Annual Report and Accounts 2019

Group Consolidated and Company Financial Statements 2019

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Statement of Directors' Responsibilities
for the year ended 31 July 2019

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

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

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

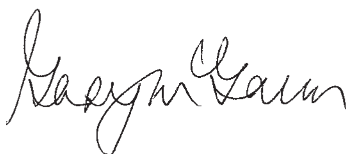
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Group and the Company will continue in business.

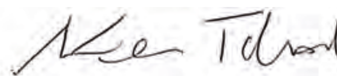
The directors are responsible for keeping proper books of account that present, with reasonable accuracy at any time, the financial position of the Group and Company and enable them to ensure that its financial statements comply with IFRS, the requirements of Swiss law and the Company's Articles of Association.

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

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

On behalf of the Board





Gary McGann
Chair, Board of Directors

Kevin Toland
CEO, Member of the Board of Directors

8 October 2019

Group Consolidated Income Statement
for the year ended 31 July 2019

in EUR `000	Notes	2019	2018
Revenue	1	**3,383,425**	3,435,422
Cost of sales		**(2,462,351)**	(2,543,732)
Distribution expenses		**(404,150)**	(402,561)
Gross profit		**516,924**	489,129
Selling expenses		**(161,904)**	(181,635)
Administration expenses		**(342,898)**	(372,492)
Net loss on disposal of businesses and impairment of disposal groups held for sale	2	**(6,988)**	(183,316)
Impairment of goodwill	14	**–**	(175,000)
Operating profit/(loss)	1	**5,134**	(423,314)
Share of profit after interest and tax of joint ventures	15	**27,629**	15,156
Net gain on disposal of joint venture	15	**–**	1,468
Profit/(loss) before financing income, financing costs and income tax		**32,763**	(406,690)
Financing income	4	**4,524**	2,845
Financing costs	4	**(55,247)**	(76,413)
RCF termination costs	20	**–**	(12,415)
Loss before income tax		**(17,960)**	(492,673)
Income tax (charge)/credit	9	**(11,190)**	22,697
Loss for the year		**(29,150)**	(469,976)

Loss per share	Notes	2019 euro cent	2018 euro cent
Basic loss per share	11	**(8.3)**	(121.0)
Diluted loss per share	11	**(8.3)**	(121.0)

The notes on pages 88 to 162 are an integral part of these Group consolidated financial statements.

Group Consolidated Statement of Comprehensive Income

for the year ended 31 July 2019

in EUR `000	Notes	2019	2018
Loss for the year		**(29,150)**	(469,976)
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Foreign exchange translation effects			
– Foreign exchange translation effects on net investments		**52,308**	(67,593)
– Taxation effect of foreign exchange translation movements	9	**(73)**	(1,301)
Cash flow hedges			
– Effective portion of changes in fair value of cash flow hedges		**(1,894)**	(1,299)
– Fair value of cash flow hedges transferred to income statement		**1,160**	(442)
– Deferred tax effect of cash flow hedges	9	**18**	310
Share of joint ventures' other comprehensive income	15	**33**	105
Total of items that may be reclassified subsequently to profit or loss		**51,552**	(70,220)
Items that will not be reclassified to profit or loss:			
Defined benefit plans			
– Actuarial (loss)/gain on Group defined benefit pension plans	24	**(1,315)**	1,124
– Deferred tax effect of actuarial loss/(gain)	9	**201**	(156)
Total of items that will not be reclassified to profit or loss		**(1,114)**	968
Total other comprehensive income/(loss)		**50,438**	(69,252)
Total comprehensive income/(loss) for the year		**21,288**	(539,228)

The notes on pages 88 to 162 are an integral part of these Group consolidated financial statements.

Group Consolidated Balance Sheet
as at 31 July 2019

in EUR `000	Notes	2019	2018
Assets			
Non-current assets			
Property, plant and equipment	12	**1,248,835**	1,243,692
Investment properties	13	**12,185**	14,574
Goodwill and intangible assets	14	**1,964,298**	2,057,703
Investments in joint ventures	15	**447,678**	420,016
Deferred income tax assets	23	**66,851**	74,961
Total non-current assets		**3,739,847**	3,810,946
Current assets			
Inventory	16	**247,321**	244,535
Trade and other receivables	17	**154,362**	153,970
Derivative financial instruments	21	**202**	1,268
Cash and cash equivalents	19	**533,782**	517,854
		935,667	917,627
Assets of disposal groups held-for-sale	3	**–**	7,000
Total current assets		**935,667**	924,627
Total assets		**4,675,514**	4,735,573

The notes on pages 88 to 162 are an integral part of these Group consolidated financial statements.

Group Consolidated Balance Sheet (continued) as at 31 July 2019

in EUR `000	Notes	2019	2018
Equity			
Called up share capital	25	**16,973**	1,191
Share premium		**1,531,229**	807,512
Retained earnings and other reserves		**887,945**	864,157
Total equity		**2,436,147**	1,672,860
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	20	**826,456**	1,772,315
Employee benefits	24	**9,661**	6,975
Deferred income from government grants	22	**10,471**	14,408
Other payables	18	**46,038**	49,664
Deferred income tax liabilities	23	**191,585**	212,878
Total non-current liabilities		**1,084,211**	2,056,240
Current liabilities			
Interest-bearing loans and borrowings	20	**440,602**	255,803
Trade and other payables	18	**648,521**	684,335
Income tax payable		**65,528**	65,506
Derivative financial instruments	21	**505**	829
Total current liabilities		**1,155,156**	1,006,473
Total liabilities		**2,239,367**	3,062,713
Total equity and liabilities		**4,675,514**	4,735,573

The notes on pages 88 to 162 are an integral part of these Group consolidated financial statements.

Group Consolidated Statement of Changes in Equity
for the year ended 31 July 2019

31 July 2019 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
At 1 August 2018	**1,191**	**807,512**	**(46)**	**720,456**	**1,428**	**2,209**	**(105,511)**	**245,621**	**1,672,860**
Loss for the year	–	–	–	–	–	–	–	(29,150)	(29,150)
Other comprehensive (loss)/ income	–	–	–	–	(716)	–	52,235	(1,081)	50,438
Total comprehensive (loss)/ income	**–**	**–**	**–**	**–**	**(716)**	**–**	**52,235**	**(30,231)**	**21,288**
Proceeds from issue of shares, net of costs (note 25)	15,782	723,723	–	–	–	–	–	–	739,505
Release of treasury shares upon vesting of Restricted Stock Unit awards	–	(6)	6	–	–	–	–	–	–
Share-based payments (note 8)	–	–	–	–	–	2,494	–	–	2,494
Transfer of share-based payment reserve to retained earnings	–	–	–	–	–	(2,285)	–	2,285	–
Total transactions with owners recognised directly in equity	**15,782**	**723,717**	**6**	**–**	**–**	**209**	**–**	**2,285**	**741,999**
At 31 July 2019	**16,973**	**1,531,229**	**(40)**	**720,456**	**712**	**2,418**	**(53,276)**	**217,675**	**2,436,147**

The notes on pages 88 to 162 are an integral part of these Group consolidated financial statements.

Group Consolidated Statement of Changes in Equity (continued) for the year ended 31 July 2019

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

The notes on pages 88 to 162 are an integral part of these Group consolidated financial statements.

Group Consolidated Cash Flow Statement
for the year ended 31 July 2019

in EUR `000	Notes	2019	2018
Cash flows from operating activities			
Loss for the year		**(29,150)**	(469,976)
Income tax expense/(credit)	9	**11,190**	(22,697)
Financing income	4	**(4,524)**	(2,845)
Financing costs	4	**55,247**	76,413
RCF termination costs	20	**–**	12,415
Share of profit after interest and tax of joint ventures	15	**(27,629)**	(15,156)
Net gain on disposal of joint venture	15	**–**	(1,468)
Net loss on disposal of businesses and asset write-downs	2	**11,775**	362,783
Other restructuring-related payments in excess of current year costs		**(7,818)**	(2,064)
Depreciation of property, plant and equipment	1	**120,758**	119,850
Amortisation of intangible assets	1	**152,698**	172,678
Recognition of deferred income from government grants	22	**(3,937)**	(3,871)
Share-based payments	8	**2,494**	2,005
Other		**(3,416)**	(2,167)
Cash flows from operating activities before changes in working capital		**277,688**	225,900
Increase in inventory		**(2,609)**	(23,427)
Increase in trade and other receivables		**(4,897)**	(1,134)
Decrease in trade and other payables		**(32,799)**	(28,339)
Cash generated from operating activities		**237,383**	173,000
Income tax paid		**(25,781)**	(22,692)
Net cash flows from operating activities		**211,602**	150,308

The notes on pages 88 to 162 are an integral part of these Group consolidated financial statements.

Group Consolidated Cash Flow Statement
(continued)
for the year ended 31 July 2019

in EUR `000	Notes	2019	2018
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**2,478**	8,348
Proceeds from sale of investment property	13	**3,522**	7,597
Purchase of property, plant and equipment		**(101,822)**	(81,680)
Purchase of intangible assets		**(3,099)**	(5,466)
Dividends received from joint venture	15	**–**	91,018
Disposal of businesses, net	2	**3,129**	101,599
Disposal of joint venture	15	**–**	34,948
Net cash flows from investing activities		**(95,792)**	156,364
Cash flows from financing activities			
Gross drawdown of loan capital	20	**–**	1,606,157
Gross repayment of loan capital	20	**(763,871)**	(1,919,180)
RCF termination costs	20	**–**	(501)
Interest paid		**(64,447)**	(62,507)
Interest received		**4,524**	2,845
Capital element of finance lease liabilities	20	**(335)**	(716)
Proceeds from issue of shares, net of costs paid	25	**739,505**	–
Equity dividend issuance costs		**–**	(470)
Net cash flows from financing activities		**(84,624)**	(374,372)
Net increase/(decrease) in cash and cash equivalents	20	**31,186**	(67,700)
Translation adjustment	20	**4,708**	(12,254)
Net cash and cash equivalents at start of year	20	**341,986**	421,940
Net cash and cash equivalents at end of year	20	**377,880**	341,986

The notes on pages 88 to 162 are an integral part of these Group consolidated financial statements.

Group Statement of Accounting Policies
for the year ended 31 July 2019

Organisation

ARYZTA AG (the 'Company') is domiciled and incorporated in Schlieren, Switzerland. The consolidated financial statements for the year ended 31 July 2019 consolidate the individual financial statements of the Company and its subsidiaries (together referred to as the 'Group'), and show the Group's interest in joint ventures using the equity method of accounting.

The Group consolidated financial statements and the ARYZTA AG Company financial statements were authorised for issue by the directors on 8 October 2019, subject to approval by the shareholders at the General Meeting on 14 November 2019.

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 2018. 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:

- IFRS 9 – Financial Instruments
- IFRS 15 – Revenue from Contracts with Customers
- Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions
- Amendments to IAS 40 – Transfers of Investment Property
- Improvements to IFRS Standards (2014–2016)
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration

While the above standards and interpretations modified certain presentation and disclosure requirements, these new requirements are not significantly different than information presented as part of the 31 July 2018 year-end financial statements and had no material impact on the consolidated results or financial position of the Group. The most significant impact from these new standards related to the adoption of IFRS 9.

IFRS 9 'Financial Instruments' fully replaced IAS 39 'Financial instruments: Recognition and measurements' and was implemented by the Group effective 1 August 2018 using the modified retrospective method, which would have required any cumulative effect of initially applying IFRS 9 to be recognised within Retained Earnings, rather than restating prior years.

While impairments for bad debt as well as currency revaluations continue to be recognised in profit or loss, in accordance with IFRS 9, the Group now recognises impairment of financial assets based on the simplified Expected Credit Losses (ECL) model. Therefore, an allowance for expected losses is recognised as from the date receivables are initially recognised; however, as the Group does not have a history of significant bad debts, or anticipate significant changes to forward looking information, no material change to the allowance for doubtful accounts arose as a result of this change.

Group Statement of Accounting Policies (continued) for the year ended 31 July 2019

The Group has also performed a review of the business model, contractually specified cash flows and other relevant factors corresponding to its financial assets and liabilities, as detailed in note 21, which resulted in the classifications below in accordance with IFRS 9:

Classification and measurement as per 31 July 2018 (IAS 39)

in EUR `000	Fair Value through income statement 2018	Hedge instruments 2018	Loans and receivables at amortised cost 2018	Liabilities at amortised cost 2018	Total carrying amount 2018
Trade and other receivables (excluding prepayments)	–	–	109,484	–	109,484
Derivative financial assets	–	1,268	–	–	1,268
Total financial assets	**–**	**1,268**	**109,484**	**–**	**110,752**
Trade and other payables (excluding non-financial liabilities)	–	–	–	(711,316)	(711,316)
Bank overdrafts	–	–	–	(175,868)	(175,868)
Bank borrowings	–	–	–	(1,851,593)	(1,851,593)
Finance lease liabilities	–	–	–	(657)	(657)
Derivative financial liabilities	–	(829)	–	–	(829)
Total financial liabilities	**–**	**(829)**	**–**	**(2,739,434)**	**(2,740,263)**

Classification and measurement as per 1 August 2018 (IFRS 9)

in EUR `000	Fair Value through income statement 2018	Fair Value through OCI 2018	Amortised cost 2018	Total carrying amount 2018
Trade and other receivables (excluding prepayments)	–	–	109,484	109,484
Derivative financial assets	–	1,268	–	1,268
Total financial assets	**–**	**1,268**	**109,484**	**110,752**
Trade and other payables (excluding non-financial liabilities)	–	–	(711,316)	(711,316)
Bank overdrafts	–	–	(175,868)	(175,868)
Bank borrowings	–	–	(1,851,593)	(1,851,593)
Finance lease liabilities	–	–	(657)	(657)
Derivative financial liabilities	–	(829)	–	(829)
Total financial liabilities	**–**	**(829)**	**(2,739,434)**	**(2,740,263)**

Group Statement of Accounting Policies (continued) for the year ended 31 July 2019

IFRS 15 'Revenue from contracts with customers' fully replaced IAS 11 'Construction Contracts', IAS 18 'Revenue' and was implemented by the Group effective 1 August 2018. The new standard defines a five-step model, which has to be used to assess the timing and amount of revenue recognised from customer contracts. The Group undertook a review of the main types of commercial arrangements with customers and determined that as Group revenues are transactional in nature, generally related to the shipment or delivery of goods to customers, net sales continue to be recognised at a point of time and not over a period. Therefore, there was no significant impact on the Group's financial position or performance from the adoption of this new standard.

In accordance with the requirements of IFRS 15, new disclosures outlining the disaggregation of revenue by significant geographic market, product category and customer channel are included in note 1 to the Consolidated Financial Statements.

