

# ARYZTA AG Annual General Meeting

Shareholder information on the proposals of the Board of Directors submitted to the shareholders for approval at the Annual General Meeting of 14 November 2019 for the compensation of the Board of Directors and Executive Management

In line with the Swiss Code of Best Practice for Corporate Governance, the Swiss Ordinance against Excessive Compensation regarding Listed Stock Corporations and ARYZTA's Articles of Association, ARYZTA's Board will ask the shareholders to approve prospectively in a binding vote the maximum aggregate compensation of the Board and for the Executive Management as well as to express retrospectively in a non-binding advisory vote their opinion on the Compensation Report 2019.

## 1. Agenda Item 1.2: Advisory Vote on the Compensation Report 2019



**MOTION:** The Board of Directors proposes that the Compensation Report for the financial year 2019 be ratified in a non-binding advisory vote.

## 2. Agenda Item 5.1 : Compensation of the Board until the next AGM



**MOTION:** The Board of Directors proposes the approval of a maximum aggregate amount of remuneration of the Board of Directors for the period from the 2019 Annual General Meeting to the next Annual General Meeting of CHF1,500,000 (one million five hundred thousand Swiss francs).

## 3. Agenda Item 5.2 : Compensation of Executive Management for the financial year from 1 August 2020 to 31 July 2021



**MOTION:** The Board of Directors proposes the approval of a maximum aggregate amount of remuneration of the members of the Executive Management for the 2021 financial year (ending 31 July 2021) of CHF18,000,000 (eighteen million Swiss francs).

# Key highlights from the Compensation Report



- No salary increase for CEO;
- No retention payments were made in FY18 or FY19 to Executive Management;
- Renew Special Bonus Plan introduced; eligibility is restricted to two Regional CEOs;
- LTIP holding period of 2 years for CEO; and
- For LTIP 2020:-
  - i. share options eliminated;
  - ii. relative Total Shareholder Return (TSR) introduced;
  - iii. share ownership requirements introduced for Executive Management.

# Agenda Item 1.2

## Non-binding advisory vote on the 2019 Compensation Report



**MOTION:** The Board of Directors proposes that the Compensation Report for the FY19 to be ratified in a non-binding advisory vote.

ARYZTA's Compensation Report for the FY19 has been prepared in accordance with Swiss laws and regulations, including the Ordinance against Excessive Compensation at Listed Stock Companies and the Directive on Information relating to Corporate Governance, issued by SIX Swiss Exchange. The report also comprises information required under the Swiss Code of Obligations. As in prior years, and in keeping with recommendations in the Swiss Code of Best Practice for Corporate Governance of *economiesuisse*, the Board of Directors has decided to submit the Compensation Report 2019 to a separate non-binding advisory vote of the shareholders.

The Compensation Report describes the compensation system as well as the governance framework related to the compensation of the Board and the Executive Management. The report also informs shareholders about the compensation awarded to the members of the Board and the Executive Management for FY19.

Please refer to the Compensation Report 2019 – Appendix I

# Agenda Item 5.1

## Compensation of the Board until the next AGM



**MOTION:** The Board of Directors proposes the approval of a maximum aggregate amount of remuneration of the Board of Directors for the period from the 2019 Annual General Meeting to the next Annual General Meeting of CHF1,500,000 (one million five hundred thousand Swiss francs).

The compensation of the members of the Board shall attract and retain highly qualified individuals for the ARYZTA Board. The amount of compensation reflects the responsibilities of the roles in the Board and its Committees as well as the time required. The compensation structure is intended to support the orientation of the Board towards the long-term development and success of the company. In order to ensure the independence of the members of the Board in executing their supervisory duties of the company, the total compensation of the Board is fixed and does not include any performance-related, variable compensation component.

The maximum aggregate amount of compensation proposed is CHF 1,500,000 for ten non-executive members of the Board. This maximum aggregate amount is equal to the amount approved at the last 2018 AGM for the previous term. The directors' compensation fees are paid 60% in cash and 40% in shares which are subject to a 3-year holding period. Non-executive members of the Board are not eligible for performance-related payments or the LTIP. Compensation levels reflect responsibilities, commitment and time for the respective roles and duties undertaken by each Board member. Members of Executive Management (CEO) who are also members of the Board receive no additional remuneration for their role as a Board member.

