions during the years ended 31 July 2017 or 31 July 2016.

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

Other equity reserve

in EUR `000	2017	2016
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, net of transaction costs of €4,865,000. This Hybrid Instrument offers a coupon of 4.0% and has no maturity date, with an initial call date by ARYZTA in April 2018. In the event that the call option is not exercised, the coupon would be 605 bps, plus the 3-month CHF LIBOR.

In October 2014, the Group raised CHF 190,000,000 through the issuance of an additional Hybrid Instrument. This Hybrid Instrument offers a coupon of 3.5% and has no maturity date, with an initial call date by ARYZTA in April 2020. In the event that the call option is not exercised, the coupon would be 421 bps, 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 date by ARYZTA in March 2019. In the event that the call option is not exercised, the coupon would be 677 bps, plus the 5 year 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, net of related transaction costs of €6,534,000.

The total coupon recognised for these Hybrid instruments during the year ended 31 July 2017 was €32,099,000 (2016: €31,882,000).

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.

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

Capital management

The capital managed by the Group consists of total equity of €2,201,652,000 (2016: €3,187,771,000). The Group has set the following goals for the management of its capital:

- To maintain prudent net debt (as set out in note 21 of these Group consolidated financial statements) to EBITDA¹ and interest cover (EBITDA¹ to interest) 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 which 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 €1,733,870,000 at 31 July 2017 (2016: €1,719,617,000).

The Group employs two ratio targets to monitor its financing covenants:

- The Group's Net Debt: EBITDA¹ ratio is below 4.75 times – the ratio was 4.15 times at 31 July 2017 (2016: 2.90 times).
- The Group's interest cover (EBITDA¹ to interest including hybrid) is above 3.0 times – the ratio was 4.64 times at 31 July 2017 (2016: 4.50 times).

These ratios are reported to the Board of Directors at regular intervals through internal financial reporting.

During September 2016, the Group utilised the available capacity of the Syndicated Bank RCF, the term loan facility and existing cash resources to redeem all of 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 costs 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.

The new financing was utilised on 22 September 2017 to repay in full the revolving credit and term loan facilities put in place last year.

The refinancing is underwritten by four of the Group's key relationship banks, with general syndication to take place over the next two months.

In order to provide enhanced financial flexibility, the Group has increased the covenant to a maximum 4.75x Net Debt: EBITDA at 31 July 2017 and 31 January 2018, reducing to a maximum of 4.00x at 31 July 2018 and a maximum of 3.50x from 31 July 2019. The

¹ Calculated based on the terms of the Group Syndicated Bank RCF.

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

Group has also reduced the interest cover covenant to 3.0x EBITDA: Interest. The new facility extends the maturity profile of the Group's debt to just over 4 years.

The proposed pay-out ratio to shareholders for the Group's financial year to 31 July 2017 is 15% of fully diluted underlying earnings per share. The pay-out will be in the form of a scrip dividend via newly issued share capital. The pay-out ratio and form of pay-out proposed by the Board will be reviewed on an annual basis and is subject to the decision of the Annual General Meeting of the shareholders.

27 Non-controlling interests

in EUR `000	2017	2016
Balance at 1 August	15,099	18,436
Share of profit for the year	1,635	2,776
Share of other comprehensive income	598	(1,510)
Dividends paid to non-controlling interests	(3,350)	(4,603)
Repurchase of non-controlling interests	(13,982)	–
Balance at 31 July	–	15,099

During March 2012, the Group entered into an agreement 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 participates in the risks and rewards of the business following the final exit date, the remaining non-controlling interest of €13,982,000 has been eliminated directly as an increase in retained earnings of the Group.

The remaining liability to the non-controlling interest shareholder of €14,485,000 was settled during the second half of financial year 2017.

28 Commitments

28.1 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	2017	2016
Within one year	59,467	58,713
In two to five years	171,706	167,938
After more than five years	125,866	116,221
Total	357,039	342,872

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

28.2 Capital commitments

Capital expenditure contracted for at the end of the year, but not yet incurred, is as follows:

in EUR `000	2017	2016
Property, plant and equipment	5,477	9,473
Intangible assets	692	1,237
Total	6,169	10,710

28.3 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.

29 Business combinations

29.1 Acquisitions in financial year 2017

There were no acquisitions completed by the Group during the year ended 31 July 2017.

29.2 Acquisitions in financial year 2016

During the year ended 31 July 2016, the Group completed the 100% acquisition of La Rousse Foods, a supplier of fresh, frozen and ambient goods to various restaurants, hotels and caterers across Ireland.