New standards, interpretations and framework

The following new standards, interpretations and amendments to framework, 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/Framework	Effective date	Planned implementation by ARYZTA (reporting year to 31 July)
Amendments to IFRS 9 – Prepayment features with negative compensation	1 January 2019	2020
Amendments to IAS 28 – Long-term interests in associates and joint ventures	1 January 2019	2020
Amendments to IAS 19 – Plan amendment, curtailment or settlement	1 January 2019	2020
Improvements to IFRS Standards (2015–2017)	1 January 2019	2020
IFRIC 23 – Uncertainty over income tax	1 January 2019	2020
IFRS 16 – Leases	1 January 2019	2020
Amendments to IFRS 3 – Definition of a business	1 January 2020	2021
Amendments to IAS 1 and IAS 8 – Definition of material	1 January 2020	2021
Amendments to the Conceptual framework	1 January 2020	2021
IFRS 17 – Insurance Contracts	1 January 2021	2022

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

IFRS 16, published in January 2016, replaces the existing guidance in IAS 17 'Leases'. IFRS 16 eliminates the classification of leases as either operating leases or finance leases. It introduces a single lessee accounting model, which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months and to recognise depreciation of lease assets separately from finance costs on lease liabilities in the income statement. Recognising a right of use asset represents the lessee's contractual right to use the leased asset for the lease term and recognising a lease liability reflects the lessee's obligation to make payments under the terms of the lease.

Group Statement of Accounting Policies
(continued)
for the year ended 31 July 2019

The Group's effective date is financial year beginning 1 August 2019. At that date, the Group will calculate the lease commitments outstanding and apply appropriate discount rates to calculate the present value of the lease commitment which will be recognised as a liability and a right of use asset on the Group's Balance Sheet.

As detailed in note 26, the Group's future minimum rentals payable under non-cancellable operating leases at 31 July 2019 amounted to €327.5 million and the charge recognised in the Income Statement for the year ended 31 July 2019 amounted to €69.5 million. These amounts provide an indication of the scale of leases held at 31 July 2019 but exclude the impact of discounting, exemptions for short-term leases and low-value leased assets.

The Group will apply IFRS 16 from 1 August 2019 using the modified retrospective approach, whereby comparatives do not need to be restated. The Group will apply the recognition exemption for both short-term leases and low-value leased assets. The Group assessed each lease and will apply judgement for the determination of lease term where there are extension or termination options.

The Group's assessment of the impact of adopting IFRS 16 is at an advanced stage. The Group is implementing a dedicated software solution which will host a centralised set of lease data. Based on the work performed to date, the Group expects to recognise right of use assets of approximately €295 million, net investment in subleased assets of €22 million, lease liabilities of €319 million, an increase in opening retained earnings of €5m along with the derecognition of onerous lease provisions of approximately €2 million. The expected impact of IFRS 16 on finance costs is an increase of €12 million. The Group expects a positive impact on Underlying EBITDA in the range of €60 to €65 million. In addition, the Group expects a positive impact on ROIC in the range of 30 to 50bps. The actual adjustment on transition could differ to the estimated impact provided, due to changes in underlying assumptions, assessment of the expected term of leases (including renewal options) and foreign exchange.

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 and the Company financial statements have been prepared on a going concern basis.

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

Group Statement of Accounting Policies (continued) for the year ended 31 July 2019

circumstances, the results of which form the basis for the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

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

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

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

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

Group Statement of Accounting Policies (continued) for the year ended 31 July 2019

Basis of consolidation

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

Subsidiary undertakings

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

Disposal of subsidiaries

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

Joint arrangements

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

Equity method

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

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

Group Statement of Accounting Policies (continued) for the year ended 31 July 2019

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

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

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

Revenue recognition

Revenue represents the fair value of the sale of goods and services supplied to third parties, after deducting trade discounts, allowances, and promotional and volume rebates, and is exclusive of sales tax/VAT. Revenue is recognised when control of the goods has passed to the buyer, which is usually upon shipment or delivery, depending on the specific terms agreed with individual customer.

Revenue is recorded when there is no unfulfilled obligation that could affect the customer's acceptance of the goods. An estimate is made on the basis of historical sales returns and is recorded to allocate these returns to the same period as the original revenue is recorded. Rebates, allowances and discounts are provided for based on agreements or contracts with customers, agreed promotional arrangements and accumulated experience, using the expected value method. Any unutilised accrual is released after assessment that the likelihood of such a claim being made is no longer highly probable.

Financing income is recognised on an accrual basis, taking into consideration the sums lent and the actual interest rate applied.

Revenue policy applicable before 1 August 2018
Revenue represents the fair value of the sale of goods and services supplied to third parties, after deducting trade discounts, allowances, and promotional and volume rebates, and is exclusive of sales tax/VAT. Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, which is usually upon shipment or delivery, depending on the specific terms agreed with individual customers, when it is probable that the economic benefits will flow to the Group and

Group Statement of Accounting Policies (continued) for the year ended 31 July 2019

the amount of revenue can be measured reliably. Financing income is recognised on an accrual basis, taking into consideration the sums lent and the actual interest rate applied.

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

Segmental reporting

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

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

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

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

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

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

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

Group Statement of Accounting Policies (continued) for the year ended 31 July 2019

Employee benefits

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

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

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

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

Group Statement of Accounting Policies
(continued)
for the year ended 31 July 2019

Income taxes

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

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

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

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

Group Statement of Accounting Policies
(continued)
for the year ended 31 July 2019

Foreign currency

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

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

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

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

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

Currency	Average 2019	Average 2018	% Change	Closing 2019	Closing 2018	% Change
CHF	1.1310	1.1629	2.7%	1.1039	1.1578	4.7%
USD	1.1378	1.1951	4.8%	1.1149	1.1651	4.3%
CAD	1.5055	1.5210	1.0%	1.4672	1.5219	3.6%
GBP	0.8825	0.8863	0.4%	0.8955	0.8888	(0.8)%

Group Statement of Accounting Policies (continued) for the year ended 31 July 2019

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 2019

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.

Group Statement of Accounting Policies
(continued)
for the year ended 31 July 2019

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

Intangible assets

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

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

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

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

Customer relationships	10 to 22 years
Brands	10 to 25 years
Computer-related intangibles	3 to 5 years
ERP-related intangibles	6 to 12 years
Patents and other	8 to 12 years

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

There are no intangible assets with an indefinite useful life.

Group Statement of Accounting Policies
(continued)
for the year ended 31 July 2019

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

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

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

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

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

Group Statement of Accounting Policies
(continued)
for the year ended 31 July 2019

Disposal groups held-for-sale

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

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

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

Share capital

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

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

Group Statement of Accounting Policies
(continued)
for the year ended 31 July 2019

Financial assets and liabilities

Financial assets and financial liabilities are recognised in or derecognised from the Group Consolidated Balance Sheet on trade-date basis, being the date on which the Group contractually commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised only when the Group's obligations are discharged, cancelled or expired.

At initial recognition, the group measures a financial asset or liability at its fair value plus directly attributable transaction costs, except in the case of a financial instrument through profit or loss (FVPL) or through OCI (FVOCI), which are initially recognised at fair value.

Financial Assets classifications applicable after 1 August 2018

Financial assets are classified into one of the following categories depending on the Group's business model for managing the financial assets and the contractual terms of the cash flows:

Amortised cost

Trade and other receivables (excluding prepayments) and cash and cash equivalents are initially measured at fair value and are thereafter measured at amortised cost, using the effective interest method, less loss allowance.

Fair value through income statement (FVPL) or OCI (FVOCI)

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 cash flow hedging instrument through OCI.

Debt instruments

Subsequent measurement of debt instruments depend on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Any gain or loss arising on derecognition is recognised directly in the Consolidated Income Statement. Impairment losses are presented in the Consolidated Income Statement.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. The Group has no debt instruments measured at FVOCI.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. In addition, assets that are irrevocably designated as FVPL at origination to eliminate or significantly reduce an accounting mismatch are also measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in the Consolidated Income Statement.

Group Statement of Accounting Policies
(continued)
for the year ended 31 July 2019

Equity investments
The Group subsequently measures all equity instrument investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to the Group Consolidated Income Statement following the derecognition of the investment. Dividends from such investments continue to be recognised in Consolidated Income Statement when the Group's right to receive payments is established.

Financial Assets classifications applicable before 1 August 2018
Financial assets were classified into one of the following categories:

Loans and receivables
Trade and other receivables (excluding prepayments) and cash and cash equivalents were initially measured at fair value and are thereafter measured at amortised cost, using the effective interest method, less any provision for impairment.

Hedge instruments
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 cash flow hedging instrument.

Impairment of financial assets policy applicable after 1 August 2018
From 1 August 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9 'Financial Instruments', which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Impairment of financial assets policy applicable before 1 August 2018
Before 1 August 2018, a provision for impairment of loans and receivables was recognised when there was objective evidence that the Group would not be able to collect all amounts due, according to the original terms of the financial asset.

Trade and other receivables
Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. Credit losses associated with trade and other receivables are recognised in administration expenses. 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.

Group Statement of Accounting Policies (continued) for the year ended 31 July 2019

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
Derivative financial instruments, including forward currency contracts, interest rate swaps and commodity futures contracts are used to manage the Group's exposure to foreign currency risk, interest rate risk and commodity price risk. These derivatives are generally designated as cash flow hedges. The Group does not use derivatives for speculative purposes.

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.

The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available a discounted cash flow analysis is used based on the applicable yield curve adjusted for counterparty risk for the duration and currency of the instrument, which are observable:

- Foreign exchange forward contracts are measured using quoted forward exchange rates to match the maturities of these contracts; and
- Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves adjusted for counterparty credit risk.

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. At inception of a hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions. In order to achieve and maintain cash flow hedge accounting, it is necessary for management to determine, at inception and on an ongoing basis, whether a forecast transaction is highly probable.

Group Statement of Accounting Policies
(continued)
for the year ended 31 July 2019

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. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred cost of hedging that were reported in equity are immediately reclassified to profit or loss.

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.

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

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

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

Group Statement of Accounting Policies
(continued)
for the year ended 31 July 2019

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 2019

1 Segment information

1.1 Analysis by business segment

I) Segment revenue and result	ARYZTA Europe		ARYZTA North America		ARYZTA Rest of World		ARYZTA Group	
in EUR `000	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Segment revenue	**1,713,337**	1,710,662	**1,397,944**	1,467,969	**272,144**	256,791	**3,383,425**	3,435,422
Underlying EBITDA[1]	**167,705**	171,977	**97,993**	89,902	**41,810**	39,943	**307,508**	301,822
Depreciation	**(58,600)**	(57,954)	**(51,574)**	(51,988)	**(10,584)**	(9,908)	**(120,758)**	(119,850)
ERP amortisation	**(11,247)**	(10,576)	**(5,549)**	(6,438)	**(30)**	(22)	**(16,826)**	(17,036)
Underlying EBITA	**97,858**	103,447	**40,870**	31,476	**31,196**	30,013	**169,924**	164,936
Amortisation of other intangible assets	**(48,281)**	(68,291)	**(81,319)**	(80,066)	**(6,272)**	(7,285)	**(135,872)**	(155,642)
Net loss on disposal of businesses and impairment of disposal groups held-for-sale	**(4,996)**	(47,413)	**(1,992)**	(135,903)	**–**	–	**(6,988)**	(183,316)
Impairment of goodwill	**–**	(175,000)	**–**	–	**–**	–	**–**	(175,000)
Net loss on fixed asset disposals and impairments	**(1,798)**	(1,926)	**(2,989)**	(1,098)	**–**	(1,443)	**(4,787)**	(4,467)
Disposal and restructuring related costs	**(10,236)**	(6,058)	**(6,907)**	(63,441)	**–**	(326)	**(17,143)**	(69,825)
Operating profit/(loss)[2]	**32,547**	(195,241)	**(52,337)**	(249,032)	**24,924**	20,959	**5,134**	(423,314)
Share of profit after interest and tax of joint ventures[3]							**27,629**	15,156
Net gain on disposal of joint venture[3]							**–**	1,468
Financing income[3]							**4,524**	2,845
Financing costs[3]							**(55,247)**	(76,413)
RCF termination costs[3]							**–**	(12,415)
Loss before income tax as reported in Group Consolidated Income Statement							**(17,960)**	(492,673)

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

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

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

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

II) Segment revenue by location

in EUR `000	2019 Revenue	2019 % of Group Revenue	2018 Revenue	2018 % of Group Revenue
Switzerland (ARYZTA's country of domicile)	**218,743**	**6.5%**	201,631	5.9%
Germany	**608,150**	**18.0%**	609,738	17.7%
France	**249,533**	**7.4%**	238,229	6.9%
Other[1]	**636,911**	**18.8%**	661,064	19.3%
ARYZTA Europe segmental revenue	**1,713,337**	**50.7%**	1,710,662	49.8%
USA	**1,086,614**	**32.1%**	1,154,561	33.6%
Canada	**311,330**	**9.2%**	313,408	9.1%
ARYZTA North America segmental revenue	**1,397,944**	**41.3%**	1,467,969	42.7%
ARYZTA Rest of World segmental revenue[2]	**272,144**	**8.0%**	256,791	7.5%
ARYZTA Group revenue[3]	**3,383,425**	**100.0%**	3,435,422	100.0%
ARYZTA Group revenue from major customer[4]	**402,693**	**11.9%**	383,886	11.2%

1 Other includes foreign countries in the Europe segment which individually did not represent greater than 5% of ARYZTA Group revenue in the current or prior financial year.

2 No country in the Rest of World segment represented greater than 5% of the ARYZTA Group revenue in the current or prior financial year on an individual country basis.

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

4 One single external customer represented greater than 10% of the ARYZTA Group revenue in the current and prior financial year. These revenues were earned across all of the Group's operating segments in the current and prior financial years. There is no significant credit risk associated with receivables from this customer.

