

JAB Holding Company S.à r.l., Luxembourg

JAB Holding Company S.à r.l.

Luxembourg

Interim Condensed
Consolidated Financial Statements

As at and for the six months period ended 30 June 2018

JAB Holding Company S.à r.l., Luxembourg

Index

	Page
Interim Condensed Consolidated Financial Statements as at and for the six months period ended 30 June 2018	
Report of the Réviseur d'Entreprises agréé	3
Consolidated Management Report	5
Interim Condensed Consolidated Statement of Financial Position as of 30 June 2018	10
Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the six months period ended 30 June 2018	11
Interim Condensed Consolidated Statement of Changes in Equity for the six months period ended 30 June 2018	12
Interim Condensed Consolidated Cash Flow Statement for the six months period ended 30 June 2018	13
Notes to the Interim Condensed Consolidated Financial Statements	14



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To the Board of Managers of
JAB Holding Company S.à r.l.
4, Rue Jean Monnet
L-2180 Luxembourg

Report of the Réviseur d'Entreprises agréé on the review of the interim condensed consolidated financial information

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of JAB Holding Company S.à r.l. ("the Company") as at 30 June 2018, the interim condensed consolidated statement of profit or loss and other comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated cash flow statement for the six month period then ended, and notes to the interim condensed consolidated financial information ("the interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of this interim condensed consolidated financial statements in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on this interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" as adopted, for Luxembourg, by the Institut des Réviseurs d'Entreprises. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements as at 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union.

Luxembourg, 17 September 2018

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

Yves Thorn

JAB Holding Company S.à r.l., Luxembourg

Consolidated Management Report

Management of JAB Holding Company S.à r.l. (the "Company") hereby presents its consolidated financial statements for the six months period ended on 30 June 2018.

General information

JAB Holding Company is a privately held group focused on long term investments in companies with premium brands, attractive growth and strong margin dynamics.

The investments are overseen by three senior partners: Peter Harf, Bart Becht and Olivier Goudet, together with 7 other partners who are focused on business development, finance, legal, tax and human resources. JAB Holding Company is assessed to be an Investment Entity in accordance with IFRS 10.27 and is required to apply the exception to consolidate and instead accounts for its investments in a subsidiary at fair value through profit and loss.

Investments

As of 30 June 2018, the Group's portfolio includes participations in Coty Inc., Reckitt Benckiser Group Plc., Acorn Holdings B.V., JAB Coffee Holding B.V., Beech I G.P. and JAB Luxury GmbH.

Coty Inc. is a global leader in the world of beauty. Coty Inc. is listed on the New York Stock Exchange. As of 30 June 2018, the investment was valued at €3,508.8m. In the six months period ended 30 June 2018, the value of the shares decreased by €1,303.3m and the Group received dividend income of €60.8m. In the six months period ended 30 June 2018, the Group acquired further 4.1 million shares in Coty for an amount of €68.7m.

Reckitt Benckiser Group Plc. is a global leader in household and healthcare products. Reckitt Benckiser Group Plc. is listed on the London Stock Exchange. As of 30 June 2018, the investment was valued at €1,520.9m. In the six months period ended 30 June 2018, the value of the shares decreased by €347.2m and the Group received dividend income of €40.9m. In the six months period ended 30 June 2018, the Group sold 14.3 million Reckitt Benckiser Group Plc shares for €931.5m.

Acorn Holdings B.V. is the holding company of JDE, a global leader in Coffee, and Keurig Green Mountain Inc., a leader in specialty coffee and coffee brewers in the United States and Canada. In July 2018, the merger between Keurig Green Mountain Inc. and Dr Pepper Snapple Group Inc. was completed, creating Keurig Dr Pepper Inc., a challenger in the beverage industry. As of 30 June 2018, the investment was valued at €9,719.8m. The value of the shares increased by €65.7m. In the six months period ended 30 June 2018, the Group received a capital repayment of €65.7m from Acorn Holdings B.V.

JAB Holding Company S.à r.l., Luxembourg

Beech I G.P. is the holding company of leading premium retail coffee brands in the US, namely Peet's Coffee and Tea, Caribou Coffee and Einstein Noah, a leading international premium retailer of sweet treats, namely Krispy Kreme and leading bakery-café company, namely Panera Bread. As of 30 June 2018, the investment was valued at €3,991.6m. The value of the shares increased by €431.7m. In the six months period ended 30 June 2018, the Group made capital contributions of €7.7m to Beech I G.P. and acquired further Beech I G.P. shares for €228.7m.

JAB Coffee Holding B.V. is the holding company of leading premium retail coffee brands namely Espresso House, Baresso and Balzac Coffee. As of 30 June 2018, the investment was valued at €173.7. The value of the shares decreased by €3.6m. In the six months period ended 30 June 2018, the Group made capital contributions of €27.1m to JAB Coffee Holdings B.V.

JAB Luxury GmbH is the holding company of the luxury goods company Bally. As of 30 June 2018, the investment was valued at €394.2m. The value of the shares increased by €4.4m. The Group has the intention to dispose of its investment in JAB Luxury GmbH and therefore classified the shares as assets held-for-sale.

The following describes the valuation techniques used to value the private investments of the Group:

Acorn Holdings B.V.:

The Group holds 61.4% of Acorn Holdings B.V. Acorn Holdings B.V. is shareholder of further interim holding companies and their investments in Jacob Douwe Egberts B. V. (JDE) and Keurig Green Mountain Inc. (KGM).

As of 30 June 2018, the investment's fair value is based on the value per share of at-arms' length transactions in Acorn Holdings B.V. shares in July 2018.

As of 31 December 2017, the JDE and KGM fair value were calculated applying multiples that were derived from selected publicly listed companies with 50% EBITDA and 50% P/E multiple weighting. The multiples applied to the LTM figures ending December 2017 are the median of the LTM multiples of the peer group consisting of comparable publicly listed companies. In addition, adjustments between the enterprise value and the equity value were made for financial debt, and, where relevant, for minorities and financial assets.

The following LTM multiples were used for the valuation of JDE and KGM as of December 2017: EBITDA multiple of 15.2x and P/E multiple of 23.8x.

For further information, we also include the related NTM multiples for the same peer group of selected publicly listed companies as of December 2017: EBITDA multiple of 13.8x and P/E multiple of 21.5x.

JAB Holding Company S.à r.l., Luxembourg

Beech I G.P.:

The Group holds 60.2% of Beech I G.P. Beech I G.P. is shareholder of further interim holding companies and their investments in Peet's Coffee, Inc. (formerly "Peet's Operating Company Inc."; "Peet's"), Caribou Coffee Company Inc. ("Caribou"), Krispy Kreme Holdings Inc. ("Krispy Kreme") and Panera Bread Company ("Panera").

As of 30 June 2018 and 31 December 2017, Peet's, Caribou's and Krispy Kreme's fair value were calculated applying multiples that were derived from selected publicly listed companies with 40% EBITDA, 40% P/E and 20% Sales multiple weighting.