(in CHFk)	2019-2020 AGM	2018-2019 AGM
Chair	323	323
Other Board members	1,177	1,177
<b>Total</b>	<b>1,500</b>	<b>1,500</b>

## Agenda Item 5.2

### Compensation of Executive Management for FY21 (1/3)



**MOTION:** The Board of Directors proposes the approval of a maximum aggregate amount of remuneration of the members of the Executive Management for the 2021 financial year (ending 31 July 2021) of CHF18,000,000 (eighteen million Swiss francs).

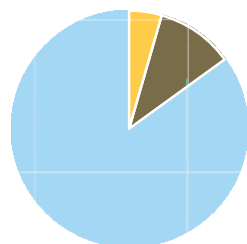
ARYZTA's compensation framework and principles are designed to attract and retain top talent and to provide a balance between motivating and challenging the members of the Executive Management to deliver ARYZTA's near-term business priorities together with achieving sustainable, long-term success. Furthermore, the company's compensation framework aims to be aligned with shareholders' interest, driving the creation of shareholder value, as well as fostering entrepreneurial thinking. Given ARYZTA's turnaround situation, a clear focus going forward was reflected in the selection of performance measures for the variable remuneration such as to capture the main value drivers (i.e. growth, cost control and capital efficiency). This consistent approach allows for a simpler incentive landscape (STIP and LTIP consistency), also for communication purposes, while more strictly aligning compensation and overall company strategy.

The compensation package for Executive Management is comprised of three elements: a fixed compensation in the form of an annual base salary and additional benefits; a variable short-term incentive plan ('STIP') to reward eligible participants for delivering strong short-term performance, whilst limiting the company's exposure to downside risk; and a variable long-term incentive plan (LTIP) to provide performance-driven equity-based future rewards to the participants for the accomplishment of the Group's long-term financial and strategic goals.

# Agenda Item 5.2

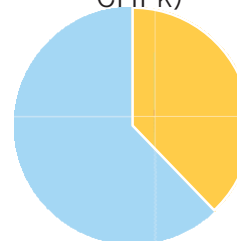
## Compensation of Executive Management for FY21 (2/3)

Fixed compensation (in CHFk)



Base salary: 4,716  
 Pension contributions: 756  
 Benefits in kind: 504  
**Total: 5,976**

Variable contingent pay (in CHFk)



STI: 7,056  
 LTI: 4,968  
**Total: 12,024**

The majority of compensation is variable, i.e. at risk, and based solely on financial performance achievements. The structure includes shareholder-friendly features and mitigates risk-taking behavior. The compensation strategy is fully aligned with shareholders and features targets embedded in the three-year strategic plan.

in CHFk	Maximum amount FY21 (for approval at 2019 AGM)	Maximum amount FY20 (approved at 2018 AGM)
Base salaries	4,716	4,915
Pension contributions	756	915
Benefits in kind	504	370
STIP	7,056	7,370
LTIP	4,968	4,430
<b>Total compensation</b>	<b>18,000</b>	<b>18,000</b>
Actual headcount	9	9

## Agenda Item 5.2

### Compensation of Executive Management for FY21 3/3)



#### Future considerations

As of FY20, Shareholding Guidelines for members of the Executive Management will be introduced to further strengthen the long-term focus and to additionally increase the alignment of the Executive Management's interests with those of ARYZTA's shareholders. Furthermore, another grant of the LTIP is planned. In line with the long-term focus, an unchanged three-year performance period is foreseen. For the upcoming LTIP FY20 grant, ARYZTA will include a market-related performance measure expressed as relative Total Shareholder Return. ARYZTA will keep a strong focus on operating measures that capture both profitability and capital efficiency. Furthermore, the new plan will only involve PSUs which will convert into shares; options will be abolished.