III) Segment revenue by product

in EUR `000	ARYZTA Europe 2019	ARYZTA Europe 2018	ARYZTA North America 2019	ARYZTA North America 2018	ARYZTA Rest of World 2019	ARYZTA Rest of World 2018	ARYZTA Group 2019	ARYZTA Group 2018
Bread Rolls & Artisan Loaves	**709,479**	705,725	**377,734**	412,898	**197,140**	189,565	**1,284,353**	1,308,188
Sweet Baked & Morning Goods	**526,665**	524,071	**845,102**	894,572	**67,451**	61,985	**1,439,218**	1,480,628
Savoury & Other	**477,193**	480,866	**175,108**	160,499	**7,553**	5,241	**659,854**	646,606
ARYZTA Group revenue	**1,713,337**	1,710,662	**1,397,944**	1,467,969	**272,144**	256,791	**3,383,425**	3,435,422

IV) Segment revenue by channel

in EUR `000	ARYZTA Europe 2019	ARYZTA Europe 2018	ARYZTA North America 2019	ARYZTA North America 2018	ARYZTA Rest of World 2019	ARYZTA Rest of World 2018	ARYZTA Group 2019	ARYZTA Group 2018
QSR	**152,976**	148,009	**634,011**	625,720	**190,987**	184,228	**977,974**	957,957
Convenience & Independent Retail	**307,834**	326,365	**28,244**	38,999	**10,312**	8,611	**346,390**	373,975
Large Retail	**701,543**	689,168	**389,678**	436,318	**7,291**	8,021	**1,098,512**	1,133,507
Other Foodservice	**550,984**	547,120	**346,011**	366,932	**63,554**	55,931	**960,549**	969,983
ARYZTA Group revenue	**1,713,337**	1,710,662	**1,397,944**	1,467,969	**272,144**	256,791	**3,383,425**	3,435,422

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

V) Segment assets	ARYZTA Europe		ARYZTA North America		ARYZTA Rest of World		ARYZTA Group	
in EUR `000	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Segment assets[1]	**1,725,413**	1,810,766	**1,667,725**	1,680,415	**238,849**	236,552	**3,631,987**	3,727,733
Reconciliation to total assets as reported in the Group Consolidated Balance Sheet								
Investments in joint ventures and related financial assets							**447,678**	420,016
Deferred income tax assets[1]							**61,866**	68,702
Derivative financial instruments							**202**	1,268
Cash and cash equivalents							**533,782**	517,854
Total assets as reported in Group Consolidated Balance Sheet							**4,675,515**	4,735,573

VI) Segment liabilities	ARYZTA Europe		ARYZTA North America		ARYZTA Rest of World		ARYZTA Group	
in EUR `000	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Segment liabilities[1]	**410,865**	456,604	**326,994**	349,641	**63,452**	59,471	**801,311**	865,716
Reconciliation to total liabilities as reported in Group Consolidated Balance Sheet								
Interest-bearing loans and borrowings							**1,267,058**	2,028,118
Derivative financial instruments							**505**	829
Current and deferred income tax liabilities[1]							**170,493**	168,050
Total liabilities as reported in Group Consolidated Balance Sheet							**2,239,367**	3,062,713

1 Deferred tax assets and liabilities associated with acquired goodwill and intangible assets are included within Segment assets and liabilities.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

VII) Other segment information	ARYZTA Europe		ARYZTA North America		ARYZTA Rest of World		ARYZTA Group	
in EUR `000	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Capital expenditure								
– Property, plant and equipment	**39,599**	42,500	**61,093**	25,014	**12,609**	9,817	**113,301**	77,331
– Intangibles	**1,269**	3,114	**1,794**	1,749	**36**	496	**3,099**	5,359
Total capital expenditure	**40,868**	45,614	**62,887**	26,763	**12,645**	10,313	**116,400**	82,690

1.2 Segmental non-current assets

I) Segment non-current assets by segment	ARYZTA Europe		ARYZTA North America		ARYZTA Rest of World		ARYZTA Group	
in EUR `000	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
IFRS 8 non-current assets[1]	**2,009,622**	2,025,870	**1,475,611**	1,519,916	**187,763**	190,199	**3,672,996**	3,735,985

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

II) Segment non-current assets by location	2019		2018	
in EUR `000	**Non-current assets**	**% of Group non-current assets**	Non-current assets	% of Group non-current assets
Switzerland (ARYZTA's country of domicile)	**291,682**	**7.9%**	287,511	7.7%
Germany	**404,119**	**11.0%**	492,262	13.2%
Other[1]	**1,313,821**	**35.8%**	1,246,097	33.3%
ARYZTA Europe segmental non-current assets	**2,009,622**	**54.7%**	2,025,870	54.2%
USA	**879,382**	**24.0%**	895,381	24.0%
Canada	**596,229**	**16.2%**	624,535	16.7%
ARYZTA North America segmental non-current assets	**1,475,611**	**40.2%**	1,519,916	40.7%
ARYZTA Rest of World segmental non-current assets[2]	**187,763**	**5.1%**	190,199	5.1%
ARYZTA Group non-current assets	**3,672,996**	**100.0%**	3,735,985	100.0%

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

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

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2019

2 Impairment, disposal and restructuring-related costs

During the year ended 31 July 2019, the Group incurred the following impairment, disposal and restructuring-related costs, which are presented separately when providing information to the Chief Operating Decision Maker, as reflected within the presentation of segmental Underlying EBITDA within note 1. Furthermore, this metric forms the basis for the Trailing Twelve Month EBITDA utilised in calculating the Net Debt: EBITDA ratio for banking covenant compliance.

		ARYZTA Europe		ARYZTA North America		ARYZTA Rest of World		ARYZTA Group	
in EUR `000	Notes	2019	2018	2019	2018	2019	2018	2019	2018
Net loss on disposal of businesses and impairment of disposal groups held for sale	2.1	**(4,996)**	(47,413)	**(1,992)**	(135,903)	**–**	–	**(6,988)**	(183,316)
Impairment of goodwill	2.2	**–**	(175,000)	**–**	–	**–**	–	**–**	(175,000)
Impairment and disposal of fixed assets and investment property	2.3	**(1,798)**	(1,926)	**(2,989)**	(1,098)	**–**	(1,443)	**(4,787)**	(4,467)
Total net loss on disposal of businesses and asset write-downs		**(6,794)**	(224,339)	**(4,981)**	(137,001)	**–**	(1,443)	**(11,775)**	(362,783)
Labour-related business interruption		**–**	–	**–**	(41,443)	**–**	–	**–**	(41,443)
Severance and other staff-related costs		**(5,336)**	(3,256)	**(4,500)**	(11,569)	**–**	(326)	**(9,836)**	(15,151)
Other costs including advisory		**(4,900)**	(2,802)	**(2,407)**	(10,429)	**–**	–	**(7,307)**	(13,231)
Total restructuring-related costs	2.4	**(10,236)**	(6,058)	**(6,907)**	(63,441)	**–**	(326)	**(17,143)**	(69,825)
Total impairment, disposal and restructuring-related costs		**(17,030)**	(230,397)	**(11,888)**	(200,442)	**–**	(1,769)	**(28,918)**	(432,608)

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

During the year ended 31 July 2019, the Group disposed of non-core businesses in Europe, which had been accounted for as part of disposal groups held-for-sale at July 2018. As the €7,106,000 carrying value of the assets disposed exceeded the €3,129,000 proceeds received, net of associated transaction costs, combined with a €1,019,000 cumulative foreign currency translation loss since the initial investment, a net loss on disposal of €4,996,000 was recognised, as detailed in note 3.

During the year ended 31 July 2018 a €48,762,000 loss on impairment of disposal groups held-for-sale had been recognised in relation to these two non-core businesses, as detailed in note 3. In addition, during January 2018, the Group disposed of a business in Europe, which resulted in a €1,349,000 gain on disposal.

During the year ended 31 July 2018, the Group disposed of the Cloverhill Chicago and Cicero facilities in North America. As the €54,818,000 proceeds received, net of associated transaction costs, were less than the €209,108,000 carrying value of the net assets prior to the disposal agreement, a loss of €135,903,000 was recognised during the year ended 31 July 2018, net of a €18,387,000 cumulative foreign currency translation gain since the initial investment. During the year ended 31 July 2019, the Group

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

recognised an additional €1,992,000 loss in North America, on the finalisation of the Cloverhill Chicago and Cicero disposals.

2.2 Impairment of goodwill

There was no impairment of goodwill during the year ended 31 July 2019.

Following significant reductions in estimated profitability, the Group recorded a €175,000,000 goodwill impairment charge in Germany during the year ended 31 July 2018. Further detail on the prior year goodwill impairment is included in note 14.

2.3 Impairment and disposal of fixed assets and investment property

During the year ended 31 July 2019, the Group incurred a net loss on the disposal and impairment of various fixed assets and investment properties totalling €4,787,000 (2018: €4,467,000)

2.4 Restructuring-related costs

During the year ended 31 July 2019, the Group has recognised costs, including providing for amounts as required by IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', in the Group Consolidated Income Statement as follows:

Labour related business interruption costs

The €16,349,000 of labour-related business interruption costs experienced in the North America Cloverhill facilities during the last three months of the financial year ended 31 July 2017 continued into the financial year ended 31 July 2018, during which the group incurred €41,443,000 of further losses. As these businesses have since been disposed, no such costs were incurred during the year ended 31 July 2019.

Severance and other staff-related costs

During the year ended 31 July 2019, the Group incurred a total of €9,836,000 (2018: €15,151,000) in severance and other staff-related costs arising from a number of production, distribution and administrative rationalisations across the Group as part of the implementation of Project Renew.

Other costs including advisory

During the year ended 31 July 2019, the Group incurred €7,307,000 in costs related to the design and implementation of Project Renew across Europe and North America.

During the year ended 31 July 2018, the Group incurred €13,231,000 in costs related to the reorganisation of the North America and a group-wide strategic business review.

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2019

3 Disposal groups held-for-sale

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

As the fair value less costs to sell of these facilities of €7,000,000 was less than the €55,762,000 carrying value of the net assets, a loss on impairment of disposal groups held-for-sale of €48,762,000 was recognised in the income statement as of 31 July 2018.

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

The assets of the disposal groups held-for-sale at 31 July 2018 were as follows:

in EUR '000	**2019**	2018
Property, plant and equipment	–	4,208
Inventory	–	2,792
Disposal groups held-for-sale at fair value less costs to sell	–	7,000

The fair value was measured using inputs not observable within the market, and was therefore within level 3 of the fair value hierarchy.

During the year ended 31 July 2019, the Group disposed of both businesses which had been accounted for as part of disposal groups held-for sale at July 2018. As the €7,106,000 carrying value of the assets disposed exceeded the €3,129,000 proceeds received, net of associated transaction costs, combined with a €1,019,000 cumulative foreign currency translation loss since the initial investment, a net loss on disposal of €4,996,000 was recognised.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

4 Financing income and costs

in EUR `000	2019	2018
Financing income		
Total financing income recognised in Group Consolidated Income Statement	**4,524**	2,845
Financing costs		
Interest cost on bank loans and overdrafts	**(55,186)**	(76,316)
Interest cost under finance leases	**(10)**	(44)
Defined benefit plan: net interest cost on plan liabilities (note 24)	**(51)**	(53)
Total financing costs recognised in Group Consolidated Income Statement	**(55,247)**	(76,413)
RCF termination costs (note 20)	**–**	(12,415)
Recognised directly in other comprehensive income		
Effective portion of changes in fair value of interest rate swaps[1]	**(6)**	1,411
Fair value of interest rate swaps transferred to income statement	**401**	901
Total financing gain recognised directly in other comprehensive income	**395**	2,312

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	2019	2018
Revenue	**3,383,425**	3,435,422
Raw materials and consumables used	**(1,635,705)**	(1,670,222)
Employment costs (note 7)	**(779,401)**	(796,572)
Storage and distribution costs	**(248,423)**	(245,863)
Amortisation of intangible assets (note 1)	**(152,698)**	(172,678)
Depreciation of property, plant and equipment (note 1)	**(120,758)**	(119,850)
Light, heat and power	**(85,962)**	(83,644)
Operating lease rentals	**(69,545)**	(66,876)
Repairs and maintenance	**(55,809)**	(56,550)
Advertising and marketing	**(36,319)**	(43,076)
Research and development	**(12,255)**	(14,680)
Net loss on disposal of businesses and impairment of disposal groups held for sale (note 2)	**(6,988)**	(183,316)
Impairment of goodwill (note 2)	**–**	(175,000)
Asset disposals and impairments (note 2)	**(4,787)**	(4,467)
Labour related business interruption (note 2)	**–**	(41,443)
Other restructuring-related costs (note 2)	**(7,307)**	(13,231)
Other direct and indirect costs	**(162,334)**	(171,268)
Operating profit/(loss)	**5,134**	(423,314)

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 2019

6 Directors' compensation

Please refer to the ARYZTA AG Compensation Report on pages 54 to 68 for details on the compensation process and compensation for the year of Directors and Group Executive Management. Also see compensation of key management disclosure as included in note 28.

7 Employment

Average number of persons employed by the Group during the year by function	2019	2018
Production	**12,846**	14,110
Sales and distribution	**3,157**	3,403
Management and administration	**1,266**	1,382
Average number of persons employed	**17,269**	18,895

Average number of persons employed by the Group during the year by region	2019	2018
Europe	**8,835**	8,926
North America	**6,256**	8,019
Rest of World	**2,178**	1,950
Total Group	**17,269**	18,895

Employment costs of the Group

in EUR `000	2019	2018
Wages and salaries	**676,344**	688,067
Social welfare costs	**73,950**	73,626
Severance and other staff-related costs (note 2)	**9,836**	15,151
Defined contribution plans (note 24)	**13,450**	13,767
Defined benefit plans - current service cost (note 24)	**3,327**	3,225
Defined benefit plans - past service cost (note 24)	–	731
Share-based payments (note 8)	**2,494**	2,005
Employment costs	**779,401**	796,572

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2019

8 Share-based payments

The Group has equity-based incentive awards outstanding under various ARYZTA Long-Term Incentive Plans ('LTIPs'). In addition, as detailed in the Compensation Report, since the November 2018 AGM, non-executive members of the Board of Directors have been compensated in the form of restricted shares or Restricted Stock Units ('RSUs') in respect of 40% of their fixed annual fees.

As the Group has no legal or constructive obligation to repurchase or settle the awards in cash, the equity instruments granted under these LTIPs are equity-settled share-based payments, as defined in IFRS 2 'Share-based Payment'.

As included in the tables for the respective plans below, during the year ended 31 July 2019, in order to maintain the dilutive impact of the November 2018 capital increase at a consistent level for outstanding LTIP awards with the dilution experienced by shareholders who did not participate in the rights issue and instead sold their rights received, the Group adjusted all outstanding LTIP awards by dividing the previous exercise price of each outstanding LTIP award by the 4.64x Theoretical Ex-Rights Price ('TERP') and likewise by multiplying the previous number of outstanding LTIP awards by the TERP. Additionally, in order to eliminate the impact of the Scrip Dividend issued in January 2018, the Group also adjusted all outstanding LTIP awards by dividing the exercise price by 81 and multiplying by 80 and likewise multiplying the number of LTIP awards outstanding by 81 and dividing by 80. No incremental value arose as a result of this modification, primarily because the weighted average exercise price of the awards following modification remains significantly above the CHF 1.57 share price on the date of modification.

