

# Letter to Shareholders

# ARYZTA AG

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Dear Shareholder,

## **Shareholder Group Engagement | Board Refreshment & Renewal**

As set out in my letter of 20 July 2020, we have engaged openly, extensively and, at all times, constructively with Veraison and Cobas ('the Shareholder Group'). We have done so within established regulatory parameters. We have continued that engagement, as recently as 10 August, with every reasonable effort to arrive at a constructive solution.

As a Board, we are prepared to accelerate an already extensive Board Refreshment & Renewal process provided it is proportionate, measured and follows accepted governance principles. Since 2017, ARYZTA has extensively refreshed and renewed its existing Board through the appointment of seven new non-executive Directors who replaced existing Board members. To demonstrate the Board's sincere and constructive approach towards meaningful engagement with the Shareholder Group, we have also accepted the resignations of a further two directors (the existing Chairs of the Governance and Nomination and the Remuneration Committees), effective from the EGM. Further, and as previously announced, I will step down, as Chair at the conclusion of the EGM. On this basis, the average Director tenure is just two years at a time when there is an absolute need for Board stability when presented with the most significant existential threat to our business in the form of COVID-19.

The effect of the Shareholder Group proposal is an average Director tenure of just over one year with just one Board Member with over two years of experience. We do not believe that this proposal, under any circumstances, represents the best interests of ARYZTA and all of its stakeholders.

## **Nominations Process**

The spirit of our engagement with the Shareholder Group (together with a desire to reach a constructive solution) is reflected by our support for two of the Shareholder Group's candidates provided they observe a nominations process. This is, again, fully consistent with internationally recognised standards and good governance practice. This process has been observed by each new independent Director appointed since 2017 and by Andreas G. Schmid as proposed Chair. The nominations process is rooted in a desire to appoint Board members who will provide the most independent and effective leadership for ARYZTA. We have conveyed this offer to the Shareholder Group affording the opportunity to modify this process. We have also formed an adhoc nominations committee solely composed of those Directors who are not the subject of any Shareholder Group proposals. To date, the Shareholder Group has not agreed to submit any of its candidates for evaluation through either an established or modified nominations process. Absent such process, the Board is not in a position to support any of the candidates proposed by the Shareholder Group.

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**Proposal as Chair**

Our proposed Chair, Andreas G. Schmid, has an established track record of delivering against turnaround situations; proven public company and chairmanship experience; and, is one of Switzerland's most distinguished business leaders. Current circumstances necessitate a proven business leader with extensive expertise of Board leadership, within complex, multi-national, publicly-listed companies of scale. Andreas G. Schmid has committed to reducing his existing board mandates to devote sufficient time to ARYZTA. His proven experience as Chair and as a Board leader stands in marked contrast to the Shareholder Group's proposed Chair. Your Board believes Andreas G. Schmid's highly effective Board leadership is in the best interests of all ARYZTA's stakeholders.

**CEO**

The Board rejects the proposal to remove Kevin Toland as a member of the Board. Any diminution of his leadership, role or authority, increases business risk, and is not considered to be in the best interests of ARYZTA. His leadership is integral to the business as it continues to manage through the COVID-19 crisis and provides effective executive representation at Board level.

**Chair of Audit Committee**

The Board also rejects the proposal to remove Annette Flynn as a member of the Board. The importance of her role (and continuity for the Audit Committee) has increased given the resignation of Frederic Pflanz as CFO (effective end of calendar year 2020) and the recent election of new auditors at last year's AGM.

Annette's continuity, as Audit Committee Chair, is increasingly important, through to financial year-end, given the above complexities together with the extremely challenging circumstances arising from COVID-19.

Taken as a whole, we believe that the proposals your Board has made to the Shareholder Group and to you as shareholders are more than fair and reasonable. Those proposals reflect significant concessions, have been made in the spirit of constructive engagement, and are at all times, consistent with our responsibility to act in the best interests of all shareholders.

The effect of the Shareholder Group proposal is as follows:

- » The Shareholder Group is seeking to propose over 30% of the Board with an ownership interest of 20.01%. If approved, the overall Board composition would be significantly disproportionate to its equity interest.

- » The appointment of the Shareholder Group's nominee as Chair, in addition to its nominees as independent Directors, would effectively give the Shareholder Group Board control without offering a 'control premium' to all shareholders.
- » A lack of collective Board experience, stability and cohesion, with average Director tenure of just over one year.

For our part, we are prepared to accelerate an already extensive Board renewal process through the appointment of two of the Shareholder Group's nominees, provided due process is observed. We have put forward a proven Chair, with an established track record of board leadership and turnaround situations.

Quite simply, there is no 'silver bullet' that any strategic initiative, or additional Board Refreshment process, can deliver. Set against an unprecedented market backdrop, we need a proven Board and an executive team singularly focused on accelerating the turnaround strategy. This is at the heart of every decision we make as a Board which is, and must be, guided by our obligation to act in the best interests of ARYZTA as a whole.

Sincerely,



Gary McGann, Chair  
18 August 2020