Beech I G.P. investment in Panera, occurred in the second half of 2017. As of 31 December 2017, management assessed the original acquisition cost to be the best fair value estimate. As of 30 June 2018, Panera's fair value was calculated applying multiples that were derived from selected publicly listed companies with 40% EBITDA, 40% P/E and 20% Sales multiple weighting.

The multiples applied to the LTM figures ending June 2018 are the median of the LTM multiples of the peer group consisting of comparable publicly listed companies. In addition, adjustments between the enterprise value and the equity value were made for financial debt, and, where relevant, for minorities and financial assets.

For Peet's the following LTM multiples were used for the valuation: EBITDA multiple of 17.1x (31 December 2017: 16.8x), P/E multiple of 25.2x (31 December 2017: 28.3x) and sales multiple of 3.8x (31 December 2017: 4.0x).

For Caribou the following LTM multiples were used for the valuation: EBITDA multiple of 15.5x (31 December 2017: 15.8x), P/E multiple of 24.2x (31 December 2017: 28.1x) and sales multiple of 1.8x (31 December 2017: 1.5x).

For Krispy Kreme the following LTM multiples were used for the valuation: EBITDA multiple of 17.1x (31 December 2017: 16.7x), P/E multiple of 24.5x (31 December 2017: 28.3x) and sales multiple of 3.0x (31 December 2017: 3.2x).

For Panera the following LTM multiples were used for the valuation: EBITDA multiple of 17.4x, P/E multiple of 25.1x and sales multiple of 3.0x.

For further information, we also include the related NTM multiples for the same peer group of selected publicly listed companies:

Peet's NTM multiples: EBITDA multiple of 16.8x (31 December 2017: 15.4x), P/E multiple of 22.1x (31 December 2017: 24.3x) and Sales multiple of 3.6x (31 December 2017: 3.5x).

Caribou NTM multiples: EBITDA multiple of 14.6x (31 December 2017: 14.1x), P/E multiple of 21.7x (31 December 2017: 23.9x) and Sales multiple of 1.7x (31 December 2017: 1.3x).

Krispy Kreme NTM multiples: EBITDA multiple of 17.3x (31 December 2017: 15.4x), P/E multiple of 21.2x (31 December 2017: 24.3x) and Sales multiple of 2.9x (31 December 2017: 3.1x)

Panera NTM multiples: EBITDA multiple of 17.4x, P/E multiple of 22.1x and Sales multiple of 2.7x.

JAB Holding Company S.à r.l., Luxembourg

JAB Coffee Holding B.V.:

The Group holds 56.1% of JAB Coffee Holding B.V. (“JCH”). JAB Coffee Holding B.V. is shareholder of further interim holding companies and their investment in Espresso House Holding AB (“Espresso House”).

As of 30 June 2018 and 31 December 2017, Espresso House fair value was calculated applying multiples that were derived from selected publicly listed companies with 40% EBITDA, 40% P/E and 20% sales multiple weighting.

The multiples applied to the LTM figures ending June 2018 are the median of the LTM multiples of the peer group consisting of comparable publicly listed companies. In addition, adjustments between the enterprise value and the equity value were made for financial debt, and, where relevant, for minorities and financial assets.

The following LTM multiples were used for the valuation of Espresso House: Sales multiples of 2.5x (31 December 2017: 2.5x), EBITDA multiple of 16.5x (31 December 2017: 16.3x) and P/E multiple of 23.9x (31 December 2017: 25.5x).

For further information, we also include the related NTM multiples for the same peer group of selected publicly listed companies: Sales multiple of 2.4x (31 December 2017: 2.3x), EBITDA multiple of 14.1x (31 December 2017: 13.8x) and P/E multiple of 20.7x (31 December 2017: 20.2x).

JAB Luxury GmbH:

The Group is the sole owner of JAB Luxury GmbH, Switzerland. This entity is a shareholder of the luxury goods company Bally International AG (Bally). The Company has the intention to dispose of its investment in Labelux Group GmbH and therefore classified the shares as assets held for sale.

As of 30 June 2018 and 31 December 2017, the investment’s fair value was based on the value per share of an at-arms’ length transaction in Bally International AG shares in February 2018.

Corporate debt securities Acorn Holdings B.V.

The Group holds preferred shares in Acorn Holdings B.V.

The Group’s investment in the preferred shares in Acorn Holdings B.V. occurred in the fourth quarter of 2017. As of 30 June 2018 and 31 December 2017, management assessed the original acquisition cost to be the best fair value estimate.

JAB Holding Company S.à r.l., Luxembourg

Financing

As of 30 June 2018, the Group's capital comprises 8,888,582 Class A shares, 763,948 Class B shares and 1,357,023 Class S shares. Class B shares and Class S shares are redeemable under certain conditions that are out of the Group's control and therefore classified as liabilities. The redeemable shares are carried at the redemption amount of €1,826.2m (31 December 2017: €1,493.0m).

The Group operates share option schemes for members of the Advisory Committee as well as members of the management team and executives and senior managers of the Company and its affiliates with a carrying amount of €371.5m as of 30 June 2018 (31 December 2017: €540.9m). The change in the carrying amount is mainly due to the exercise of 364,161 options in the six months period ended 30 June 2018. Options were exercised for new shares.

As of 30 June 2018, the Group has borrowings of in total €5,948.6m (31 December 2017: €4,460.0m). The outstanding amount in the current period consists of long-term notes with a carrying value of €5,948.6m (31 December 2017: €4,460.0m). Thereof, long-term notes with an aggregate principal amount of €1,500.0m were issued in the six months period ended 30 June 2018.

The cash flows from financing activities include share premium repayments to the shareholders (€-90.3m), capital repayments on redeemable shares (€-61.4m), proceeds from issue of shares (€155.5m), financial expenses paid (€-76.0m) and the net change in borrowings (€1,493.2m).

In the six months period ended 30 June 2018, the Group's equity decreased from €16,149.1m to €15,055.8m, mainly due to a decrease in the value of the Group's investment portfolio.

Financial information

The result for the six months period ended 30 June 2018 amounts to €-1,091.5m, mainly relating to the net loss on subsidiaries and other investments (€-1,151.6), dividends received (€123.5m), finance income (€166.5m) and expense from the share-option scheme (€158.9m).

Future developments and outlook

The Group will continue to serve under its business purpose as an investing and financing company. Its liquidity situation is sound and expected to remain well in the next years.

In January 2018, it was announced that Keurig Green Mountain and Dr Pepper Snapple Group Inc. have entered into a definitive agreement to create Keurig Dr Pepper ("KDP"), a new beverage company of scale with a portfolio of iconic consumer brands and unrivalled distribution capability to reach virtually every point-of-sale in North America. In July 2018, the transaction was closed. For the closing JAB Group has made a capital contribution to Acorn Holdings B.V. amounting to \$3,350m.