During the period ended 31 July 2019, the Group granted additional options and Performance Share Units ('PSUs') to Group Executives and other members of senior management. Vesting of these awards is conditional on achievement of segmental operating free cash generation and ROIC targets during the associated performance periods ending 31 July 2020 and 31 July 2021, as well as continued employment throughout the respective performance periods. Further details are set out on pages 63 to 64 in the Compensation Report.

The number of awards granted during the period, as included in the respective tables below, represents the maximum number of awards that could potentially vest. The actual vesting level will be determined based on the level of performance achieved during the applicable vesting period and applying the corresponding vesting multiple, ranging between 0 and 1.6, to the number of awards received by each participant.

The total cost reported in the Group Consolidated Income Statement in relation to equity-settled share-based payments is €2,494,000 (2018: €2,005,000). The analysis of movements within the LTIP plans is as follows:

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

8.1 Options and option equivalents

Option and Option Equivalent Plan awards	Weighted conversion price 2019 in CHF	Number of equity entitlements 2019	Weighted conversion price 2018 in CHF	Number of equity entitlements 2018
Outstanding at beginning of the year	**39.20**	**1,560,500**	42.30	3,660,500
Granted during the year	**1.08**	**29,589,431**	–	–
Modified during the year	**0.00**	**5,777,930**	–	–
Forfeited during the year	**1.08**	**(91,121)**	44.66	(2,100,000)
Outstanding at the end of the year	**2.53**	**36,836,740**	39.20	1,560,500
Vested at end of the year	**8.34**	**7,338,430**	39.20	1,560,500

Option and 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	7.92	**2,586,438**	**0.1**
Issued during financial year 2012	8.50	**4,526,266**	**2.2**
Issued during financial year 2013	9.93	**225,726**	**3.3**
Issued during financial year 2019	1.08	**29,498,310**	**9.4**
As of 31 July 2019	2.53	**36,836,740**	**7.8**

The weighted average fair value associated with option and option equivalent awards issued during the year ended 31 July 2019 was CHF 0.40, which was determined using the Black-Scholes valuation model. The significant inputs into the model were the CHF 1.08 share price as at the grant date and the equivalent exercise price, an expected option life of 4.2 years, an expected volatility of 49.6%, an expected dividend yield of 0.0% and a risk-free rate of (0.6)%.

As the performance conditions associated with the option awards granted during financial year 2016 were not met, these awards were forfeited during the year ended 31 July 2018. The vested option awards still outstanding as of 31 July 2019 can be exercised no later than ten years after grant date.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

8.2 Performance Share Units and Restricted Stock Units

Performance Share Unit and Restricted Stock Unit awards outstanding	Weighted conversion price 2019 in CHF	Number of equity entitlements 2019	Weighted conversion price 2018 in CHF	Number of equity entitlements 2018
Outstanding at beginning of the year	**0.00**	**90,281**	0.00	177,957
Granted during the year	**0.00**	**20,248,575**	–	–
Modified during the period	**0.00**	**20,241**	–	–
Exercised during the year	**0.00**	**(84,815)**	0.00	(64,899)
Forfeited during the year	**0.00**	**(105,312)**	0.00	(22,777)
Outstanding at the end of the year	**0.00**	**20,168,970**	0.00	90,281
Vested at end of the year	**–**	**–**	–	–

Performance Share Unit and Restricted Stock Unit awards outstanding by conversion price	Actual remaining life (years)	Conversion price in CHF	Number of equity entitlements
Issued during financial year 2017	7.6	0.00	**25,707**
Issued during financial year 2019	9.4	0.00	**20,143,263**
As of 31 July 2019	9.4	0.00	**20,168,970**

During the year ended 31 July 2019, the performance conditions associated with 84,815 RSUs were fulfilled. Therefore, these awards were approved as vested by the Remuneration Committee and were subsequently exercised by employees, in exchange for the same number of shares. The weighted average share price at the time of these exercises was CHF 10.33.

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

The performance conditions associated with the remaining 5,466 RSUs that were outstanding as of 31 July 2018, which were subsequently modified to be 25,707 RSUs, have not yet been fulfilled as of 31 July 2019.

The weighted average fair value assigned to PSUs issued during the period ended 31 July 2019 was CHF 1.08, which represents the full value of an ordinary share on the grant date, as the exercise price associated with these awards is Nil and the expected dividend yield was 0.0%.

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2019

9 Income taxes

Income tax credit

in EUR `000	2019	2018
Current tax charge	**(26,233)**	(27,071)
Deferred tax credit (note 23)	**15,043**	49,768
Income tax (charge)/credit	**(11,190)**	22,697

Reconciliation of average effective tax rate to applicable tax rate

in EUR `000	2019	2018
Loss before income tax	**(17,960)**	(492,673)
Less share of profit after interest and tax of joint ventures	**(27,629)**	(15,156)
Loss before tax and before share of profit of joint ventures	**(45,589)**	(507,829)
Income tax on loss for the year at 21.2% (2018: 21.2%)[1]	**9,665**	107,660
Income/(expenses) not taxable/(deductible) for tax purposes	**3,112**	(43,859)
Income subject to other rates of tax	**(3,888)**	31,470
Excess deferred tax assets not recognised / derecognised	**(20,789)**	(72,076)
Change in estimates and other prior year adjustments:		
– Current tax	**587**	(37)
– Deferred tax	**123**	(461)
Income tax (charge)/credit	**(11,190)**	22,697

Income tax recognised in other comprehensive income

in EUR `000	2019	2018
Relating to foreign exchange translation effects	**(73)**	(1,301)
Relating to cash flow hedges	**18**	310
Relating to Group employee benefit plans actuarial gains/(losses) (note 24)	**201**	(156)
Tax recognised directly in other comprehensive income	**146**	(1,147)

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

10 Proposed dividend

No dividend is planned to be proposed for the year ended 31 July 2019. No dividend was proposed or paid for the year ended 31 July 2018.

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

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

11 Earnings per share

Basic loss per share	2019 in EUR '000	2018 in EUR '000
Loss attributable to equity shareholders	**(29,150)**	(469,976)
Hybrid instrument dividend (note 25)	**(38,902)**	(32,057)
Loss used to determine basic EPS	**(68,052)**	(502,033)

Weighted average number of ordinary shares	'000	'000
Ordinary shares outstanding at 1 August[1]	**89,934**	88,759
Effect of shares issued as a scrip dividend	**–**	551
Effect of exercise of equity instruments	**70**	51
Release of treasury shares as restricted shares	**190**	–
Effect of bonus issue relating to rights issue[2]	**328,025**	325,680
Effect of paid-in shares issued relating to rights issue[2]	**404,394**	–
Weighted average ordinary shares used to determine basic EPS	**822,613**	415,041

Basic loss per share	**(8.3) cent**	(121.0) cent

Diluted loss per share	2019 in EUR '000	2018 in EUR '000
Loss used to determine basic EPS	**(68,052)**	(502,033)

Weighted average number of ordinary shares (diluted)	'000	'000
Weighted average ordinary shares used to determine basic EPS	**822,613**	415,041
Effect of shares issued as a scrip dividend with a dilutive impact[3]	**–**	–
Effect of equity-based incentives with a dilutive impact[3]	**–**	–
Weighted average ordinary shares used to determine diluted EPS	**822,613**	415,041

Diluted loss per share	**(8.3) cent**	(121.0) cent

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

2 2018 comparatives and current year movements before the rights issue in November 2018 restated to include the effect of the bonus issue of shares incorporated in the rights issue.

3 In accordance with IAS 33, potential ordinary shares are treated as dilutive only when their conversion would decrease profit per share or increase loss per share from continuing operations. As the impacts related to the conversion of equity-based incentives and shares issued as scrip dividend would decrease the loss per share for the years ended 31 July 2019 and 2018, no dilutive effect was taken during these years.

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2019

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

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

- excludes intangible amortisation, except ERP intangible amortisation;
- excludes RCF termination costs; and
- excludes impairment, disposal and restructuring-related costs.

Underlying diluted earnings per share	2019 in EUR '000	2018 in EUR '000
Loss used to determine basic EPS	**(68,052)**	(502,033)
Amortisation of non-ERP intangible assets (note 1)	**135,872**	155,642
Tax on amortisation of non-ERP intangible assets	**(27,312)**	(54,886)
Share of JV intangible amortisation and restructuring costs, net of tax (note 15)	**(74)**	7,599
RCF termination costs (note 20)	**–**	12,415
Net gain on disposal of joint venture (note 15)	**–**	(1,468)
Net loss on disposal of businesses and impairment of disposal groups held for sale (note 2)	**6,988**	183,316
Impairment of goodwill (note 2)	**–**	175,000
Impairment and disposal of fixed assets and investment property (note 2)	**4,787**	4,467
Restructuring-related costs (note 2)	**17,143**	69,825
Tax on net impairment, disposal and restructuring-related costs	**4,962**	(260)
Underlying net profit	**74,314**	49,617
Weighted average ordinary shares used to determine basic EPS	**822,613**	415,041
Underlying basic earnings per share	**9.0 cent**	12.0 cent
Weighted average ordinary shares used to determine basic EPS	**822,613**	415,041
Effect of shares issued as a scrip dividend with a dilutive impact	**–**	170
Effect of equity-based incentives with a dilutive impact	**55**	99
Effect of bonus issue relating to rights issue	**52**	980
Weighted average ordinary shares used to determine underlying diluted EPS	**822,720**	416,290
Underlying diluted earnings per share	**9.0 cent**	11.9 cent

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

12 Property, plant and equipment

31 July 2019 in EUR '000	Land and buildings	Plant and Machinery	Motor Vehicles	Assets under construction	Total
Net Book Value At 1 August 2018	**439,076**	**768,033**	**3,073**	**33,510**	**1,243,692**
Additions	1,541	32,528	158	79,074	113,301
Transfer from assets under construction	6,975	55,296	171	(62,442)	–
Asset impairments (note 2)	(2,805)	(2,006)	–	(50)	(4,861)
Asset disposals	(36)	(1,525)	(359)	(83)	(2,003)
Depreciation charge for year	(16,557)	(103,275)	(926)	–	(120,758)
Reclassifications	(7,355)	7,355	–	–	–
Translation adjustments	4,108	13,839	(88)	1,605	19,464
Net Book Value At 31 July 2019	**424,947**	**770,245**	**2,029**	**51,614**	**1,248,835**
At 31 July 2019					
Cost	538,453	1,445,947	5,302	51,614	2,041,316
Accumulated depreciation	(113,506)	(675,702)	(3,273)	–	(792,481)
Net Book Value At 31 July 2019	**424,947**	**770,245**	**2,029**	**51,614**	**1,248,835**

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

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 2019	**7**	**394**	**401**
At 31 July 2018	133	1,028	1,161

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

13 Investment properties

in EUR '000	**2019**	2018
Balance at 1 August	**14,574**	19,952
Transfer from property, plant and equipment (note 12)	–	1,168
Disposals	**(2,909)**	(7,375)
Fair value adjustments (note 3)	–	447
Translation adjustment	**520**	382
Balance at 31 July	**12,185**	14,574

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

During the year ended 31 July 2019, there were no land and building assets transferred to investment property. During the year ended 31 July 2018, land and building assets that were no longer in operational use were transferred to investment property. The property was located in the ARYZTA Europe segment, and had an estimated fair value of €1,168,000 at the date of transfer, which approximated its carrying value.

During the year, land in the ARYZTA Europe segment was disposed for net cash consideration of €3,522,000. As the proceeds received exceeded the €2,909,000 carrying value of the assets, this transaction resulted in a gain on disposal of €613,000.

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

No fair value adjustments were recorded to investment properties during the year 31 July 2019. Rental income and operating expenses recognised related to these properties is not significant. During the year ended 31 July 2018, a net gain of €447,000 of fair value adjustments related to the carrying value of investment properties was recorded in the ARYZTA Europe and ARYZTA Rest of World segments, based on the results of independent valuations. The valuations were arrived at by reference to location, market conditions and status of planned disposals. The fair values of investment properties are considered a Level 3 fair value measurement.

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2019

14 Goodwill and intangible assets

31 July 2019 in EUR '000	Goodwill	Customer Relationships	Brands	Computer-related	ERP-related intangibles	Patents and other	Total
Net Book Value At 1 August 2018	**1,414,009**	**404,812**	**69,160**	**16,533**	**144,117**	**9,072**	**2,057,703**
Additions	–	–	–	2,720	379	–	3,099
Asset impairments/disposals	–	–	–	(484)	(102)	–	(586)
Amortisation charge for the year	–	(100,895)	(29,234)	(3,618)	(16,826)	(2,125)	(152,698)
Translation adjustments	44,042	8,701	2,252	525	1,071	189	56,780
Net Book Value At 31 July 2019	**1,458,051**	**312,618**	**42,178**	**15,676**	**128,639**	**7,136**	**1,964,298**
At 31 July 2019							
Cost	1,458,051	1,002,088	233,225	42,586	199,800	15,622	2,951,372
Accumulated amortisation	–	(689,470)	(191,047)	(26,910)	(71,161)	(8,486)	(987,074)
Net Book Value At 31 July 2019	**1,458,051**	**312,618**	**42,178**	**15,676**	**128,639**	**7,136**	**1,964,298**

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

Intangible asset movements

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

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

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2019

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.

During the year ended 31 July 2019, management determined it appropriate to combine the previous Germany CGU with the Other Europe CGU for purposes of goodwill impairment testing, as these businesses increasingly operate as one within the overall Europe operating segment. At the time of this determination a goodwill impairment test was performed on the respective standalone CGUs, which did not indicate any impairment.