The details of the net assets acquired and goodwill arising from this business combination are set out below. The goodwill arising on this business combination is attributable to the skills and talent of the in-place work-force and the synergies expected to be achieved from integrating the acquired operations into the Group's existing businesses.

in EUR `000	Final fair values
Final fair value of net assets acquired:	
Property, plant and equipment (note 12)	4,451
Intangible assets (note 14)	19,300
Inventory	2,068
Trade and other receivables	5,641
Trade and other payables	(7,884)
Finance leases	(470)
Deferred tax (note 24)	(2,413)
Income tax payable	(592)
Net assets acquired	20,101
Goodwill arising on acquisitions (note 14)	6,918
Total consideration	27,019
Satisfied by:	
Cash consideration	26,772
Cash acquired	(325)
Net cash consideration	26,447
Contingent consideration (note 19)	572
Total consideration	27,019

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

The net cash outflow on acquisitions during the prior year was disclosed in the Group Consolidated Cash Flow Statement as follows:

in EUR '000	Total
Cash flows from investing activities	
Cash consideration	26,772
Cash acquired	(325)
Net cash consideration within investing activities	26,447
Finance leases acquired within net debt	470
Net debt consideration	26,917

The identified intangibles acquired primarily related to customer relationships, which were valued at fair value using the income approach method.

30 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.

31 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	2017	2016
Purchase of goods	(147)	(136)
Provision of services	1,937	3,008
Receiving of services	(57)	(686)

Purchase of goods and provision of services relate primarily to transactions with joint ventures during the year.

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 2017.

During the year ended 31 July 2016, the Group paid broker-related fees totalling €686,000 to J & E Davy, primarily in connection with its placing of Origin shares. J. Brian Davy, a member of the ARYZTA Board of Directors until December 2015, also served as Chairman of J & E Davy, up to his retirement from that board in March 2015. These fees were based on arm's length negotiations and were consistent with costs paid to other providers for similar services.

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

The trading balances owing to the Group from related parties were €5,000 (2016: €187,000) and the trading balances owing from the Group to these related parties were €220,000 (2016: €333,000).

At 31 July 2016, the Group had a related party vendor loan note receivable from Signature Flatbreads (UK) Ltd of €3,956,000, including accrued interest receivable (note 17). The principal of €3,277,000 and the remaining accrued interest receivable were repaid in full during the year ended 31 July 2017.

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	2017	2016
Short-term employee benefits	10,161	7,584
Post-employment benefits	4,970	500
Other long-term benefits	675	448
Termination benefits	–	–
Total key management compensation	15,806	8,532

Amounts shown in the table above represent the ongoing wages, salaries and other compensation of Executive Management and the Board of Directors, including the entire €10,368,000 contractual obligation associated with the departure of four former members of executive management, comprised of €5,398,000 for the 12 month contractual employment obligation and €4,970,000 for the 12 month post contractual term non-compete agreements.

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 49 to 57.

32 Post balance sheet events – after 31 July 2017

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.

The new financing was utilised on 22 September 2017 to repay in full the revolving credit and term loan facilities put in place last year.

The refinancing is underwritten by four of the Group's key relationship banks, with general syndication to take place over the next two months.

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

In order to provide enhanced financial flexibility, the Group has increased the covenant to a maximum 4.75x Net Debt: EBITDA at 31 July 2017 and 31 January 2018, reducing to a maximum of 4.00x at 31 July 2018 and a maximum of 3.50x from 31 July 2019. The Group has also reduced the interest cover covenant to 3.0x EBITDA: Interest. The new facility extends the maturity profile of the Group's debt to just over 4 years.

33 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.

34 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 1	Basis of preparation
Note 8	Share-based payments
Note 14 & 29	Goodwill, intangible assets and business combinations
Notes 9 & 24	Income taxes and deferred income tax

As of 31 July 2017, all outstanding amounts on the Group's Syndicated Bank RCF and Term Loan borrowings have been presented as current liabilities within the Group Consolidated Balance Sheet, reflecting the Group's obligation to repay those facilities within the next 12 months.

While this results in total current liabilities of €2,701,488,000 being greater than total current assets of €956,314,000 as of 31 July 2017, during September 2017 the Group utilised its new five-year unsecured €1,800,000,000 banking agreement to settle all amounts outstanding on the Group's previous Syndicated Bank RCF and Term Loan, resulting in current liabilities decreasing to less than current assets. Therefore, the Group's 31 July 2017 financial statements have continued to be prepared on a going concern basis.

Notes to the Group Consolidated Financial Statements (continued)

for the year ended 31 July 2017

The Group has share-based incentive awards outstanding under various incentive plans. Estimating the value of these awards and the period over which this value is recognised as an expense requires various management estimates and assumptions, as set out in note 8.

Accounting for business combinations is complex in nature, requiring various estimates including: the fair value of assets acquired/liabilities assumed, the identification and valuation of intangible assets received, the estimated contingent consideration to be transferred and the allocation of the excess purchase price to the resulting goodwill, as set out in note 29. Furthermore, 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.