JAB Holding Company S.à r.l., Luxembourg

In May 2018, it was announced that JAB Group together with JAB Consumer Fund and other equity partners will acquire Pret A Manger ("Pret"), a leading company in the ready-to-eat food market. The transaction is expected to be completed in 2018. JAB Group, JAB Consumer Fund and other equity partners will together make an equity investment of approximately £1.0bn as part of the financing of the transaction that was committed by JAB Group at signing of the transaction and will be finally allocated to JAB Group, JAB Consumer Fund and the other investors. JAB Group will make an equity contribution of not more than €0.4bn.

After 30 June 2018, JAB Group has sold Reckitt Benckiser shares, reducing its shareholding to below 3%.

In August 2018, JAB Group acquired further Coty Inc. shares for an amount of \$32m.

Luxembourg, 17 September 2018

Managing Directors:

M. Hopmann

J. Creus

JAB Holding Company S.à r.l., Luxembourg

Interim Condensed Consolidated Statement of Financial Position as of 30 June 2018

	Note	2018/06/30	2017/12/31
		in €m	in €m
ASSETS			
Subsidiaries	3.1	13,890.0	13,198.3
Other investments	3.2	5,064.0	7,559.7
Corporate debt securities	3.3	852.2	852.2
Loans	3.4	22.6	54.2
Other assets	3.5	17.4	15.3
Cash and cash equivalents	3.6	3,038.4	674.7
Non-current assets held-for-sale	3.7	403.3	389.8
Total assets		23,287.9	22,744.2
EQUITY AND LIABILITIES			
Total equity	3.8	15,055.8	16,149.1
Attributable to owners of the parent		15,055.8	16,149.1
Borrowings	3.11	5,948.6	4,460.0
Redeemable shares	3.9	1,826.2	1,493.0
Other liabilities	3.10, 3.12	457.3	642.1
Total liabilities		8,232.1	6,595.2
Total equity and liabilities		23,287.9	22,744.2

The notes on pages 14 to 35 are an integral part of these interim condensed consolidated financial statements.

JAB Holding Company S.à r.l., Luxembourg

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the six months period ended 30 June 2018

	Note	For the six months ended 30 June 2018 in €m	For the six months ended 30 June 2017 in €m
Net gain / (loss) on subsidiaries and other investments	3.13	-1,151.6	470.9
Dividend income	3.14	123.5	147.4
Finance income	3.15	166.5	1.9
Finance expenses	3.15	-51.1	-343.9
General and administrative expenses	3.16	-178.8	-523.7
Result before tax		-1,091.5	-247.4
Taxes on income	3.17	0.0	-4.2
Result for the period		-1,091.5	-251.6
Attributable to owners of the parent		-1,091.5	-251.6
Items that may be reclassified subsequently to profit and loss			
Currency translation differences		-61.4	155.9
Other comprehensive income		-61.4	155.9
Total comprehensive income		-1,152.9	-95.7
Attributable to owners of the parent		-1,152.9	-95.7

The notes on pages 14 to 35 are an integral part of these interim condensed consolidated financial statements.

JAB Holding Company S.à r.l., Luxembourg

Interim Condensed Consolidated Statement of Changes in Equity for the six months period ended 30 June 2018

	Note	Share capital	Share premium	Foreign currency translation reserve	Retained earnings	Total equity
		in €m	in €m	in €m	in €m	in €m
Balance as of 1 January 2017		6.6	7,655.7	-279.2	8,489.2	15,872.3
Issue of share capital	3.8.1	0.0	0.0	0.0	0.0	0.0
Total income and expense recognised directly in equity		0.0	0.0	155.9	0.0	155.9
Result for the period		0.0	0.0	0.0	-251.6	-251.6
Total recognised income and expense		0.0	0.0	155.9	-251.6	-95.7
Repayment of share premium	3.8.1	0.0	-61.0	0.0	0.0	-61.0
Balance as of 30 June 2017		6.6	7,594.7	-123.4	8,237.6	15,715.6
Balance as of 1 January 2018		6.6	7,594.7	-48.9	8,596.6	16,149.1
Issue of share capital	3.8.1	0.1	149.8	0.0	0.0	149.9
Total income and expense recognised directly in equity		0.0	0.0	-61.4	0.0	-61.4
Result for the period		0.0	0.0	0.0	-1,091.5	-1,091.5
Total recognised income and expense		0.0	0.0	-61.4	-1,091.5	-1,152.9
Repayment of share premium	3.8.1	0.0	-90.3	0.0	0.0	-90.3
Balance as of 30 June 2018		6.7	7,654.2	-110.3	7,505.1	15,055.8

The notes on pages 14 to 35 are an integral part of these interim condensed consolidated financial statements.

JAB Holding Company S.à r.l., Luxembourg

Interim Condensed Consolidated Cash Flow Statement for the six months period ended 30 June 2018

	Note	For the six months ended 30 June 2018 in €m	For the six months ended 30 June 2017 in €m
Cash flows from operating activities			
Result before tax		-1,091.5	-247.4
Finance expenses	3.15	51.1	343.9
Gain from change in fair value of redeemable shares	3.15	-1.2	0.0
Net gain / (loss) from change in fair value of subsidiaries and other investments	3.13	1,151.6	-470.9
Payments on acquisition of subsidiaries, other investments and corporate-debt securities	3.1-3.2	-349.4	-71.5
Proceeds from sale of subsidiaries and other investments	3.2	931.5	0.0
Capital repayments from subsidiaries	3.1	65.7	30.7
Adjustment for share-based payment transactions		158.9	168.4
Other adjustment		-43.4	0.0
Changes in other assets and liabilities from operating activities			
(Net increase) / decrease in loans	3.4	21.7	-36.2
(Net increase) / decrease in other assets	3.5	-2.8	-0.5
Net increase / (decrease) in other liabilities	3.12	5.5	0.9
Income taxes paid and withholding taxes	3.17	0.0	-4.2
Net cash from / (used in) operating activities		897.6	-286.8
Cash flows from financing activities			
Contribution owners of the parent		150.0	0.0
Repayment of share premium to owners of the parent	3.8.1	-90.3	-61.0
Changes in borrowings	3.11	1,493.2	727.8
Financial expenses paid		-76.0	-55.4
Proceeds from issue of redeemable shares	3.9	5.5	303.5
Capital repayments on redeemable shares	3.9	-61.4	-0.8
Net cash from / (used in) financing activities		1,421.0	914.1
Cash and cash equivalents at beginning of period	3.6	674.7	180.8
Net cash from / (used in) operating activities		897.6	-286.8
Net cash from / (used in) financing activities		1,421.0	914.1
Effect of exchange rate fluctuations on cash and cash equivalents		45.1	-9.8
Cash and cash equivalents at end of period	3.6	3,038.4	798.3

The notes on pages 14 to 35 are an integral part of these interim condensed consolidated financial statements.

JAB Holding Company S.à r.l., Luxembourg

Notes to the Interim Condensed Consolidated Financial Statements

1. General information

JAB Holding Company S.à r.l. (the "Company") is a Company domiciled in Luxembourg. The address of the Company's registered office is 4, Rue Jean Monnet, L-2180 Luxembourg. The Company's object is to act as a holding company and therefore the acquisition of participations. The Company is focused on generating superior returns from long-term investments in companies with premium brands and strong growth and margin dynamics.