In making this determination it was considered that significant inter-group revenues exist, both from Germany into Other Europe and from Other Europe into Germany. Increasing this cross-selling continues to be a primary management focus in order to leverage the unique individual capabilities of each bakery and balance the overall European capacity and capital investment, while continuing to provide a larger product offering to customers. In addition, major customer relationships are managed across the Germany and Other Europe network, and it was noted that Germany and Poland, the largest country in terms of revenue and Underlying EBITDA within the Other Europe CGU, are directed under a single management team, with capital investment decisions and the matching of bakery capability to customer needs determined on a combined basis.

in EUR '000	Goodwill
Germany - July 2018	29,906
Other Europe - July 2018	60,329
Germany & Other Europe CGU - July 2018	**90,235**
Translation adjustments	37
Germany & Other Europe CGU - July 2019	**90,272**

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 2019 goodwill impairment testing was performed. The carrying amount of goodwill allocated to the relevant CGUs, as well as the key assumptions used in the 2019 impairment testing, are summarised as follows:

in EUR '000	Pre-tax discount rate 2019	Pre-tax discount rate 2018	Projection period 2019	Projection period 2018	Terminal growth rate 2019	Terminal growth rate 2018	Carrying Value 2019	Carrying Value 2018
North West Europe[1]	**8.0%**	8.0%	**3 years**	3 years	**2.0%**	2.0%	**173,426**	173,625
Germany and Other Europe	**8.3%**	8.4%	**3 years**	3 years	**2.1%**	1.9%	**90,272**	90,235
Switzerland	**6.7%**	7.5%	**3 years**	3 years	**1.0%**	1.0%	**240,449**	229,259
France	**8.4%**	9.0%	**3 years**	3 years	**1.9%**	1.9%	**85,354**	85,354
ARYZTA Europe							**589,501**	578,473
ARYZTA North America	**8.5%**	8.9%	**3 years**	3 years	**2.2%**	2.3%	**816,875**	784,479
ARYZTA Rest of World	**9.9%**	12.3%	**3 years**	3 years	**2.5%**	2.8%	**51,675**	51,057
							1,458,051	1,414,009

1 The North West Europe CGU comprises businesses in Ireland, UK, Netherlands and Denmark

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

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.

Impairment during the year ended 31 July 2018

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

Profitability in this business had been significantly impacted by the consolidation of bakery capacity into the Eisleben facility during prior years, which had been further compounded by customer volume insourcing and commodity prices during the year ended 31 July 2018, while the relatively new capacity at this bakery was also still being optimised.

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 the terminal growth rate, the discount rate, future revenue and profitability.

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 West Europe and ARYZTA North America CGUs, sufficient headroom exists for the other CGUs, such that any reasonably possible movement in any of the underlying assumptions, including a reduction in the terminal growth rate by 1.0%, or increasing the discount rate by 1.0%, would not give rise to an impairment charge.

The headroom of the recoverable amounts of the North West Europe and ARYZTA North America CGUs over the respective carrying amounts at 31 July 2019 is summarized in the table below, as well as the amounts by which the key assumptions would need to change, in isolation, such that the recoverable amounts would equal the carrying values of the CGUs.

in EUR million	Headroom over carrying value	Pre-tax discount rate allowable movement	Terminal growth rate allowable movement
North West Europe	€40m	+0.7%	(0.7%)
ARYZTA North America	€50m	+0.2%	(0.2%)

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

An illustration of the sensitivities to reasonably possible changes in key assumptions at 31 July 2019, in isolation, are as follows:

	North West Europe		ARYZTA North America	
in EUR million	Increase by 1%	Decrease by 1%	Increase by 1%	Decrease by 1%
Pre-tax discount rate	(55)	77	(200)	276
Terminal growth rate	86	(57)	330	(218)

Revenue is projected to grow over the plan period in line with industry growth projections, consistent with external market data, with further assumed improvements in annual underlying EBITDA across the plan period. A decrease of 110 bps in the revenue compound annual growth rate across the plan period within the ARYZTA North America CGU would reduce the headroom over carrying value to zero. EBITDA improvement hinges on delivery of Project Renew savings, in particular within the ARYZTA North America and North West Europe CGUs, which are sensitive to these savings being realised over the expected timeframe. A 7% shortfall in Project Renew savings relating to initiatives which are in progress in the ARYZTA North America CGU and a 31% shortfall in Project Renew savings relating to initiatives which are in progress in the North West Europe CGU would reduce the headroom in those CGUs to zero.

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2019

15 Investments in joint ventures

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

in EUR '000	2019	2018
At 1 August	**420,016**	528,188
Share of joint ventures' underlying net profit	**27,555**	22,755
Group share of intangible amortisation	**(3,215)**	(2,669)
Group share of tax on intangible amortisation and associated rate adjustments	**6,376**	12,686
Group share of refinancing-related costs	–	(14,536)
Group share of restructuring-related costs	**(203)**	(3,080)
Loss on dilution of investment in joint venture	**(2,884)**	–
Disposal of investment in joint venture	–	(32,825)
Gains through other comprehensive income	**33**	105
Dividends	–	(91,018)
Translation adjustments	–	410
At 31 July	**447,678**	420,016

ARYZTA owns a 48% (2018: 49%) interest in Picard, which operates an asset-light B2C platform focused on premium speciality food. Picard is located primarily in France, is separately managed and has separately funded debt structures, which are non-recourse to ARYZTA. The Group also retains the right to exercise a call option to acquire the remaining outstanding interest in Picard between 15 September and 15 October 2018, between 15 September and 15 October 2019, or between 15 September and 15 October 2020. 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 determine the presentation of the Group's interest in Picard as a joint venture.

ARYZTA received no dividends from Picard during the year and the Group's investment carrying value in Picard is €447,678,000 as of 31 July 2019. During the year ended 31 July 2018, ARYZTA received cash dividends from Picard totalling €91,018,000, after which the Group's investment carrying value in Picard totalled €420,016,000 as of 31 July 2018. While Picard is not considered part of ARYZTA's long-term strategy, disposal of the Group's investment is currently only possible with agreement of both joint venture partners. Therefore, the Group's investment continues to be accounted on a historical cost basis using the equity method of accounting.

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

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

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2019

investment. Signature Flatbreads is not included within the results from joint ventures for the year ended 31 July 2019.

The amounts included in these Group consolidated financial statements in respect of the current year profits or losses of joint ventures are taken from their latest financial statements, prepared up to their respective year-ends, together with management accounts for the intervening periods to the Group's year-end or to the date of disposal. Picard has a year-end of 31 March. The assets, liabilities and overall investments in joint ventures are as follows:

in EUR '000	Picard 2019	Picard 2018
Cash and cash equivalents	106,434	15,963
Other current assets	146,725	145,193
Total current assets	**253,159**	**161,156**
Total non-current assets	**1,895,776**	**1,898,787**
Trade and other payables	(221,896)	(240,542)
Other current liabilities	(6,367)	(11,070)
Total current liabilities	**(228,263)**	**(251,612)**
Total non-current liabilities	**(1,781,127)**	**(1,730,645)**
Balance at 31 July	**139,545**	**77,686**
ARYZTA's share in %	48%	49%
ARYZTA's share thereof	66,662	37,810
Goodwill	381,016	382,206
Investment in joint ventures	**447,678**	**420,016**

The share of revenues and results of joint ventures during the year ended 31 July 2019 are as follows:

31 July 2019 in EUR '000	Picard	ARYZTA's 48% share thereof
Revenue	1,422,772	
Underlying EBITDA	194,434	
Depreciation	(30,858)	
Underlying EBITA	163,576	
Finance costs, net	(57,415)	
Pre-tax profits	106,161	
Income tax	(48,479)	
Joint venture underlying net profit	57,682	27,555
Intangible amortisation	(6,729)	(3,215)
Tax on intangible amortisation and associated rate adjustments	13,348	6,376
Restructuring-related costs	(424)	(203)
Loss on dilution of investment in joint venture		(2,884)
Joint venture profit after tax	63,877	27,629
Gains through other comprehensive income	69	33
Total comprehensive income	63,946	27,662

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

The share of revenues and results of joint ventures during the year ended 31 July 2018 are as follows:

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

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

16 Inventory

in EUR '000	**2019**	2018
Raw materials	**42,253**	47,375
Finished goods	**200,942**	193,193
Packaging and other	**4,126**	3,967
Balance at 31 July	**247,321**	244,535

During the year ended 31 July 2019, a total expense of €19,756,000 (2018: €29,979,000) was recognised in the Group Consolidated Income Statement arising from write-down of inventory.

17 Trade and other receivables

in EUR '000	**2019**	2018
Current		
Trade receivables, net	**67,843**	71,651
Amounts due from related parties (note 28)	**21**	135
VAT recoverable	**17,835**	15,670
Prepayments	**31,367**	28,816
Other receivables	**37,296**	37,698
Balance at 31 July	**154,362**	153,970

18 Trade and other payables

in EUR '000	**2019**	2018
Non-current		
Other payables	**46,038**	49,664
Balance at 31 July	**46,038**	49,664

Current		
Trade payables	**339,076**	356,877
Amounts due to related parties (note 28)	**225**	228
Accruals and other payables[1]	**283,529**	304,547
Employee-related tax and social welfare	**13,341**	12,210
VAT payable	**12,350**	10,473
Balance at 31 July	**648,521**	684,335

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 2019

19 Cash and cash equivalents

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

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

in EUR '000	**2019**	2018
Cash at bank and on hand	**533,782**	517,854
Bank overdrafts	**(155,902)**	(175,868)
Included in the Group Consolidated Cash Flow Statement	**377,880**	341,986

Cash at bank 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.

20 Interest-bearing loans and borrowings

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

in EUR `000	**2019**	2018
Included in non-current liabilities		
Loans	**826,308**	1,772,062
Finance leases	**148**	253
Non-current interest-bearing loans and borrowings	**826,456**	1,772,315
Included in current liabilities		
Loans	**284,557**	79,531
Bank overdrafts (note 19)	**155,902**	175,868
Total bank loans and overdrafts	**440,459**	255,399
Finance leases	**143**	404
Current interest-bearing loans and borrowings	**440,602**	255,803
Total bank loans and overdrafts	**1,266,767**	2,027,461
Total finance leases	**291**	657
Total interest-bearing loans and borrowings	**1,267,058**	2,028,118

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

An analysis of the movements in net debt during the years ended 31 July 2019 and 2018, is shown below:

FY19 - analysis of net debt in EUR `000	1 August 2018	Cash flows	Non-cash movements	Translation adjustment	31 July 2019
Cash	517,854	9,420	–	6,508	533,782
Overdrafts	(175,868)	21,766	–	(1,800)	(155,902)
Cash and cash equivalents	**341,986**	**31,186**	**–**	**4,708**	**377,880**
Loans	(1,851,593)	763,871	(7,105)	(16,038)	(1,110,865)
Finance leases	(657)	335	37	(6)	(291)
Net debt	**(1,510,264)**	**795,392**	**(7,068)**	**(11,336)**	**(733,276)**

FY18 - analysis of net debt in EUR `000	1 August 2017	Cash flows	Non-cash movements	Translation adjustment	31 July 2018
Cash	535,570	(7,397)	–	(10,319)	517,854
Overdrafts	(113,630)	(60,303)	–	(1,935)	(175,868)
Cash and cash equivalents	**421,940**	**(67,700)**	**–**	**(12,254)**	**341,986**
Loans	(2,154,285)	313,023	(17,857)	7,526	(1,851,593)
Finance leases	(1,525)	716	140	12	(657)
Net debt	**(1,733,870)**	**246,039**	**(17,717)**	**(4,716)**	**(1,510,264)**

During July 2017, the Group agreed to the terms of a new five-year unsecured €1,800m refinancing of its Syndicated Bank RCF and term loan facility, comprising a €1,000m amortising term loan and a €800m revolving credit facility. On 22 September 2017, this financing was used to repay the existing revolving credit and term loan facilities outstanding at that time in full. In connection with this early repayment, the Group incurred €12.4m of costs, including the write-off of €11.9m of existing RCF and term loan capitalised borrowing costs, and other redemption-related cash costs of €0.5m.

Details on the Group's financial covenants are included in note 25 on pages 156 and 157.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

The terms of outstanding loans are as follows:

2019	Currency	Financial year of maturity	Nominal Value in EUR'000	Carrying amount in EUR'000
Syndicated Bank RCF	Various	2023	394,179	379,603
Syndicated Bank Term Loan[1]	Various	2023	353,368	346,929
Schuldschein Variable	EUR	2020	185,500	185,042
Schuldschein Variable	EUR	2022	119,500	119,205
Schuldschein Variable	EUR	2024	8,000	7,980
Schuldschein Fixed	EUR	2020	20,000	19,951
Schuldschein Fixed	EUR	2022	33,000	32,919
Schuldschein Fixed	USD	2022	10,315	10,289
Schuldschein Fixed	USD	2024	8,969	8,947
Total outstanding loans at 31 July 2019			**1,132,831**	**1,110,865**

1 The schedule of mandatory repayments by financial year on the amortising Syndicated Bank Term Loan is as follows: FY 2020 – €80m; FY 2021 – €80m; FY 2022 – €80m and FY 2023 – €113m.

2 All debt instruments above are unsecured.

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

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

	2019	2018
Total bank loans	**1.7%**	3.2%

The pre-tax weighted average cost of capital associated with the Group's financing structures was 8.5% (2018: 8.5%).

Repayment schedule – loans and overdrafts (nominal values) in EUR `000	2019	2018
Less than one year	**441,402**	255,868
Between one and five years	**847,331**	1,778,623
After five years	**–**	16,583
	1,288,733	2,051,074

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

Repayment schedule – finance leases in EUR `000	Minimum lease payments 2019	Interest 2019	Present value of payments 2019	Minimum lease payments 2018	Interest 2018	Present value of payments 2018
Less than one year	**154**	**11**	**143**	424	20	404
Between one and five years	**157**	**9**	**148**	263	10	253
	311	**20**	**291**	687	30	657

21 Financial instruments and financial risk

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

in EUR `000	Fair value hierarchy	Fair Value through income statement 2019	Fair value through OCI 2019	Amortised cost 2019	Total carrying amount 2019	Fair value 2019
Trade and other receivables (excluding prepayments)		–	–	105,160	105,160	105,160
Cash and cash equivalents		–	–	533,782	533,782	533,782
Derivative financial assets	*Level 2*	–	202	–	202	202
Investment properties	*Level 3*	12,185	–	–	12,185	12,185
Total financial assets		**12,185**	**202**	**638,942**	**651,329**	**651,329**
Trade and other payables (excluding non-financial liabilities)		–	–	(668,868)	(668,868)	(668,868)
Bank overdrafts		–	–	(155,902)	(155,902)	(155,902)
Bank borrowings		–	–	(1,110,865)	(1,110,865)	(1,121,259)
Finance lease liabilities		–	–	(291)	(291)	(291)
Derivative financial liabilities	*Level 2*	–	(505)	–	(505)	(505)
Total financial liabilities		**–**	**(505)**	**(1,935,926)**	**(1,936,431)**	**(1,946,825)**

in EUR `000	Fair value hierarchy	Fair Value through income statement 2018	Hedge instruments 2018	Loans and receivables at amortised cost 2018	Liabilities at amortised cost 2018	Total carrying amount 2018	Fair value 2018
Trade and other receivables (excluding prepayments)		–	–	109,484	–	109,484	109,484
Cash and cash equivalents		–	–	517,854	–	517,854	517,854
Derivative financial assets	*Level 2*	–	1,268	–	–	1,268	1,268
Investment properties	*Level 3*	14,574	–	–	–	14,574	14,574
Assets of disposal groups held-for-sale	*Level 3*	7,000	–	–	–	7,000	7,000
Total financial assets		**21,574**	**1,268**	**627,338**	**–**	**650,180**	**650,180**
Trade and other payables (excluding non-financial liabilities)		–	–	–	(711,316)	(711,316)	(711,316)
Bank overdrafts		–	–	–	(175,868)	(175,868)	(175,868)
Bank borrowings		–	–	–	(1,851,593)	(1,851,593)	(1,866,472)
Finance lease liabilities		–	–	–	(657)	(657)	(657)
Derivative financial liabilities	*Level 2*	–	(829)	–	–	(829)	(829)
Total financial liabilities		**–**	**(829)**	**–**	**(2,739,434)**	**(2,740,263)**	**(2,755,142)**

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

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
Trade and other receivables are carried at amortised cost, less loss allowance. Trade and other payables are carried at amortised cost. 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, determined based on the results of independent valuations. The valuations were arrived at by reference to location, market conditions including the prices of transactions of similar properties, adjusted as appropriate, and status of planned disposals. As the fair value is based on inputs not observable within the market, it has been classified as a Level 3 asset.

