Annual Report and Accounts 2018

Financial and Business Review

1 Underlying Income Statement and reconciliation to IFRS

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

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

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

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

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

Financial and Business Review (continued)

2 Organic revenue

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

Quarterly organic revenue

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

Financial and Business Review (continued)

3 Segmental Underlying EBITDA

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

4 Our business

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

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

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

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

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

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

Financial and Business Review (continued)

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

5 ARYZTA Europe

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

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

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

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

6 ARYZTA North America

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

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

Financial and Business Review (continued)

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

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

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

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

7 ARYZTA Rest of World

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

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

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

Financial and Business Review (continued)

8 Joint ventures

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

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

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

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

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

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

Financial and Business Review (continued)

9 Impairment, disposal and restructuring

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

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

Impairment and disposal-related costs

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

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

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

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

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

Financial and Business Review (continued)

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

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

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

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

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

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

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

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

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

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

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

Financial and Business Review (continued)

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

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

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

Restructuring-related costs

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

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

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

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

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

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

Financial and Business Review (continued)

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

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

10 Cash generation

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

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

11 Net debt and investment activity

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

1 Other comprises primarily amortisation of upfront financing costs.

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

Financial and Business Review (continued)

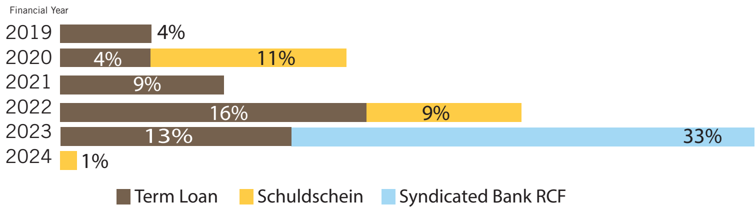
On 22 September 2017, this financing was used to repay the revolving credit and term loan facilities outstanding at that time in full.

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

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

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

Gross Term Debt Maturity Profile
July 2018



The Group's key financial ratios were as follows:

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

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

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

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

1 Calculated as per Syndicated Bank Facilities Agreement terms.

Financial and Business Review (continued)

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

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

12 Hybrid funding

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

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

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

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

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

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

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

Financial and Business Review (continued)

13 Foreign currency

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

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

14 Return on invested capital

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

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

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

15 Net assets, goodwill and intangibles

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

Financial and Business Review (continued)

16 Dividend

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

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

17 Post balance sheet events – after 31 July 2018

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

18 Principal risks and uncertainties

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

19 Forward looking statement

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

Financial and Business Review (continued)

20 Glossary of financial terms and references

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

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

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

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

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

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

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

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

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