JAB Holding Company S.à r.l. is an entity that obtains funds from investors for the purpose of providing those investors – directly or indirectly through subsidiaries (together the "Group") – with investment management services. The funds are invested for returns from capital appreciation and investment income. The Group measures and evaluates the performance of substantially all of its investments on a fair value basis. JAB Holding Company S.à r.l. therefore is assessed by the board to be an Investment Entity in accordance with IFRS 10.27 and is required to apply the exception to consolidation and instead accounts for its investments in a subsidiary at fair value through profit and loss.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual consolidated financial statements for the year ended 31 December 2017, as they provide an update of previously reported information. They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last financial statements.

2. Accounting policies

2.1 Statement of compliance

The interim condensed consolidated financial statements for the six months period ended 30 June 2018 have been prepared applying the same accounting policies as are applied in the Group's annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statement that are to be reflected in the next annual financial statements.

The Group's annual financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

The interim consolidated financial statements for the six months period ended June 2018 therefore have been prepared in accordance with IAS 34 - Interim Financial Reporting as adopted by the European Union.

This is the first set of the Group's interim condensed consolidated financial statements where IFRS 9 has been applied. Changes to significant accounting policies are described in Note 2.5.

JAB Holding Company S.à r.l., Luxembourg

2.2 Significant accounting judgements, estimates and assumptions

The interim condensed consolidated financial statements require the management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

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. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements as at and for the year ended 31 December 2017.

2.3 Consolidation

There were no material changes in the composition of the Group in the half year ended 30 June 2018.

2.4 Foreign currency transactions

The consolidated financial statements are presented in Euro (€), which is different from JAB Holding Company S.à r.l.'s functional currency, which is US-Dollar (\$).

2.5 Accounting policies and disclosures

Except as described below, the accounting policies applied by the Group for these interim condensed consolidated financial statements are consistent with those described in the Consolidated Financial Statements 2017, as are the methods of computation.

New and amended standards adopted by the Group

A number of new standards issued by the International Accounting Standards Board (IASB) are effective for the first time for an accounting period that begins on or after 1 January 2018. The adoption of the following standards had no significant impact on the Group's consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018.

JAB Holding Company S.à r.l., Luxembourg

Financial assets and liabilities

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

As of adoption of IFRS 9, the Group's investment portfolio continues to be classified at fair value through profit or loss (FVTPL). Consequently, equity investments measured at FVTPL under IAS 39 continue to be measured on the same basis under IFRS 9.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The Group has not designated any financial liabilities at FVTPL and did not when implementing IFRS 9. Consequently, there was no effect of adopting IFRS 9 on the carrying amounts of financial liabilities at 1 January 2018.

Furthermore, the adoption of IFRS 9 has not had an effect on the Group's accounting policies related to other financial assets and derivative financial instruments. As a result, the adoption of IFRS 9 has not had an effect on the Group's interim consolidated financial statements.

New standards and interpretations not yet adopted by the Group

A number of new standards are effective for annual periods beginning after 1 January 2018, and earlier application is permitted. However, the Group has not early adopted the new or amended standards in preparing these interim condensed financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

JAB Holding Company S.à r.l., Luxembourg

3. Notes to the Consolidated Financial Statements

3.1 Subsidiaries

The following table gives an overview of material subsidiaries as of 30 June 2018:

	30 June 2018	31 December 2017
Subsidiaries	%	%
Acorn Holdings B.V., Netherlands	61.4	57.3
Beech I G.P., USA	60.2	56.4
JAB Coffee Holding B.V., Netherlands	56.1	51.9
JAB Luxury GmbH, Switzerland	100.0	100.0

The movements in subsidiaries can be detailed as follows:

Subsidiaries	Acorn Holdings B.V.	Beech I G.P.	JAB Coffee Holding B.V.	Others	Total
	in €m	in €m	in €m	in €m	in €m
Balance as of 31 December 2017	9,719.8	3,323.5	150.2	4.8	13,198.3
Additions	0.0	236.4	27.1	0.0	263.5
Disposals	-65.7	0.0	0.0	0.0	-65.7
Change in fair value	65.7	431.7	-3.6	0.1	493.9
Balance as of 30 June 2018	9,719.8	3,991.6	173.7	4.9	13,890.0

Acorn Holdings B.V.

In the six months period ended 30 June 2018, JAB Group received a capital repayment of €65.7m from Acorn Holdings B.V.

Beech I G.P.

In the six months period ended 30 June 2018, JAB Group made a capital contribution of €7.7m to Beech I G.P. and acquired further Beech I G.P. shares for an amount of €228.7m.

JAB Coffee Holding B.V.

In the six months period ended 30 June 2018, JAB Group made a capital contribution of €27.1m to JAB Coffee Holding B.V.

JAB Holding Company S.à r.l., Luxembourg

3.2 Other investments

The following table gives an overview of material other investments (including associates) as of 30 June 2018:

	30 June 2018	31 December 2017
Other investments	%	%
Reckitt Benckiser Group Plc., UK	3.1	5.1
Coty Inc. USA	38.6	38.1

The movements in other investments can be detailed as follows:

Other investments	Coty Inc.	Reckitt Benckiser Group Plc.	Others	Total
	in €m	in €m	in €m	in €m
Balance as of 31 December 2017	4,743.4	2,799.6	16.7	7,559.7
Additions	68.7	0.0	17.2	85.9
Disposals	0.0	-931.5	0.0	-931.5
Change in fair value	-1,303.3	-347.2	0.4	-1,650.1
Balance as of 30 June 2018	3,508.8	1,520.9	34.3	5,064.0

Coty Inc.

4.1 million Coty Inc. shares were acquired in the six months period ended 30 June 2018.

Reckitt Benckiser Group Plc.

14.3 million Reckitt Benckiser Group Plc. shares were sold in the six months period ended 30 June 2018.

JAB Holding Company S.à r.l., Luxembourg

3.3 Corporate debt securities

In October and December 2017, the Company acquired perpetual preferred shares in Acorn Holdings B.V. for an amount of €852.2m. These preferred shares have been classified as financial assets measured at FVTPL and have stated interest rates of 6.0 to 6.5% (31 December 2017: 5.5 to 6.0%).

3.4 Loans

The movements in the loans were as follows:

	JAB Management	JAB Holding Company, LLC	Total
	in €m	in €m	in €m
Balance as of 31 December 2017	51.0	3.2	54.2
Additions	1.8	0.0	1.8
Disposals	-33.0	0.0	-33.0
Translation differences	-0.5	0.1	-0.4
Balance as of 30 June 2018	19.3	3.3	22.6
Thereof current	19.3	3.3	22.6

3.5 Other assets

	30 June 2018 in €m	31 December 2017 in €m
Prepayments	4.2	4.8
JAB Holding Company LLC	2.0	1.6
Accrued interest	3.9	0.2
Refund withholding tax	6.0	5.8
Foreign exchange contracts	0.0	1.1
Other	1.3	1.8
Total	17.4	15.3

3.6 Cash and cash equivalents

Cash and cash equivalents as of 30 June 2018 include bank deposits and liquidity funds available on demand in the amount of €3,038.4m (31 December 2017: €674.7m.)