Disposal groups held-for-sale
The assets of disposal groups held-for-sale at 31 July 2018 were held at fair value less costs to sell. The fair value was the estimated recoverable value determined based on the status of the business sale processes and valuations of the underlying land and building assets within the disposal groups. As the fair value was based on inputs not observable within the market, it was classified as a Level 3 asset.

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2019

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 including accrued interest 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 market interest rates.

Risk exposures

Group risk management
Risk management is a fundamental element of the Group's business practice at all levels and encompasses different types of risks. This overall Group risk management process includes the performance of a risk assessment that is described in more detail in note 30. Financial risk management specifically is described in further detail below.

Financial risk management
The Group's international operations expose it to different financial risks that include:
- credit risks;
- liquidity risks;
- foreign exchange rate risks;
- interest rate risks; and
- commodity price risks.

The Group has a risk management programme in place, which seeks to limit the impact of these risks on the financial performance of the Group. The Board has determined the policies for managing these risks. It is the policy of the Board to manage these risks in a non-speculative manner.

Credit risk

Exposure to credit risk
Credit risk arises from credit issued to customers on outstanding receivables and outstanding transactions, as well as cash and cash equivalents, favourable derivative financial instruments and deposits with banks and financial institutions.

The Group has not pledged any financial assets as collateral for liabilities or contingent liabilities.

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.

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2019

Trade and other receivables
The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. There is no significant 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial re-organisation and default in payments are considered to be indicators that the trade receivables is impaired. 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. Management does not expect any significant counterparty to fail to meet its obligations. The maximum exposure to credit risk is represented by the carrying amount of each asset.

The Group applies the simplified approach to providing for expected credit losses ('ECL') permitted by IFRS 9 Financial Instruments, which requires expected lifetime losses to be recognised from initial recognition of the trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales and the corresponding historical credit loss experience. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of customers to settle receivables.

The impact of adopting IFRS 9 on the consolidated financial statements was not material for the Group and there was no adjustment to retained earnings on application at 1 August 2018.

The Group also manages credit risk through the use of a receivables purchase arrangement with a financial institution. Under the terms of this non-recourse agreement, the Group has transferred substantially all credit risk and control of certain trade receivables, amounting to €208,296,000 (2018: €224,658,000). The Group has continued to also recognise an asset within Trade and other receivables, of €18,414,000 (2018: €25,518,000), representing the fair value and maximum extent of its continuing involvement or exposure. This maximum exposure was determined based on a Reserve Calculation Ratio (approximately 10%), as per the terms of the receivables purchase arrangement. Total expenses associated with this receivables purchase agreement during the year ended 31 July 2019 were €4,275,000 (2018: €3,033,000).

The undiscounted cash outflows required to repurchase these derecognised financial assets would be equal to the receivables transferred, net of the Group's remaining continuing involvement asset. The estimated maturity of any such cash outflows would be expected to be less than 6 months, as the Group's trade and other receivables are also generally settled in less than 6 months. As the carrying value of the receivables transferred and the continuing involvement retained both equal fair value, no gain or loss has arisen, either at the date of transfer or in connection with the Group's continuing involvement in these assets.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

The carrying amount of financial assets, net of loss allowances, represents the Group's maximum credit exposure. The maximum exposure to credit risk at year-end was as follows:

in EUR `000	Carrying amount 2019	Carrying amount 2018
Cash and cash equivalents	**533,782**	517,854
Trade and other receivables	**105,160**	109,484
Derivative financial assets	**202**	1,268
	639,144	628,606

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

in EUR `000	Carrying amount 2019	Carrying amount 2018
Europe	**41,365**	43,144
North America	**2,773**	4,709
Rest of World	**23,705**	23,798
	67,843	71,651

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

in EUR `000	Gross 2019	Loss allowances 2019	Gross 2018	Loss allowances 2018
Not past due	**44,860**	**988**	44,031	472
Past due 0–30 days	**17,649**	**621**	21,159	294
Past due 31–120 days	**7,796**	**1,739**	7,214	1,144
Past due more than 121 days	**7,356**	**6,470**	7,119	5,962
	77,661	**9,818**	79,523	7,872

The analysis of movement in loss allowances in respect of trade receivables was as follows:

in EUR `000	2019	2018
Balance at 1 August	**7,872**	9,125
Utilised during the year	**(2,619)**	(2,736)
Increase in loss allowance during the financial year	**4,551**	1,722
Translation adjustment	**14**	(239)
Balance at 31 July	**9,818**	7,872

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's objective is to maintain a balance between flexibility and continuity of funding, so that not more than 40% of total bank borrowing facilities should mature in the next twelve-month period. At 31 July 2019, 25% of the Group's total bank borrowings will mature within the next 12 months.

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2019

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

2019 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	(72,105)	(77,172)	(21,270)	(410)	(1,403)	(54,089)	–
Variable rate bank loans	(1,038,760)	(1,109,262)	(235,459)	(48,252)	(95,279)	(730,272)	–
Finance lease liabilities	(291)	(310)	(81)	(72)	(80)	(77)	–
Bank overdrafts	(155,902)	(155,902)	(155,902)	–	–	–	–
Trade and other payables	(668,868)	(668,868)	(595,589)	(27,241)	(16,095)	(16,889)	(13,054)
Derivative financial instruments							
Currency forward contracts used for hedging							
– Inflows	–	193,026	192,432	594	–	–	–
– Outflows	(505)	(193,531)	(192,921)	(610)	–	–	–
	(1,936,431)	**(2,012,019)**	**(1,008,790)**	**(75,991)**	**(112,857)**	**(801,327)**	**(13,054)**

2018 in EUR `000	Carrying amount	Contractual cash flows	6 mths or less	6 – 12 mths	1 – 2 years	2 – 5 years	More than 5 years
Non-derivative financial liabilities							
Fixed rate bank loans	(71,203)	(77,862)	(1,252)	(393)	(21,647)	(45,792)	(8,778)
Variable rate bank loans	(1,780,390)	(1,984,487)	(65,416)	(64,785)	(311,920)	(1,534,293)	(8,073)
Finance lease liabilities	(657)	(687)	(276)	(148)	(177)	(86)	–
Bank overdrafts	(175,868)	(175,868)	(175,868)	–	–	–	–
Trade and other payables	(711,316)	(711,316)	(641,991)	(19,661)	(19,224)	(13,265)	(17,175)
Derivative financial instruments							
Currency forward contracts used for hedging							
– Inflows	–	111,678	104,906	6,772	–	–	–
– Outflows	(829)	(112,507)	(105,624)	(6,883)	–	–	–
	(2,740,263)	**(2,951,049)**	**(885,521)**	**(85,098)**	**(352,968)**	**(1,593,436)**	**(34,026)**

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

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 2019	Liabilities 2019	Assets 2018	Liabilities 2018
Cash flow hedges				
Currency forward contracts	**202**	**(505)**	873	(829)
Interest rate swaps	**–**	**–**	395	–
At 31 July	**202**	**(505)**	1,268	(829)

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. The impact on the statement of consolidated income is on page 81.

There is no significant difference between the timing of the cash flows and the income statement effect of cash flow hedges. The fair value included in the hedging reserve will primarily be released to the Consolidated Income Statement within 6 months (2018: 6 months) of the balance sheet date.

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 amortised cost, with the effective portion of the change in value of the borrowings

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2019

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.

Foreign currency contracts
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 2019:

2019 in EUR `000	GBP	USD	CAD	CHF	EUR	Other	Total
Trade receivables	8,068	5,574	2,074	6,240	17,855	3,285	43,096
Other receivables	223	203	–	–	644	16	1,086
Cash and cash equivalents	2,815	7,535	2	838	10,675	1,491	23,356
Trade payables	(7,764)	(12,905)	(14,614)	(298)	(29,603)	(2,262)	(67,446)
Other payables	(352)	(3,130)	–	(4,427)	(7,573)	(2,637)	(18,119)
Derivative financial instruments	(25)	(155)	(14)	–	(241)	(3)	(438)
At 31 July 2019	**2,965**	**(2,878)**	**(12,552)**	**2,353**	**(8,243)**	**(110)**	**(18,465)**

The following table details the Group's exposure to transactional foreign currency risk at 31 July 2018:

2018 in EUR `000	GBP	USD	CAD	CHF	EUR	Other	Total
Trade receivables	17,914	2,999	–	–	4,996	683	26,592
Other receivables	119	80	–	–	92	1	292
Cash and cash equivalents	1,651	8,444	44	187	7,608	281	18,215
Trade payables	(12,586)	(6,101)	(44)	(29)	(16,297)	(3,878)	(38,935)
Other payables	(8,401)	(2,345)	(776)	(4,165)	(2,515)	1,329	(16,873)
Derivative financial instruments	(5)	552	(46)	–	(137)	7	371
At 31 July 2018	**(1,308)**	**3,629**	**(822)**	**(4,007)**	**(6,253)**	**(1,577)**	**(10,338)**

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

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.

2019 in EUR `000	10% strengthening income statement	10% strengthening equity	10% weakening income statement	10% weakening equity
GBP	(272)	463	299	(510)
USD	248	15,393	(272)	(16,932)
CAD	1,140	2,884	(1,254)	(3,173)
CHF	(214)	–	235	–
At 31 July 2019	902	18,740	(992)	(20,615)

2018 in EUR `000	10% strengthening income statement	10% strengthening equity	10% weakening income statement	10% weakening equity
GBP	118	(519)	(130)	571
USD	(280)	52,889	308	(58,178)
CAD	71	3,524	(78)	(3,876)
CHF	364	–	(401)	–
At 31 July 2018	273	55,894	(301)	(61,483)

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 2019	Carrying amount 2018
Fixed rate instruments		
Bank borrowings	**(72,105)**	(71,203)
Finance lease liabilities	**(291)**	(657)
	(72,396)	(71,860)
Variable rate instruments		
Cash and cash equivalents	**533,782**	517,854
Bank overdrafts	**(155,902)**	(175,868)
Bank borrowings	**(1,038,760)**	(1,780,390)
Total interest-bearing financial instruments	**(733,276)**	(1,510,264)

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2019

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.

2019 in EUR `000	Principal amount	Impact of 50 bp increase on income statement	Impact of 50 bp increase on equity
Bank overdrafts	(155,902)	(780)	–
Variable rate bank borrowings	(1,038,760)	(5,194)	–
Cash flow sensitivity, net	**(1,194,662)**	**(5,974)**	**–**

2018 in EUR `000	Principal amount	Impact of 50 bp increase on income statement	Impact of 50 bp increase on equity
Bank overdrafts	(175,868)	(879)	–
Variable rate bank borrowings	(1,780,390)	(8,902)	–
Interest rate swaps	214,574	–	1,073
Cash flow sensitivity, net	**(1,741,684)**	**(9,781)**	**1,073**

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 IFRS 9, 'Financial Instruments', 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 IFRS 9 are applied.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

22 Deferred income from government grants

in EUR `000	2019	2018
At 1 August	**14,408**	18,280
Recognised in Group Consolidated Income Statement	**(3,937)**	(3,871)
Translation adjustment	**–**	(1)
At 31 July	**10,471**	14,408

23 Deferred income tax

The deductible and taxable temporary differences at the balance sheet date, in respect of which deferred income tax has been recognised, are analysed as follows:

in EUR `000	2019	2018
Deferred income tax assets (deductible temporary differences)		
Property, plant and equipment and ERP	**383**	5,090
Goodwill	**4,985**	6,259
Employee compensation	**5,422**	5,322
Pension related	**3,096**	2,670
Financing related	**189**	1,475
Tax losses and tax credits	**42,302**	47,770
Other	**10,474**	6,375
	66,851	74,961
Deferred income tax liabilities (taxable temporary differences)		
Property, plant and equipment and ERP	**(87,891)**	(82,284)
Intangible assets	**(86,619)**	(110,334)
Employee compensation	**(7)**	(37)
Pension related	**(2,398)**	(2,434)
Financing related	**(4,670)**	(4,291)
Other	**(10,000)**	(13,498)
	(191,585)	(212,878)

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	2019	2018
Within one year	**15**	133
Between one and five years	**624**	1,711
After five years	**292,670**	248,248
Total unrecognised tax losses	**293,309**	250,092

Deferred income tax liabilities of €5,601,000 (2018: €5,634,000) 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.

Notes to the Group Consolidated Financial Statements (continued)
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Movements in net deferred tax assets/(liabilities), during the year, were as follows:

2019 in EUR `000	Goodwill	Intangible assets	Property, plant & equipment and ERP	Employee compensation	Pension related	Financing related	Tax losses and credits	Other	Total
At 1 August 2018	6,259	(110,334)	(77,194)	5,285	236	(2,816)	47,770	(7,123)	**(137,917)**
Recognised in Group Consolidated Income Statement	(1,525)	27,312	(8,597)	3	246	(1,419)	(7,164)	6,187	**15,043**
Recognised in Group Consolidated Statement of Comprehensive Income	–	–	–	–	201	(78)	–	23	**146**
Translation adjustments and other	251	(3,597)	(1,717)	127	15	(168)	1,696	1,387	**(2,006)**
At 31 July 2019	4,985	(86,619)	(87,508)	5,415	698	(4,481)	42,302	474	**(124,734)**

2018 in EUR `000	Goodwill	Intangible assets	Property, plant & equipment and ERP	Employee compensation	Pension related	Financing related	Tax losses, credits and unremitted earnings	Other	Total
At 1 August 2017	88,722	(171,256)	(70,009)	4,656	2,271	(3,653)	(38,955)	(6,173)	**(194,397)**
Recognised in Group Consolidated Income Statement	(5,829)	54,886	(9,170)	648	(1,759)	(551)	7,847	3,696	**49,768**
Recognised in Group Consolidated Statement of Comprehensive Income	–	–	–	–	(156)	1,279	–	(2,270)	**(1,147)**
Transferred to disposal groups held-for-sale (note 3)	–	1,031	630	–	–	–	–	–	**1,661**
Arising on disposal of business (note 2)	(77,449)	2,233	(47)	–	–	5	77,449	(38)	**2,153**
Translation adjustments and other	815	2,772	1,402	(19)	(120)	104	1,429	(2,338)	**4,045**
At 31 July 2018	6,259	(110,334)	(77,194)	5,285	236	(2,816)	47,770	(7,123)	**(137,917)**

US Tax reform

On 22 December 2017, the US Tax Cuts and Jobs Act ('the Act') was enacted into law. As a result of the Act, the statutory rate of US federal corporate income tax was reduced from 35% to 21% with effect from 1 January 2018. The reduction in the US corporate income tax rate to 21% under the Act required revaluation of ARYZTA's US deferred tax assets and liabilities during the financial year ended 31 July 2018.