## Appendix I – 2019 Compensation Report

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# Annual Report and Accounts 2019

## Compensation Report

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### Letter from the Chairman of the Remuneration Committee

Dear Shareholders,

On behalf of the Board of Directors ('Board') and the Remuneration Committee ('RemCo'), I am pleased to introduce ARYZTA AG's ('ARYZTA') Compensation Report for the financial year ended 31 July 2019 ('FY19').

Throughout 2019, the RemCo continued to assess and review the overall compensation framework with the main objective to support the company's business strategy, while aligning compensation with overall expectations of our shareholders. ARYZTA aims to continue to be an attractive employer offering transparent and performance-based compensation that anchors the strategic cornerstones of the company while promoting an inclusive, equitable, meritocratic culture. In this context and in line to the announcement at our 2018 Annual General Meeting ('AGM'), ARYZTA awarded two Long Term Incentive Plan ('LTIP') grants during FY19 which are both subject to performance conditions to clearly focus on the delivery of our multi-year turnaround and to further advance to acceptable levels of performance.

During FY19, the Board also decided to further promote the long-term performance by introducing shareholding ownership guidelines for the Executive Management, effective from FY20. Additionally, the Board has adjusted its own fee structure by introducing an equity element in the form of blocked shares over a three-year period. Further details of the changes as well as information on the activities of the RemCo can be found in this Compensation Report.

At the upcoming AGM, we will ask you to approve, as last year, prospectively in a binding vote the maximum compensation of the Board for the period ending at our 2020 AGM, and the maximum aggregate compensation for the Executive Management for FY21. Furthermore, you will have the opportunity to register your opinion on this Compensation Report in a consultative vote.

Looking ahead, we will continue refining our compensation strategy in order to ensure that ARYZTA's compensation framework continues to fulfil its purpose in the evolving context in which the company operates; for instance, we have already decided to add to the LTIP FY20 a relative total shareholder return measure.

On behalf of ARYZTA and the RemCo, I would like to thank you for your support and valuable feedback.



Chairman of the Remuneration Committee  
Rolf Watter, 8 October 2019

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## Compensation Report (continued)

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### Introduction to Compensation in 2019

ARYZTA's Compensation Report for FY19 has been prepared in accordance with Swiss laws and regulations, including the Ordinance against Excessive Compensation at Listed Stock Companies and the Directive on Information relating to Corporate Governance, issued by SIX Swiss Exchange. The report also takes into account the recommendations set out in the Swiss Code of Best Practice for Corporate Governance of *economiesuisse*. The Compensation Report contains the following information:

- Overview of the current compensation framework for the Board and the Executive Management including their various elements, and an explanation of specific changes implemented during FY19.
- Compensation of the members of the Board from the 2018 AGM until the 2019 AGM.
- Compensation of the Executive Management paid and/or granted during FY19.
- A brief overview on the future structure and design of ARYZTA's compensation approach.

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### Compensation Governance

The compensation system at ARYZTA is mainly determined by two key bodies: The RemCo which advises the Board and the shareholders of ARYZTA at the AGM. The Organizational Regulations, the Terms of Reference of the RemCo and the Articles of Association describe and define the roles and responsibilities of these two bodies. These documents contain the principles for the compensation of the members of the Board and the Executive Management. In addition, the Articles of Association provide for a supplementary amount available for employees joining the Executive Management or being promoted within the Executive Management after the AGM approval of the maximum aggregate amount of compensation available for the Executive Management. The Articles of Association can be found on our homepage: [www.aryzta.com/about-aryzta/corporate-governance](http://www.aryzta.com/about-aryzta/corporate-governance).

## Compensation Report (continued)

The general division of duties, responsibilities and powers between the Board, the RemCo and the AGM is shown in the table below.