JAB Holding Company S.à r.l., Luxembourg

3.7 Non-current assets held-for-sale

In June 2017, management committed to a plan to dispose of its investment in JAB Luxury GmbH and classified the investment in JAB Luxury GmbH and loans to JAB Luxury GmbH as held for sale.

As of 30 June 2018, the non-current assets held-for-sale comprised assets of €403.3m detailed as follows:

	30 June 2018	31 December 2017
	in €m	in €m
Subsidiary JAB Luxury GmbH	394.2	389.8
Loan and accrued interest to JAB Luxury GmbH	9.0	0.0
Total	<u>403.3</u>	<u>389.8</u>

3.8 Shareholder's equity

3.8.1 Share capital and share premium

Issued capital comprises:

	30 June 2018		31 December 2017	
	Number	Nominal Value in \$m	Number	Nominal Value in \$m
Ordinary Class A shares	8,888,582	8.9	8,800,200	8.8
Ordinary Class B shares	763,948	0.8	596,142	0.6
Special Class S shares	1,357,023	1.4	1,173,554	1.2
Issued share capital	<u>11,009,553</u>	<u>11.1</u>	<u>10,569,896</u>	<u>10.6</u>

Each share has a nominal value of \$1.00.

Class A shares are recognised as equity, Class B shares and Class S shares are redeemable under certain conditions that are out of the Company's control. The redeemable shares have been classified as liabilities (see note 3.9).

In the six months period ended 30 June 2018, 88,382 Class A shares were issued with a nominal value of \$0.1m and a share premium in the amount of \$173.6m. No Class A shares were issued in the six months period ended 30 June 2017.

In the six months period ended 30 June 2018, no dividend was paid to the Class A shareholders. Capital repayments out of the share premium in the amount of \$110.7m (€90.3m; 2017: \$65.1m, €61.0m) were made to shareholders of Class A shares.

JAB Holding Company S.à r.l., Luxembourg

3.9 Redeemable shares

The redeemable shares are carried at €1,826.2m (31 December 2017: €1,493.0m), including shares held by the management in the amount of €1,696.7m (31 December 2017: €1,367.1m).

As of 30 June 2018 and 31 December 2017, all redeemable shares are redeemable in short term, if specific criteria are met and therefore are presented as current liabilities (€1,826.2m; 31 December 2017: €1,493.0m). However, the Company does not expect that such criteria will be met in the short-term.

The following table illustrates the movements in the redeemable shares in the six months period ended 30 June 2018:

	Ordinary Class B shares		Special Class S shares		Carrying value in \$m	Carrying value in €m
	Number	Nominal Value in \$k	Number	Nominal Value in \$k		
In issue at 1 January 2017	399,028	399	698,135	698	854.0	810.2
Issued for cash	171,968	172	495,767	496	331.3	
Exercise of share options			400,000	400	765.2	
Redeemed to the Company			-420,348	-420	-402.1	
Capital repayment/distributions					-0.9	
Change in fair value					249.2	
In issue at 30 June 2017	570,996	571	1,173,554	1,174	1,797.7	1,574.4
In issue at 1 January 2018	596,142	596	1,173,554	1,174	1,790.6	1,493.0
Issued for cash	513	1	199,114	199	6.2	
Exercise of share options	364,161	364			772.4	
Redeemed to the Company	-196,868	-197	-15,645	-16	-424.2	
Capital repayment/distributions					-15.5	
Change in fair value					-0.5	
In issue at 30 June 2018	763,948	764	1,357,023	1,357	2,129.0	1,826.2

The average issue price (for one ordinary share or five special shares) was \$2,121 (2017: \$1,921).

In the six months period ended 30 June 2018, no dividend was paid to Class B and special Class S shareholders out of retained earnings (2017: \$0.0m).

JAB Holding Company S.à r.l., Luxembourg

3.10 Share-based payments

The Company has share purchase agreements with the members of the Advisory Committee as well as with members of its management team and executives and senior managers of the Company and its affiliates. The shares contain put features to sell shares back to the Company for cash. As such the shares are recorded as a liability at potential redemption amount (see note 3.9).

Further the Company has share option schemes for the members of the Advisory Committee as well as members of its management team and executives and senior managers of the Company and its affiliates. Options may be exercised at any time from the date of vesting to the date of their expiry. The exercise of an option will be suspended if the redemption would lead to a default under the financing agreements of the indirect subsidiary JAB Holdings B.V.

All options related to share based compensation plans were granted at the redemption amount of the underlying shares at the time of grant (see note 3.9).

In the six months period ended 30 June 2018, the options granted have the following vesting conditions and contractual lives:

Options granted	Number of Options	Vesting Conditions	Contractual Life of Options
Six months ended 30 June 2018	192,038	Graded vesting over vesting period of 5 service years (annual instalments) from grant date	10 years
	9,372	Vesting after 5 years' service from grant date	10 years

The following table lists the weighted average inputs for the measurement of the fair values at grant date for the share option granted for the six months ended 30 June 2018 and the inputs used for the measurement of the fair values of the outstanding share options as of 30 June 2018:

	Grant date 2018	Measurement date 30 June 2018	Grant date 2017	Measurement date 30 June 2017
Dividend yield (%)	0.7%	0.7%	0.7%	0.7%
Expected volatility (%)	30.0%	30.0%	30.0%	30.0%
Risk-free interest rate (%)	2.8%	2.9%	2.2%	2.2%
Expected life of options (years)	7.5 years	6.0 years	7.5 years	4.9 years
Exercise price (USD)	2,120	1,800	1,766	1,746
Share price (redemption amount) (USD)	2,120	1,965	1,986	2,010

The weighted average fair value of options granted during the year was \$751 (2017: \$601).

JAB Holding Company S.à r.l., Luxembourg

The following table illustrates the number and weighted average exercise prices of, and movements in, share option schemes during the six months period ended 30 June 2018:

	Number of options 30 June 2018	Weighted average exercise price 30 June 2018	Number of options 30 June 2017	Weighted average exercise price 30 June 2017
Balance at 1 January (outstanding)	1,580,842	1,572	1,381,077	1,063
Granted during the period	201,410	2,120	1,005,180	1,746
Forfeited during the period	29,387	1,610	0	0
Exercised during the period	364,161	1,003	800,000	1,000
Expired during the period	0	0	0	0
Balance at 30 June (outstanding)	1,388,704	1,800	1,586,257	1,527
Exercisable at end of period	3,000	1,363	360,000	1,000

The carrying amount of the liability relating to the share option schemes as of 30 June 2018 is \$433.1m (€371.5m; 31 December 2017: \$648.6m, €540.9m). As of 30 June 2018, options amounting to €37.0m (31 December 2017: €322.8m) are qualified as current and €334.5m (31 December 2017: €218.1m) as non-current.