The disposal of Cloverhill during FY18 also resulted in a reduction in deferred tax attributes associated with these assets.

The Act also introduced a one-time mandatory deemed repatriation tax on historical earnings & profits of certain US owned foreign corporations and exempted from tax future dividends paid to the US. As a result, the FY17 unremitted earnings' deferred tax liability, which solely related to the US, was removed during FY18.

Swiss Tax Reform

In Switzerland, changes to the Swiss federal and the canton of Zurich tax laws, which eliminated certain favourable tax regimes, were substantively enacted in May and September 2019 respectively. As substantive enactment at the Zurich cantonal level had

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

not taken place until after the reporting date of 31 July 2019, no adjustments to ARYZTA's deferred tax position have been reported in the balance sheet.

If reflected, this would have led to an estimated €11m additional deferred tax expense and would have resulted in no change in current tax expense. Changes in the tax laws in other Swiss cantons in which the Group operates are still under discussion.

24 Employee benefits

The Group operates a number of defined benefit and defined contribution pension plans in various jurisdictions. The Group operates four of the defined benefit plans in Switzerland, two in France, one in Germany and one in Japan. 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	**2019**	2018
Total deficit in defined benefit plans	**7,267**	5,053
Other[1]	**2,394**	1,922
Total	**9,661**	6,975

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 2019 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.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

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.

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:

	2019	2018
Rate of increase in salaries	**2.02%**	1.83%
Discount rate on plan liabilities	**0.43%**	0.98%

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

	2019	2018
Male	**24.4**	24.3
Female	**26.4**	26.4

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

	2019	2018
Male	**22.6**	22.5
Female	**24.7**	24.5

Notes to the Group Consolidated Financial Statements (continued)
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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 2019 is on the basis that only one principal financial actuarial assumption is changed, with all other assumptions remaining unchanged.

The impact of a change in the assumption of life expectancy has been measured as at 31 July 2019 in the sensitivity analysis. The method 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 5.3% /increase by 4.9%
Salary growth rate	**Increase/decrease 0.50%**	Increase by 0.9% /decrease by 0.9%
Life expectancy	**Increase/decrease 1 year**	Increase by 1.4% /decrease by 1.4%

Net pension liability
in EUR `000

	2019	2018
Total fair value of assets	**62,659**	58,411
Present value of plan liabilities	**(69,926)**	(63,464)
Deficit in the plans	**(7,267)**	(5,053)
Related deferred tax asset (note 23)	**698**	236
Net pension liability	**(6,569)**	(4,817)

Fair value of plan assets
in EUR `000

	Quoted	Non-quoted	2019	2018
Cash and cash equivalents	1,686	–	**1,686**	1,634
Equity instruments	19,760	–	**19,760**	19,559
Debt instruments	21,737	140	**21,877**	17,720
Property	6,571	11,418	**17,989**	17,262
Other	528	819	**1,347**	2,236
Total fair value of assets	50,282	12,377	**62,659**	58,411

Movement in the fair value of plan assets
in EUR `000

	2019	2018
Fair value of plan assets at 1 August	**58,411**	59,225
Interest income	**589**	354
Employer contributions	**2,591**	2,558
Employee contributions	**2,282**	2,238
Benefit payments made	**(6,252)**	(2,364)
Plan settlements	**-**	(3,808)
Actuarial return on plan assets (excluding interest income)	**2,780**	2,087
Translation adjustments	**2,258**	(1,879)
Fair value of plan assets at 31 July	**62,659**	58,411

Notes to the Group Consolidated Financial Statements (continued)
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Movement in the present value of plan obligations
in EUR `000

	2019	2018
Present value of plan obligations at 1 August	**(63,464)**	(63,982)
Current service cost	**(3,327)**	(3,225)
Past service cost	**–**	(731)
Interest expense on plan obligations	**(640)**	(407)
Employee contributions	**(2,282)**	(2,238)
Benefit payments made	**6,252**	2,364
Plan settlements	**–**	3,808
Actuarial changes in financial assumptions	**(3,612)**	1,927
Actuarial experience adjustments	**(483)**	(2,890)
Translation adjustments	**(2,370)**	1,910
Present value of plan obligations at 31 July	**(69,926)**	(63,464)

Movement in net liability recognised in the Group Consolidated Balance Sheet
in EUR `000

	2019	2018
Net liability in plans at 1 August	**(5,053)**	(4,757)
Current service cost (note 7)	**(3,327)**	(3,225)
Past service cost (note 7)	**–**	(731)
Employer contributions	**2,591**	2,558
Net interest expense (note 4)	**(51)**	(53)
Actuarial (loss)/gain on Group defined benefit pension plans	**(1,315)**	1,124
Translation adjustments	**(112)**	31
Net liability in plans at 31 July	**(7,267)**	(5,053)

The estimated contributions expected to be paid during the year ending 31 July 2020 in respect of the Group's defined benefit plans are €2,587,000.

Analysis of defined benefit expense recognised in the Group Consolidated Income Statement
in EUR `000

	2019	2018
Current service cost (note 7)	**3,327**	3,225
Past service cost (note 7)	**–**	731
Non-financing expense	**3,327**	3,956
Included in financing costs, net	**51**	53
Net charge to Group Consolidated Income Statement	**3,378**	4,009

Additionally, a charge of €13,450,000 (2018: €13,767,000) 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 2019

Defined benefit pension expense recognised in Group Consolidated Statement of Comprehensive Income in EUR `000	2019	2018
Return on plan assets (excluding interest income)	**2,780**	2,087
Experience losses on plan liabilities	**(483)**	(2,890)
Changes in demographic and financial assumptions	**(3,612)**	1,927
Actuarial (loss)/gain	**(1,315)**	1,124
Deferred tax effect of actuarial loss/(gain) (note 9)	**201**	(156)
Actuarial loss/(gain) recognised in Group Consolidated Statement of Comprehensive Income	**(1,114)**	968

History of experience gains and losses:	2019	2018
Difference between expected and actual return on plan assets:		
– Amount (in €`000)	**2,780**	2,087
– % of Plan assets	**4.44%**	3.57%
Experience losses on plan obligations:		
– Amount (in €`000)	**(483)**	(2,890)
– % of Plan obligations	**(0.69)%**	4.55%
Total actuarial gains recognised in Group Consolidated Statement of Comprehensive Income:		
– Amount (in €`000)	**(1,315)**	1,124
– % of Plan obligations	**(1.88)%**	1.77%

Notes to the Group Consolidated Financial Statements (continued)
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25 Shareholders equity

Registered shares of CHF 0.02 each – authorised, issued and fully paid	2019 `000	2019 in EUR `000	2018 `000	2018 in EUR `000
At 1 August	**92,921**	**1,191**	91,811	1,172
Issue of registered shares (CHF 0.02)	**900,185**	**15,782**	–	–
Scrip dividend	**–**	**–**	1,110	19
At 31 July	**993,106**	**16,973**	92,921	1,191

During November 2018, the Group completed a capital raise, by way of a rights issue, in order to strengthen the balance sheet, provide necessary liquidity and working capital funding, and to enable delivery of ARYZTA's three year turnaround plan, Project Renew. At the Annual General Meeting on 1 November 2018, a total of 900,184,940 registered shares with a nominal value of CHF 0.02 each were offered to Aryzta's existing shareholders on a 10 for 1 share basis, at a discounted offer price of CHF 1.00 per share.

The gross proceeds received upon completion of the rights issue were €795,833,000. This resulted in €739,505,000, net of related transaction costs, which was recognised within equity during the year ended 31 July 2019, of which €15,782,000 is recognised within share capital, and €723,723,000 within share premium. At 31 July 2019, €739,505,000 has been recognised relating to proceeds from the rights issue within financing activities in the Group Cash Flow Statement.

The dividend for the year ended 31 July 2017 was proposed to be settled as a scrip dividend via newly issued share capital, based on a ratio of one new share for every 80 shares held, and was approved at the Annual General Meeting held on 7 December 2017. Accordingly, a total of 1,110,253 new shares were issued, with a par value of CHF 0.02 per share during the year ended 31 July 2018.

In accordance with Article 5 of the Articles of Association (Authorised capital for general purposes), the Board of Directors is authorised to increase the share capital of the Company at any time until 9 December 2019 by a maximum amount of CHF 161,416 by issuing of up to 8,070,800 fully paid up registered shares with a par value of CHF 0.02 each. A partial increase is permitted.

The Board of Directors is authorised to withdraw or limit the pre-emptive rights of the existing shareholders if the newly issued shares are used for the following purposes: (1) mergers, acquisitions (including take-overs) of companies, parts of companies or holdings, equity stakes (participation) or new investments planned by the Company, or the financing or re-financing of such transactions, (2) broadening the shareholder constituency, or (3) employee participations.

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Treasury shares of CHF 0.02 each - authorised, called up and fully paid	**2019** `000	**2019** in EUR `000	2018 `000	2018 in EUR `000
At 1 August	**2,987**	**46**	3,052	47
Release of treasury shares upon vesting and exercise of equity entitlements	**(85)**	**(1)**	(65)	(1)
Release of treasury shares as restricted shares	**(384)**	**(5)**	–	–
At 31 July	**2,518**	**40**	2,987	46

During the year ended 31 July 2019, the performance conditions associated with 84,815 Restricted Stock Unit awards were fulfilled (2018: 64,899). Therefore, these awards were approved as vested by the Remuneration Committee and were subsequently exercised by employees, in exchange for the same number of shares. The weighted average share price at the time of these exercises was CHF 10.33 (2018: CHF 28.69).

In addition, during the year ended 31 July 2019, 383,888 shares were issued out of treasury shares, in respect of restricted shares for non-executive directors, as detailed on pages 54 to 68 of the Compensation Report.

These shares were issued out of shares previously held in treasury by ARYZTA Grange Company UC, a wholly-owned subsidiary within the ARYZTA AG Group.

Other equity reserve

in EUR `000	**2019**	2018
At 1 August and 31 July	**720,456**	720,456

In April 2013, the Group raised CHF 400,000,000 through the issuance of a Perpetual Callable Subordinated Instrument (‘Hybrid Instrument’), which was recognised at a carrying value of €319,442,000 within equity. This Hybrid Instrument has no maturity date, and as the first call option was not exercised by ARYZTA in April 2018, the coupon is now 6.045%, plus the 3-month CHF LIBOR.

In October 2014, the Group raised CHF 190,000,000 through the issuance of a Hybrid Instrument. This Hybrid Instrument offers a coupon of 3.5% and has no maturity date, with an initial call option date by ARYZTA in April 2020. In the event that the call option is not exercised, the coupon would be 4.213%, plus the 3-month CHF LIBOR.

In November 2014, the Group raised €250,000,000 through the issuance of an additional Hybrid Instrument. This Hybrid Instrument offers a coupon of 4.5% and has no maturity date, and as the first call option was not exercised by ARYZTA in March 2019, the coupon is now 6.77%, plus the 5 year euro swap rate.

The two Hybrid instruments issued during the year ended 31 July 2015 were recognised at a combined value of €401,014,000 within equity.

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

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

Because the Group has not paid a cash dividend to equity shareholders during the last 12 months, as of 31 July 2019 the Group is under no contractual obligation to settle the Hybrid instrument dividends in cash. Therefore, these deferred dividends have not been accrued as separate financial liabilities, but instead remain within equity, in accordance with IAS 32 'Financial Instruments'. Should a Compulsory Payment Event occur in the future, all Hybrid instrument deferred dividends will become due in cash.

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

in EUR `000	2019	2018
Balance at 1 August	(41,071)	(9,032)
Hybrid instrument deferred dividend	(38,902)	(32,057)
Translation adjustments	(1,873)	18
Balance at 31 July	**(81,846)**	**(41,071)**

Cash flow hedge reserve
The cash flow hedge reserve comprises of the effective portion of the cumulative net change in the fair value of cash flow hedging instruments.

Share-based payment reserve
This reserve comprises amounts credited to reserves in connection with equity awards, less the amount related to any such awards that become vested.

Foreign currency translation reserve
The foreign currency translation reserve comprises all foreign exchange differences, since the date of the Group's transition to IFRS, arising from translation of the net assets of the Group's non-euro-denominated functional currency operations into euro, the Group's presentation currency.

Capital and net debt management
The capital managed by the Group as at 31 July 2019 consists of total equity of €2,436,147,000 (2018: €1,672,860,000) and net debt of €733,276,000 at 31 July 2019 (2018: €1,510,264,000). The Group has set the following goals for the management of its capital and net debt:

- To maintain prudent Net Debt: EBITDA[1] and interest cover (EBITDA: Net interest, including Hybrid dividend[1]) ratios to support a prudent capital base and ensure a long-term sustainable business.
- To achieve a return for investors in excess of the Group's weighted average cost of capital.
- To apply a dividend policy that takes into account the Group's financial performance and position, the Group's future outlook and other relevant factors including tax and other legal considerations.

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

1 Calculated as per Syndicated Bank Facilities Agreement terms.

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- The Group's Net Debt: EBITDA ratio is below 3.5x – the ratio was 2.43x at 31 July 2019 (2018 3.83x).
- The Group's interest cover (EBITDA: Net interest, including Hybrid dividend) is above 2.0x – the ratio was 3.45x at 31 July 2019 (2018: 3.72x).

These ratios were complied with throughout the year ended 31 July 2019, and are reported to the Board of Directors at regular intervals through internal financial reporting.

Following the amendment of the Group's Syndicated Bank Facilities Agreement in September 2018, and successful completion of the capital raise during November 2018, the Group's financial covenants are as follows:

- Leverage covenant (Net Debt: EBITDA):
  - maximum 3.5x thereafter
- Interest cover covenant (EBITDA: Net interest, including Hybrid dividend):
  - minimum 2.0x until July 2019
  - minimum 3.0x thereafter

No dividend is planned to be proposed for the year ended 31 July 2019.

