

Group Risk Statement

Principal Risks and Uncertainties

The Board of Directors 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 that could prevent the Group from achieving its strategic objectives and associated mitigating controls are evaluated. The Board of Directors is ultimately responsible for risk management with the Audit Committee taking ownership for monitoring the risk assessment process.

All levels of management across the Group are engaged in the identification and assessment of significant ongoing and emerging risks facing their business. The outputs of these risk assessment processes are subject to various levels of review by Regional Management and group risk. Regional and group specific risks are consolidated into a Group Risk Map denoting the potential frequency and severity of identified risks. This is reviewed by Executive Management who layers in strategic risks prior to the final version being issued and challenged by the Board of Directors on at least an annual basis. The Group has considered the impact of and response to COVID-19 in the assessment of our principal risks and uncertainties. Risks identified, and associated mitigating controls, are also subject to audit as part of various operational, financial, health and safety audit programmes.

COVID-19

COVID-19 has impacted business operations in a number of locations. The fallout of COVID-19 had a material impact on the Group's financial performance in 2020. The Group activated its full business continuity plans to maintain service levels and to meet our customers' expectations. ARYZTA reacted rapidly to the challenges presented and to the changed consumer environment, our primary focus being protecting our people and supporting our customers, whilst providing the highest quality and product safety standards across all bakeries in full compliance with reinforced COVID-19 protocols.

Steps taken in recent years to proactively manage supply chain risk include targeting dual supply for all key materials & services and maintaining continued interaction with key suppliers and adequate safety stock levels. These measures have retained continuity of supply throughout the crisis to ensure customer service levels remain at the highest standards.

Strong cash management processes and controls already implemented across the Group enabled management to take decisive actions to protect the business and focus on cash conservation, ensuring a strong liquidity position throughout. Actions taken include suspending capital expenditure and eliminating discretionary cost to the maximum extent possible. In addition, production was paused in bakeries to reduce capacity in line with demand, with associated furloughing of headcount, and government relief initiatives were availed of where applicable.

In September, the Group executed an amendment to its financial covenants, effective for two covenant tests relating to the interim Financial Statements as of January 2021 and to the annual Financial Statements of July 2021, providing the Group with increased headroom during the period (Net Debt: EBITDA Coverage Ratio shall be lower or equal to 6.0x and the Net Interest Coverage Ratio shall be greater than 1.0x).

Group Risk Statement

Principal Risks and Uncertainties (continued)

Further details on the impact of COVID-19 and steps taken to mitigate this can be found on page 132.

Associated risks as a result of COVID-19, expected to continue into 2021, include liquidity, cash flow constraints, credit quality of certain customers, changing shape & emergence of the market & consumer habits and accuracy of projections due to general economic uncertainty. COVID-19 has also increased the potential impact and likelihood of a number of other risks faced by the Group. The Group continues to reinforce financial performance through the contribution of sales generation, operations and bakery efficiency to EBITDA generation and liquidity. There are additional IT and cyber security risks arising from increased working from home, which may also adversely impact associated employees' wellbeing & engagement.

The key risks facing the Group include the following

- Failure to adapt to the changing shape and pace of emergence of the market and consumer habits during and after the COVID-19 crisis, including the increased emphasis on health and wellness among consumers adversely impacting revenue and liquidity.
- Accuracy of projections due to COVID-19 related challenges and the underlying economic uncertainty impacting management's ability to take appropriate decisions in a timely manner.
- Liquidity & cash flow constraints as the COVID-19 crisis continues.
- Increased risks associated with receivables due to COVID-19.
- Due to the current COVID-19 crisis, going concern is an ongoing risk for the Group. Further details of ARYZTA Management's going concern considerations can be found on page 109.
- Risks arising from increased working from home adversely impacting employee wellbeing and engagement.
- Risk of adverse movements in foreign currency exchange rates adversely impacting profitability.
- Operational risks facing the Group include product contamination and general food scares, which could impact relevant products or production and distribution processes resulting in reputational damage and/or adversely impacting customer relations.
- Failure to comply with increasing regulation and compliance requirements including in areas such as employment, health and safety, emissions and effluent control.
- The loss of a significant manufacturing / operational site through natural catastrophe or act of vandalism could have a material impact on the Group.
- A significant failure in the accounting, planning or internal financial controls and related systems could result in a material error or fraud.
- Risks to ongoing operations arising from a significant IT or security system failure, including a cyber-attack impacting the ability of the Group to service our customers' demands and/or reputational damage.
- Risks arising from fluctuations in the availability, supply or price of energy, commodities, labour and other production inputs adversely impacting profitability.
- Risk of a decrease in consumer spending adversely impacting revenue.
- Risk of impairment of its goodwill, brands and intangibles impacting profitability.

Group Risk Statement

Principal Risks and Uncertainties (continued)

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- Risks and challenges associated with change management, reorganisation and business risks associated with the operation and execution of the Group's three year cost reduction plan and risks and challenges in implementing Project Renew in full or on time.
 - Risks in protecting the Group's brands and reputation.
 - Risks associated with the potential loss of key management personnel impacting operational efficiency and/or business performance.
 - Were the Group to breach a financing covenant, it may be required to renegotiate its financing facilities at less favourable terms resulting in higher financing costs, and/or be unable to finance operations
 - Risks arising from the loss of a significant supplier or material disruption to the Group's supply chain impacting ability to meet customers' demands.
 - Risks to the profitability and revenue arising from the loss of a major customer or contract.
 - General economic risk such as a fall in economic growth rates, reduced demand, effects of climate change on commodity prices, increased tariffs between countries and uncertainty caused by the upcoming departure of the United Kingdom from the European Union.