3,000 options had vested as of 30 June 2018 (31 December 2017: 360,000). The intrinsic value of liabilities for vested options is €1.5m (31 December 2017: €285.5m).

The weighted-average share price at the date of exercise for share options exercised in the six months period ended 30 June 2018 was \$2,121 (six months ended 30 June 2017: \$1,913).

No options were settled in cash by payment of the net value of the options. 364,161 options were exercised by payment of the strike price in cash for the issue of 364,161 redeemable shares (Class B shares).

The range of exercise price for options outstanding at the end of the period was \$1,363 to \$2,121 (six months ended 30 June 2017: \$1,000 to \$1,913).

The expense recognised for the period arising from the share-option schemes during the period was \$192.3m (€158.9m; six months ended 30 June 2017: expense \$547.4m; €505.4m).

JAB Holding Company S.à r.l., Luxembourg

3.11 Borrowings

	Notes in €m
Balance as of 31 December 2017	4,460.0
Additions / Repayments	1,485.8
Amortisation disagio and fees	2.8
Balance as of 30 June 2018	5,948.6
Thereof non-current liabilities	5,948.6

As of 30 June 2018, the Group has no outstanding payables under its credit facilities (31 December 2017: €0.0m).

In June 2018, the Group issued long-term notes in the aggregate principal amount of €750.0m (DE000A1919H2) and €750.0m (DE000A1919G4). The notes are traded on the EuroMTF Market, operated by the Luxembourg Stock Exchange. As of 30 June 2018, thereof, notes with a carrying value of €740.7m are maturing in June 2026 and notes with a carrying value of €745.1m are maturing in June 2029.

3.12 Other liabilities

	30 June 2018 in €m	31 December 2017 in €m
Share-based transactions	371.5	540.9
Derivatives	48.8	57.1
Accrued interest	26.1	38.6
Trade and other payables	10.9	5.5
Total	457.3	642.1
Thereof current	121.4	422.9
Thereof non-current	335.9	219.2

JAB Holding Company S.à r.l., Luxembourg

3.13 Net gain / (loss) on subsidiaries and other investments

	For the six months ended 30 June 2018 in €m	For the six months ended 30 June 2017 in €m
Net gain / (loss) on subsidiaries		
(at fair value through profit and loss)		
Acorn Holdings B.V.	65.7	354.6
JAB Beech Inc.	0.0	-125.8
Beech I G.P.	431.7	0.0
JAB Coffee Holding B.V.	-3.6	1.8
JAB Luxury GmbH	4.4	40.0
Others	0.1	0.0
Net gain / (loss) on other investments		
(at fair value through profit and loss)		
Coty Inc.	-1,303.3	-256.8
Reckitt Benckiser Group Plc.	-347.2	458.7
Others	0.4	-1.5
Total	-1,151.6	470.9

3.14 Dividend income

In the six months period ended 30 June 2018, the Group received dividend income from the following investments, designated at fair value through profit or loss:

	For the six months ended 30 June 2018 in €m	For the six months ended 30 June 2017 in €m
Reckitt Benckiser Group Plc.	40.9	63.1
Coty Inc.	60.8	63.1
JAB Beech Inc.	0.0	21.1
Acorn Holdings B.V. (corporate debt securities)	21.8	0.0
Total	123.5	147.4

In the six months period ended 30 June 2018, the Group also received €65.7m capital repayment from Acorn Holdings B.V. (see note 3.1).

JAB Holding Company S.à r.l., Luxembourg

3.15 Finance income and expense

Finance income can be specified as follows:

	For the six months ended 30 June 2018	For the six months ended 30 June 2017
	in €m	in €m
Change in redemption amount of redeemable shares	1.2	0.0
Interest income	7.4	1.9
Net foreign exchange gain including foreign exchange contracts	157.9	0.0
Total	<u>166.5</u>	<u>1.9</u>

Finance expenses can be specified as follows:

	For the six months ended 30 June 2018	For the six months ended 30 June 2017
	in €m	in €m
Interest expense on financial liabilities	-55.5	-46.0
Change in redemption amount of redeemable shares	0.0	-227.8
Bank fees	-4.0	-3.5
Net foreign exchange loss	0.0	-80.7
Valuation of interest rate contracts	8.4	14.2
Other	0.0	-0.1
Total	<u>-51.1</u>	<u>-343.9</u>

JAB Holding Company S.à r.l., Luxembourg

3.16 General and administrative expenses

General and administrative expenses can be detailed as follows:

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
	in €m	in €m
Service fees	-171.6	-517.4
Legal, tax, audit and consultancy fees	-1.6	-4.4
Salary and personnel related expenses	-4.5	-1.1
Others	-1.1	-0.8
Total	<u>-178.8</u>	<u>-523.7</u>

3.17 Taxes on income

	For the six months ended 30 June 2018	For the six months ended 30 June 2017
	in €m	in €m
Withholding tax on dividends from subsidiaries / other investments	0.0	-4.2
Income tax expense	<u>0.0</u>	<u>-4.2</u>

Dividends received from investments can be subject to withholding taxes. These dividends are tax exempt under the Dutch participation exemption. Withholding taxes have been recognised as part of income tax expense, with dividend income recognised on a gross basis.

3.18 Related parties

The related parties are disclosed in the consolidated financial statements 2017. Related party transactions which have taken place in the period and have materially affected the Interim Condensed Consolidated financial statements are disclosed in the notes to the Interim Condensed Consolidated financial statements.

3.19 Contingent liabilities

As of 30 June 2018, the Group provides no guarantees for third parties.

JAB Holding Company S.à r.l., Luxembourg

4. Financial instruments – Fair Value and Risk Management

4.1 Financial instruments and fair value hierarchy

The Group classified its financial instruments by category as set out below:

	30 June 2018			31 December 2017		
	Amortised cost in €m	FVTPL in €m	Total in €m	Amortised cost in €m	FVTPL in €m	Total in €m
Assets as per statement of financial position						
Subsidiaries	0.0	13,890.0	13,890.0	0.0	13,198.3	13,198.3
Other investments	0.0	5,064.0	5,064.0	0.0	7,559.7	7,559.7
Corporate debt securitites	0.0	852.2	852.2	0.0	852.2	852.2
Loans	22.6	0.0	22.6	54.2	0.0	54.2
Other receivables	17.4	0.0	17.4	14.2	1.1	15.3
Cash and cash equivalents	3,038.4	0.0	3,038.4	674.7	0.0	674.7
Non-current assets held-for-sale	9.1	394.2	403.3	0.0	389.8	389.8
Total	3,087.5	20,200.4	23,287.9	743.1	22,001.2	22,744.2

	30 June 2018				31 December 2017			
	Financial liabilities at amortised cost in €m	Financial liabilities at fair value through profit or loss in €m	Redeemable shares in €m	Total in €m	Financial liabilities at amortised cost in €m	Financial liabilities at fair value through profit or loss in €m	Redeemable shares in €m	Total in €m
Liabilities as per statement of financial position								
Borrowings	5,948.6	0.0	0.0	5,948.6	4,460.0	0.0	0.0	4,460.0
Redeemable shares	0.0	0.0	1,826.2	1,826.2	0.0	0.0	1,493.0	1,493.0
Other liabilities	37.0	48.8	0.0	85.8	44.0	57.1	0.0	101.1
Total	5,985.6	48.8	1,826.2	7,860.6	4,504.0	57.1	1,493.0	6,054.1

Cash and cash equivalents are subject to the impairment requirements of IFRS 9. As of 30 June 2018 and 31 December 2017, cash and cash equivalents were placed with quality financial institutions and could be withdrawn on short notice. Therefore the expected credit loss on cash and cash equivalents was immaterial, as well as the identified impairment loss for the other financial assets subject to the expected credit loss model.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

JAB Holding Company S.à r.l., Luxembourg

Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine fair value of an instrument are observable, the instrument is included in level 2.