26 Commitments

26.1 Commitments under operating leases

Non-cancellable operating lease rentals are payable as set out below. These amounts represent minimum future lease payments, in aggregate, that the Group is required to make under existing lease agreements.

in EUR `000	**2019**	2018
Within one year	**60,645**	57,121
In two to five years	**161,503**	163,960
After more than five years	**105,316**	107,625
Total	**327,464**	328,706

26.2 Capital commitments

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

in EUR `000	**2019**	2018
Property, plant and equipment	**20,354**	13,765
Intangible assets	**36**	–
Total	**20,390**	13,765

26.3 Other commitments

The Company is party to cross guarantees on ARYZTA Group borrowings. The Company has also guaranteed the liabilities of subsidiaries within the ARYZTA Group. The Company treats these guarantees as a contingent liability, until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2019

27 Contingent liabilities

Letters of credit and guarantees

Letters of credit and guarantees amounting to €14.5 million are outstanding at 31 July 2019 (2018: €12.2 million). The Group does not expect any material loss to arise from these letters of credit or guarantees.

Litigation

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.

28 Related party transactions

In the normal course of business, the Group undertakes transactions with its joint ventures and other related parties. A summary of transactions with these related parties is as follows:

in EUR `000	**2019**	2018
Purchase of goods	**–**	(141)
Provision of services	**1,310**	1,832

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

The trading balances owing to the Group from related parties were €21,000 (2018: €135,000) and the trading balances owing from the Group to these related parties were €225,000 (2018: €228,000).

Compensation of key management

For the purposes of the disclosure requirements of IAS 24, 'Related Party Disclosures', the term 'key management personnel' (i.e. those persons having authority and responsibility for planning, directing and controlling the activities of the Group) comprises the Board of Directors and the Group Executive Management, which manage the business and affairs of the Group. A summary of the compensation to key management is as follows:

in EUR `000	**2019**	2018
Short-term employee benefits	**8,395**	5,515
Other long-term benefits	**570**	456
Long-term incentives (LTIP)	**737**	–
Total key management compensation	**9,702**	5,971

Jim Leighton was elected to the ARYZTA Board of Directors at the 2017 AGM. In June 2018, ARYZTA entered into a consultancy arrangement with him under which he would provide advisory services on the implementation of ARYZTA's three-year €200m cost reduction plan, Project Renew. The compensation payable to Mr. Leighton under the arrangement amounted to €133,000, over the period of the consultancy, of which €103,000 accrued during FY19 and is included in the amounts above.

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2019

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 2019, other than the aforementioned consultancy fee paid to Jim Leighton.

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 54 to 68.

29 Post balance sheet events – after 31 July 2019

As announced on 4 October 2019, the Group received a binding offer from Invest Group Zouari ('IGZ') to purchase 43.3% of its 47.8% holding in Picard for gross consideration of €156m. ARYZTA would retain a 4.5% interest in Picard, to be recorded as a financial investment at fair value. The transaction is subject to a works council consultation process in France and to customary regulatory approvals. Subject to ARYZTA's acceptance of the offer following completion of the works council consultation process, the transaction is expected to close in the last quarter of calendar year 2019. Upon completion, the proposed transaction is expected to generate a material one-off non-cash accounting loss, currently estimated to be c. €280m based on year end 2019 carrying value. This loss could change depending on the timing of when the proposed transaction closes, as the results for Picard would continue to be consolidated under the equity method of accounting until then.

During October 2019, the Group completed the disposal of its UK Food Solutions business within the Europe operating segment for gross consideration of €8m. The transaction is expected to result in a loss relating to derecognition of goodwill and recycle of cumulative foreign currency translation loss since the initial investment.

These disposals are consistent with ARYZTA's strategy to focus on its frozen B2B bakery operations and exit non-core businesses.

In Switzerland, changes to the Swiss federal and the canton of Zurich tax laws, which eliminated certain favourable tax regimes, were substantively enacted in May and September 2019 respectively. As substantive enactment at the Zurich cantonal level had not taken place until after the reporting date of 31 July 2019, no adjustments to ARYZTA's deferred tax position have been reported in the balance sheet.

If reflected, this would have led to an estimated €11m additional deferred tax expense and would have resulted in no change in current tax expense. Changes in the tax laws in other Swiss cantons in which the Group operates are still under discussion.

30 Risk assessment

The Board and senior management continue to invest significant time and resources in identifying specific risks across the Group, and in developing a culture of balanced risk minimisation. The Group has formal risk assessment processes in place through which risks are identified and associated mitigating controls are evaluated. These processes are driven by local management, who are best placed to identify the significant ongoing and emerging risks facing the business. The outputs of these risk assessment processes

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

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.

31 Accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses.

Information about significant areas of estimation, uncertainty, and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Group consolidated financial statements are described below:

Note	Name
Note 14	Goodwill and intangible assets
Note 15	Joint ventures
Note 24	Employee benefits
Notes 9 & 23	Income taxes and deferred income tax

The Group tests annually whether goodwill and intangible assets have suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units (CGUs) have been determined based on value in use calculations. The value in use calculation is based on an estimate of future cash flows expected to arise from the CGUs and these are discounted to net present value using an appropriate discount rate. The tests are dependent on management's estimates and judgements, in particular in relation to the forecasting of future cash flows, the discount rates applied to those cash flows, the expected long term growth rate of the applicable businesses and terminal values. Such estimates and judgements are subject to change as a result of changing economic conditions. Additional information in relation to impairment reviews, including headroom and sensitivity analysis is disclosed in note 14.

As set out in note 15, joint ventures, while Picard is not considered part of ARYZTA's long-term strategy, and is therefore non-core to the group, disposal of the Group's investment as of 31 July 2019 was 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. As at 31 July 2019 it was not likely that the Group would be in a position to sell its investment in Picard and it was management's judgement that it would recover its value through a continued interest in the joint venture. On that basis, the appropriate method to validate the carrying value was a value in use model.

The estimation of and accounting for employee benefits involves judgements made on a country by country basis, in conjunction with independent actuaries in relation to various assumptions. Estimates are required in respect of uncertain future events including mortality rates of members and increase in pension payments linked to certain obligations and discount rates used in estimating the present value of the schemes assets and liabilities. Details of the financial position of the employee benefit schemes are set out in note 24.

Notes to the Group Consolidated Financial Statements (continued)
for the year ended 31 July 2019

Income taxes, as set out in note 9, and deferred taxes, as set out in note 23, are subject to management estimate. The Group Consolidated Balance Sheet includes deferred taxes relating to temporary differences, which are based on forecasts of the corresponding entity's taxable income and reversal of these temporary differences, forecasted over a period of several years. As actual results may differ from these forecasts, these deferred taxes may need to be adjusted accordingly.

Judgement and estimation is required in determining the income tax charge as the Group operates in multiple jurisdictions and the tax treatment of many items is uncertain with tax legislation being open to different interpretation. In addition, the Group is subject to uncertainties involving tax audits which can involve complex issues that can require extended periods to conclude. The Group considers these uncertain tax positions in the recognition of its income tax/deferred tax assets or liabilities. The Group uses in-house tax experts, professional firms and previous experience when assessing tax risks and the tax uncertainties have been measured using a probability weighted expected value approach.

Notes to the Group Consolidated Financial Statements (continued) for the year ended 31 July 2019

32 Significant subsidiaries and joint ventures

A list of all of the Group's significant subsidiary and joint venture undertakings, as at 31 July 2019 and 2018, 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 2019	Group % share 2018	Registered office
(a) Significant subsidiaries – Europe						
ARYZTA Food Solutions Ireland UC	Food distribution	EUR	0.635	100	100	1
ARYZTA Bakeries Ireland UC	Food manufacturing and distribution	EUR	1.016	100	100	1
ARYZTA Technology Ireland UC	Asset management company	EUR	0.000	100	100	1
Delice de France Limited	Food distribution	GBP	0.250	100	100	2
France Distribution SAS	Food distribution	EUR	0.108	100	100	3
ARYZTA Food Solutions Schweiz AG	Food distribution	CHF	3.500	100	100	4
ARYZTA Bakeries Deutschland GmbH	Food manufacturing and distribution	EUR	3.072	100	100	5
ARYZTA Food Solutions GmbH	Food distribution	EUR	0.025	100	100	6
Pré Pain B.V.	Food manufacturing and distribution	EUR	0.018	100	100	7
ARYZTA Polska Sp.z o.o.	Food manufacturing and distribution	PLN	61.000	100	100	8
Fornetti Kft	Food manufacturing and distribution	HUF	500.000	100	100	9
(b) Significant subsidiaries – North America						
ARYZTA LLC	Food manufacturing and distribution	USD	705.000	100	100	10
ARYZTA Limited	Food manufacturing and distribution	CAD	256.217	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	48	49	15

Registered Offices:

1. Grangecastle Business Park, New Nangor Road, Clondalkin, Dublin 22, Ireland.
2. 149 Brent Road, Southall, Middlesex UB2 5LJ, England.
3. ZAC de Bel Air, 14–16 Avenue Joseph Paxton, Ferrières en Brie, 77164, France.
4. Ifangstrasse 9, 8952 Schlieren-Zurich, Switzerland.
5. Industriestraße 4, 06295 Lutherstadt Eisleben, Germany.
6. Konrad Goldmann Strasse 5 b, 79100 Freiburg im Breisgau, Germany.
7. Kleibultweg 94, Oldenzaal, 7575 BX, the Netherlands.
8. ul. Zachodnia 10, 05-825 Grodzisk Mazowiecki, Poland.
9. 6000 Kecskemét, Városföld 8683/104.hrsz. dulo 92, Hungary.
10. 350 N Orleans, Suite 3001N, Chicago, IL 60654, 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 2019

Opinion

We have audited the group consolidated financial statements of ARYZTA AG and its subsidiaries (the Group or Company), which comprise the group consolidated income statement and group consolidated statement of comprehensive income for the year ended 31 July 2019, the group consolidated balance sheet as at 31 July 2019 and the group consolidated statement of changes in equity and the group consolidated cash flow statement for the year then ended, and notes to the group consolidated financial statements, including the group statement of accounting policies.

In our opinion, the group consolidated financial statements (on pages 80 to 162) give a true and fair view of the consolidated financial position of the Group as at 31 July 2019 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 6,750,000

We concluded full scope audit work at six reporting entities in five countries. Our audit scope addressed 66% of the Group's revenue. In addition, specified procedures were performed on a further five reporting entities in five countries representing a further 16% of the Group's revenue.

As key audit matter the following area of focus has been identified:

– Recoverability of Goodwill

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.

Report of the statutory auditor to the General Meeting of ARYZTA AG on the consolidated financial statements 2019 (continued)

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 6,750,000
How we determined it	2.25% of Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), as defined by the bank covenant, rounded
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 Loss before income tax is significantly impacted by depreciation and amortization.

We agreed with the Audit Committee that we would report to them misstatements above EUR 675,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons. Misstatements that only result in balance sheet reclassifications are reported to the Audit Committee if they are above EUR 4,800,000.

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 110 reporting entities, comprising the Group's operating businesses and centralised functions. We identified six reporting entities that, in our view, required a full scope audit, due to their size or risk profile. These six reporting entities are based in the United States of America, Germany, France, Switzerland and Ireland. Specific audit procedures on certain balances and transactions were performed at a further five reporting entities.

In order to fulfil our responsibilities for the direction, supervision and performance of the Group audit, we were involved in the work performed by reporting entity audit teams by performing selected site visits, participating in selected clearance meetings with management and having detailed discussions with the audit teams around audit approach and matters reported to us.

Audit procedures over the consolidation, significant Group functions such as treasury and tax and goodwill impairment were performed centrally. Overall, our audit scope, including specified audit procedures, accounted for 82% of Group revenues.

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 2019 (continued)

Recoverability of Goodwill

Key audit matter	How our audit addressed the key audit matter

As of 31 July 2019, the carrying value of goodwill was EUR 1.458 billion, which represents approximately 31% of total assets and approximately 60% of total equity. Goodwill is allocated to six groups of cash-generating units (CGUs).
 	
Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment.
 	
No impairment charge was recognised during the year in respect of goodwill.
 	
We focused on this area given the scale of the assets and because the Company's assessment of the carrying value of goodwill involves complex and subjective judgements in respect of the assumptions underpinning the value in use cash flow models used to determine the recoverable amount of each of the Company's CGUs. These relate 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 CGU.
 	
Refer to page 100 (Group Statement of Accounting Policies, Business combinations and goodwill) and pages 126–129 (Note 14, Goodwill and intangible assets).
	– We assessed the Company's allocation of goodwill to the CGUs, and the change in allocation during the year, by assessing the reasonableness of the CGUs taking into consideration internal management reporting and how the business is managed within and across geographies.
	– We obtained the Company's impairment analysis for each CGU and performed the following procedures, among others:
	  – Tested the mathematical accuracy of the model and traced amounts to underlying financial statement and other information, as applicable.
	  – Reconciled the three year projections to the budget that was subject to scrutiny and approval by the Board of Directors and gained an understanding of the process undertaken to develop the projections. In addition, discussed the projections with the Company in order to obtain an understanding of various factors that were built into the assumptions.
	  – Compared short term and terminal growth rate assumptions to relevant market and economic forecasts.
	– With the support of internal valuation specialists, we assessed the discount rates applied by the Company, by performing an independent calculation of the weighted average cost of capital for each CGU (adjusted to reflect the risks associated with each CGU).
	– 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 sensitivity analyses by changing various key assumptions to assess whether the headroom of the recoverable amounts over the respective carrying amounts might be sensitive to a reasonably possible movement in any of the underlying assumptions. ARYZTA North America and North West Europe were the CGUs requiring particular attention based on the level of headroom under our sensitivity analyses.
	– We reviewed and validated disclosures regarding key assumptions, headroom and sensitivity as presented in the Group Consolidated Financial Statements in Note 14.
	
	Based on the work performed, we found the judgement that the carrying amount of the goodwill of each CGU is recoverable, to be reasonable.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the standalone financial statements and the remuneration report of ARYZTA AG and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

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.

Report of the statutory auditor to the General Meeting of ARYZTA AG on the consolidated financial statements 2019 (continued)

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 our opinion. Our conclusions are based on the audit evidence

Report of the statutory auditor to the General Meeting of ARYZTA AG on the consolidated financial statements 2019 (continued)

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

Sandra Böhm Uglow
Audit expert
Auditor in charge

Carrie Rohner

Zurich, 8 October 2019