Income taxes, as set out in note 9, and deferred taxes, as set out in note 24, 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 2017

35 Significant subsidiaries and joint ventures

A list of all of the Group's significant subsidiary and joint venture undertakings, as at 31 July 2017 and 2016, 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 2017	Group % share 2016	Registered office
(a) Significant subsidiaries – Europe						
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
Fornetti Kft	Food manufacturing and distribution	HUF	500.000	100	100	7
Pré Pain B.V.	Food manufacturing and distribution	EUR	0.018	100	100	8
ARYZTA Polska Sp. z o.o.	Food manufacturing and distribution	PLN	61.000	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. 6000 Kecskemét, Városhíd 8683/104.hrsz. dulo 92, Hungary.
8. Kleibultweg 94, Oldenzaal, 7575 BX, the Netherlands.
9. ul. Zachodnia 10, 05-825 Grodzisk Mazowiecki, Poland.
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, 3º 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 2017

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 2017 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 statement of accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 July 2017 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 9.45 million

We concluded full scope audit work at eight reporting entities in five countries. With our full audit scope we covered 71% of the Group's revenue. In addition, specified procedures were performed on a further four reporting entities in four countries representing a further 12% 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 eight reporting entities that, in our view, required a full scope audit, due to their size or risk profile. These

Report of the statutory auditor to the General Meeting of ARYZTA AG on the consolidated financial statements 2017 (continued)

eight 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 four 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 83% of Group revenues and 91% 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 9.45 million
How we determined it	2.25% of Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), rounded, as defined within footnote 'Segment information'
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 identified during our audit above EUR 0.8 million 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 7.8 million.

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 2017 (continued)

Recoverability of Goodwill

Key audit matter	How our audit addressed the key audit matter
<p>As of 31 July 2017, the Group's carrying value of goodwill was EUR 1.8 billion, which represents approximately 31% of Group total assets and approximately 81% of Group net assets. Goodwill is allocated to seven cash generating units (CGUs).</p> <p>Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate a potential impairment. In performing the impairment, management compares the recoverable amount, generally determined by estimating the value in use, to the carrying amount.</p> <p>To the extent that the recoverable amount of a cash generating unit is lower than its carrying amount, an impairment charge is recognised.</p> <p>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.</p> <p>Through the performance of management's goodwill impairment testing as of July 31, 2017, it was determined that there were impairments of €103.0 million and €491.9 million within the Germany and North America CGUs, respectively.</p> <p>Refer to pages 87–88 (Group Statement of Accounting Policies) and pages 109–112 (Note 14).</p>	<ul style="list-style-type: none"> – We assessed management's allocation of goodwill to the CGUs, by considering the consistency with internal management reporting and how the business is managed within and across geographies. – We obtained management's value in use calculation for each CGU and assessed the consistency of the methodology and model applied with prior years and the adequacy of the model for its purpose. – We tested the mathematical accuracy of the model and traced amounts to supporting documentation, as applicable. – With respect to the projections of future business performance and profitability, we traced the 2018 projections to the board approved budget. In addition, we discussed the three year projections with management in order to obtain an understanding of the key drivers, intentions and the actions planned to achieve expected results. – We assessed management's terminal growth rate assumptions by comparing them to relevant industry and economic forecasts. – We assessed management's assumptions to determine the respective pre-tax discount rates by assessing the adequacy of the weighted average cost of capital calculations, consisting of the split between equity and debt and the input factors for risk-free rate, beta, market risk premium, credit spread. – We utilized the expertise of an internal valuation specialist in order to assess the technical correctness of management's value in use models, as well as to assess the reasonableness of management's discount rates. – In certain cases, we developed an independent expectation of each CGUs budgeted results for FY18, FY19 and FY20 utilizing observable market data, corroborative evidence and the historical results and trends of each CGU in order to compare Management's estimated value in use to that calculated by the engagement team for reasonableness. – 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 recalculated these sensitivities. In addition, we performed our own independent sensitivity analyses by changing various key assumptions to reasonable changes of 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 capitalisation of the company. <p>Based on the work performed, we found the underlying model and methodology and the key assumptions used by management in its determination of the value in use to be reasonable to determine that the carrying amount of the goodwill of each cash generating unit to be supportable, or that the resulting impairment of goodwill calculated by management was reasonable.</p>

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 2017 (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 related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify

Report of the statutory auditor to the General Meeting of ARYZTA AG on the consolidated financial statements 2017 (continued)

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.



PricewaterhouseCoopers AG

A handwritten signature in black ink, appearing to read 'S. Böhm', written over a horizontal line.

Sandra Böhm
Audit expert
Auditor in charge

A handwritten signature in black ink, appearing to read 'G. Young', written over a horizontal line.

Garrett Young

Zurich, 2 October 2017