Financial instruments in level 3

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

The following table analyses financial instruments carried at fair value by valuation technique. It does not include fair value information of financial assets and liabilities not measured at fair value. The issued long-term notes have a carrying amount of €5,948.6m (31 December 2017: €4,460.0m), the fair value is €6,105.9m (31 December 2017: €4,695.0m) based on dealer-quotes (level 2). For all other financial assets and liabilities the carrying amounts are a reasonable approximate of fair values.

	30 June 2018			Total in €m
	Level 1 in €m	Level 2 in €m	Level 3 in €m	
Financial assets at fair value through profit or loss				
Subsidiaries and other investments				
Listed equity investments	5,029.7	0.0	0.0	5,029.7
Unlisted equity investments	0.0	0.0	13,924.3	13,924.3
Non-current assets held-for-sale				
Unlisted equity investments	0.0	0.0	394.2	394.2
Corporate debt securities				
Preferred shares	0.0	0.0	852.2	852.2
Total financial assets	5,029.7	0.0	15,170.7	20,200.4
Redeemable shares				
Redeemable shares	0.0	0.0	1,826.2	1,826.2
Financial liabilities at fair value through profit or loss				
Interest rate contracts	0.0	48.8	0.0	48.8
Total financial liabilities	0.0	48.8	1,826.2	1,875.0

JAB Holding Company S.à r.l., Luxembourg

	31 December 2017			Total in €m
	Level 1 in €m	Level 2 in €m	Level 3 in €m	
Financial assets at fair value through profit or loss				
Subsidiaries and other investments				
Listed equity investments	7,543.0	0.0	0.0	7,543.0
Unlisted equity investments	0.0	0.0	13,215.0	13,215.0
Non-current assets held-for-sale				
Unlisted equity investments	0.0	0.0	389.8	389.8
Corporate debt securities				
Preferred shares	0.0	0.0	852.2	852.2
Other assets				
Foreign exchange contracts	0.0	1.1	0.0	1.1
Total financial assets	7,543.0	1.1	14,457.0	22,001.1
Redeemable shares				
Redeemable shares	0.0	0.0	1,493.0	1,493.0
Financial liabilities at fair value through profit or loss				
Interest rate contracts	0.0	57.1	0.0	57.1
Total financial liabilities	0.0	57.1	1,493.0	1,550.1

There were no transfers between the levels during the year.

The following tables show a reconciliation of all movements in the fair value of financial instruments categorised within level 3 between the beginning and the end of the reporting period.

	Subsidiaries		Other investments		Corporate debt securities		Non-current assets held-for-sale	
	Unlisted equity investments		Unlisted equity investments		Preferred shares		Unlisted equity investments	
	30 June 2018	2017	30 June 2018	2017	30 June 2018	2017	30 June 2018	2017
	in €m		in €m		in €m		in €m	
Balance as of 1 January	13,198.3	11,697.2	16.7	19.0	852.2	0.0	389.8	0.0
Additions	263.5	1,475.5	17.2	0.0	0.0	852.2	0.0	138.2
Disposals	-65.7	-155.0	0.0	0.0	0.0	0.0	0.0	-783.1
Change in fair value	493.9	991.6	0.4	-2.3	0.0	0.0	4.4	223.7
Reclassification to non-current assets held-for-sale	0.0	-811.0	0.0	0.0	0.0	0.0	0.0	811.0
Balance as of 30 June / 31 December	13,890.0	13,198.3	34.3	16.7	852.2	852.2	394.2	389.8

JAB Holding Company S.à r.l., Luxembourg

Level 3 valuation techniques of equity investments are appropriate in the circumstance and reflect recent transactions and market multiples.

Cash and cash equivalents, loans receivable, loans payable and other assets and liabilities, except for derivative financial instruments, were valued at amortised cost which are a reasonable approximate of fair values.

Subsidiaries categorised in level 3

The Group's investments include equity participations in Acorn Holdings B.V., Beech I G.P., JAB Coffee Holding B.V. and JAB Luxury GmbH, which are not quoted in active markets. The Group uses a market based valuation technique or, if appropriate, third-party transactions (at-arms' length) for measuring its investments.

The valuation models were based on market multiples derived from quoted prices of comparable public companies based on industry, size, leverage and strategy.

The following details show the valuation techniques in measuring level 3 fair values, as well as the unobservable inputs used, for the Group's equity investments:

Acorn Holdings B.V.:

The Group holds 61.4% of Acorn Holdings B.V. Acorn Holdings B.V. is shareholder of further interim holding companies and their investments in Jacob Douwe Egberts B. V. (JDE) and Keurig Green Mountain Inc. (KGM).

As of 30 June 2018, the investment's fair value is based on the value per share of at-arms' length transactions in Acorn Holdings B.V. shares in July 2018.

As of 31 December 2017, the JDE and KGM fair value were calculated applying multiples that were derived from selected publicly listed companies with 50% EBITDA and 50% P/E multiple weighting. The multiples applied to the LTM figures ending December 2017 are the median of the LTM multiples of the peer group consisting of comparable publicly listed companies. In addition, adjustments between the enterprise value and the equity value were made for financial debt, and, where relevant, for minorities and financial assets.

The following LTM multiples were used for the valuation of JDE and KGM as of December 2017: EBITDA multiple of 15.2x and P/E multiple of 23.8x.

In 2017, the Group entered into agreements regarding its investment in Acorn Holdings B.V. with certain non-controlling shareholders in this company. Under these agreements certain subsidiaries of JAB Holdings B.V. may be obliged to purchase such person's ordinary shares in Acorn Holdings B.V., conditional on the occurrence of Acorn Holdings B.V.'s engagement in certain business activities. Since the Group controls Acorn Holdings B.V. this contingent obligation is under the Group's control. Acorn Holdings B.V. has not engaged in such business activities as of 30 June 2018. In the event certain subsidiaries of JAB Holdings B.V. are required to purchase the ordinary shares of any such non-controlling shareholder of Acorn Holdings B.V., then the Group may be obliged to

JAB Holding Company S.à r.l., Luxembourg

subscribe for ordinary shares. The Group qualified these contingent payment obligations as financial instruments. As of 30 June 2018, the financial instruments fair value is measured close to 0 since the probability of the cash-outflow upon this agreement is estimated to be remote.

Beech I G.P.:

The Group holds 60.2% of Beech I G.P. Beech I G.P. is shareholder of further interim holding companies and their investments in Peet's Coffee, Inc. (formerly "Peet's Operating Company Inc."; "Peet's"), Caribou Coffee Company Inc. ("Caribou"), Krispy Kreme Holdings Inc. ("Krispy Kreme") and Panera Bread Company ("Panera").

As of 30 June 2018 and December 2017, Peet's, Caribou's and Krispy Kreme's fair value were calculated applying multiples that were derived from selected publicly listed companies with 40% EBITDA, 40% P/E and 20% Sales multiple weighting.

Beech I G.P. investment in Panera, occurred in the second half of 2017. As of 31 December 2017, management assessed the original acquisition cost to be the best fair value estimate. As of 30 June 2018, Panera's fair value was calculated applying multiples that were derived from selected public-ly listed companies with 40% EBITDA, 40% P/E and 20% Sales multiple weighting.

The multiples applied to the LTM figures ending June 2018 are the median of the LTM multiples of the peer group consisting of comparable publicly listed companies. In addition, adjustments between the enterprise value and the equity value were made for financial debt, and, where relevant, for minorities and financial assets.

For Peet's the following LTM multiples were used for the valuation: EBITDA multiple of 17.1x (31 December 2017: 16.8x), P/E multiple of 25.2x (31 December 2017: 28.3x) and sales multiple of 3.8x (31 December 2017: 4.0x).

For Caribou the following LTM multiples were used for the valuation: EBITDA multiple of 15.5x (31 December 2017: 15.8x), P/E multiple of 24.2x (31 December 2017: 28.1x) and sales multiple of 1.8x (31 December 2017: 1.5x).

For Krispy Kreme the following LTM multiples were used for the valuation: EBITDA multiple of 17.1x (31 December 2017: 16.7x), P/E multiple of 24.5x (31 December 2017: 28.3x) and sales multiple of 3.0x (31 December 2017: 3.2x).

For Panera the following LTM multiples were used for the valuation: EBITDA multiple of 17.4x, P/E multiple of 25.1x and sales multiple of 3.0x.

In 2017, the Group entered into an agreement with Beech I GP, JAB Beech Inc. and certain other persons that hold direct or indirect non-controlling interests in JAB Beech Inc. Under this agreement, certain of these non-controlling shareholders can request an IPO of JAB Beech Inc. after April 1st, 2023. Upon such request, JAB Beech Inc., at its option, may purchase such person's interest at a purchase price equal to the fair market value determined close to the acquisition date. If such IPO is not completed within 13 month, the Group may be obliged to purchase such person's interest at a purchase price equal to the fair market value determined close to the acquisition

JAB Holding Company S.à r.l., Luxembourg

date. The Group has qualified the contingent obligation to purchase such person's interest as a financial instrument. Its fair value is 0, since it is exercisable at the fair value of the underlying item.

JAB Coffee Holding B.V.:

The Group holds 56.1% of JAB Coffee Holding B.V. ("JCH"). JAB Coffee Holding B.V. is shareholder of further interim holding companies and their investment in Espresso House Holding AB ("Espresso House").

As of 30 June 2018 and 31 December 2017, Espresso House fair value was calculated applying multiples that were derived from selected publicly listed companies with 40% EBITDA, 40% P/E and 20% sales multiple weighting.

The multiples applied to the LTM figures ending June 2018 are the median of the LTM multiples of the peer group consisting of comparable publicly listed companies. In addition, adjustments between the enterprise value and the equity value were made for financial debt, and, where relevant, for minorities and financial assets.

The following LTM multiples were used for the valuation of Espresso House: Sales multiples of 2.5x (31 December 2017: 2.5x), EBITDA multiple of 16.5x (31 December 2017: 16.3x) and P/E multiple of 23.9x (31 December 2017: 25.5x).

JAB Luxury GmbH:

The Group is the sole owner of JAB Luxury GmbH, Switzerland. This entity is a shareholder of the luxury goods company Bally International AG (Bally). The Company has the intention to dispose of its investment in Labelux Group GmbH and therefore classified the shares as assets held for sale.

As of 31 December 2017 and 30 June 2018, the investment's fair value was based on the value per share of an at-arms' length transaction in Bally International AG shares in February 2018.

Corporate debt securities Acorn Holdings B.V.

The Group holds preferred shares in Acorn Holdings B.V.

The Group's investment in the preferred shares in Acorn Holdings B.V. occurred in the fourth quarter of 2017. As of 30 June 2018 and 31 December 2017, management assessed the original acquisition cost to be the best fair value estimate.

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Sensitivity to unobservable inputs

Changes in the valuation methodologies or assumptions could lead to different measurements of fair value. The most significant unobservable inputs are the applied multiples. The estimated fair value would increase (decrease) if the adjusted market multiples were higher (lower). A change of the applied multiples by 10% would change the fair value estimate in the amount of €531.4m (31 December 2017: €1,337.7m). As of 30 June 2018, the sensitivity to unobservable inputs comprises the investment in Beech I G.P. and JAB Coffee Holding B.V. (31 December 2017: Acorn Holdings B.V., Beech I G.P. and JAB Coffee Holding B.V).

Redeemable shares

The Company recorded its own shares containing put features as liability at the potential redemption amount, which is based on valuation rules that have been contractually agreed with the shareholders.

4.2 Overview of financial risk factors

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

Moreover, the Group is subject to inherent risks due to its investment activities and concentration risk within its investment portfolio. The value development of the investments depends on various external and internal factors which also might lead to negative variances from the expected developments.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosure required in the annual consolidated financial statements, and should be read in conjunction with the Group's 31 December 2017 consolidated financial statements. There have been no changes in the risk management policies and procedures since year-end.

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5. Subsequent Events

In January 2018, it was announced that Keurig Green Mountain and Dr Pepper Snapple Group Inc. have entered into a definitive agreement to create Keurig Dr Pepper (“KDP”), a new beverage company of scale with a portfolio of iconic consumer brands and unrivalled distribution capability to reach virtually every point-of-sale in North America. In July 2018, the transaction was closed. For the closing JAB Group has made a capital contribution to Acorn Holdings B.V. amounting to \$3,350m.

In May 2018, it was announced that JAB Group together with JAB Consumer Fund and other equity partners will acquire Pret A Manger (“Pret”), a leading company in the ready-to-eat food market. The transaction is expected to be completed in 2018. JAB Group, JAB Consumer Fund and other equity partners will together make an equity investment of approximately £1.0bn as part of the financing of the transaction that was committed by JAB Group at signing of the transaction and will be finally allocated to JAB Group, JAB Consumer Fund and the other investors. JAB Group will make an equity contribution of not more than €0.4bn.

After 30 June 2018, JAB Group has sold Reckitt Benckiser shares, reducing its shareholding to below 3%.

In August 2018, JAB Group acquired further Coty Inc. shares for an amount of \$32m.

Luxembourg, 17 September 2018

Managing Directors:

M. Hopmann

J. Creus