	CEO	Committee	Board	AGM
Compensation strategy and guidelines		Review and proposal	Approval	
Compensation principles		Review and proposal	Approval	
Key terms of compensation plans for the Board and the Executive Management		Review and proposal	Approval	
Total compensation for the Board		Review and proposal	Proposal	Voting
Total compensation for the Executive Management		Review and proposal	Proposal	Voting
Individual total compensation of the CEO		Review and proposal	Approval	
Individual total compensation for other members of the Executive Management	Proposal	Review	Approval	
Employment and termination agreements for the CEO		Review and proposal	Approval	
Employment and termination agreements for members of the Executive Management	Proposal	Review	Approval	
Compensation Report		Proposal	Approval	Voting

### Role of the Shareholders regarding the AGM – Shareholder Engagement

In compliance with ARYZTA's Articles of Association, shareholders will be asked at the 2019 AGM, to be held on 14 November 2019, to approve the maximum aggregate amount of compensation of:

- the Board for the period until the next AGM (i.e. the period until the 2020 AGM); and
- the Executive Management for the following financial year (i.e. the FY ending 31 July 2021).

In addition, as in prior years, the Board will submit this Compensation Report to a separate advisory vote for the shareholders at the 2019 AGM in line with the Swiss Code of Best Practice for Corporate Governance.

At the 2018 AGM, the Board submitted three separate compensation-related resolutions, which were all approved by the shareholders:

- The maximum aggregate amount of compensation for the members of the Board for the period from the 2018 AGM until the 2019 AGM (binding vote): CHF 1,500,000.
- The maximum aggregate amount of compensation for the Executive Management for the FY20 (binding vote): CHF 18,000,000.
- The compensation report for FY18.

## Compensation Report (continued)

### Remuneration Committee Activities during 2019

The RemCo is comprised of a minimum of three and a maximum of four independent non-executive Board members who are elected annually and individually by the AGM for a one-year period until the next AGM. The RemCo chairperson is appointed by the Board. At the 2018 AGM, Rolf Watter, Mike Andres, Dan Flinter, and Gary McGann were confirmed as members of the RemCo, and Rolf Watter was subsequently approved by the Board as Chair of RemCo. The purpose of the RemCo is to assist the Board in fulfilling its responsibilities regarding the compensation of the members of the Board and the Executive Management of ARYZTA. As in prior years, in FY19 the RemCo acted within the limits of the relevant shareholder approvals, being responsible for:

- assessing the overall compensation principles and compensation strategy of ARYZTA;
- determining all elements of the compensation of the members of the Board and the Executive Management;
- approving the compensation of other members of the Executive Management, upon the recommendation of the CEO;
- reviewing and recommending to the Board on an annual basis a proposal regarding the total compensation amount of the Board and the Executive Management for the following year;
- preparing and recommending to the Board the Compensation Report for approval.

The RemCo reviews the level and structure of compensation on an annual basis to ensure that executives are remunerated in line with the level of their authority and responsibility within the Group and so as to ensure the Company's capacity to recruit and retain a high calibre of professional managers. The RemCo reports to the Board at the Board meeting following each meeting of the RemCo, ensuring that the Board members are kept informed in a timely and appropriate manner of all material matters within the RemCo's area of responsibility. In addition, all RemCo papers (e.g. agenda, minutes, presentations, etc.) are available to all members of the Board. When the RemCo considers it appropriate to do so, it may directly ask members of the Executive Management or members of the HR department to attend meetings. The RemCo is authorised to obtain appropriate external advice and to invite those persons to attend the meetings of the RemCo. The RemCo regularly holds private sessions (i.e. without the presence of members of the Executive Management, members of the HR department or third parties). During FY19, the RemCo appointed HCM International Ltd. (HCM) as an external independent advisor on all compensation matters.

The RemCo chairman convenes meetings of the RemCo as often as the business affairs of ARYZTA require. During FY19, the RemCo held six meetings with an average duration of two hours each.

## Compensation Report (continued)

The topics covered by the RemCo during the six meetings of FY19 are described in the table below.

	Agenda item	Sep 2018	Dec 2018	Jan 2019	Mar 2019	May 2019	July 2019
	FY18 - STIP outcome	•					
	LTIP Design considerations	•					
	LTIP Allocation and targets		•				
Executive Management compensation	Contract Review			•	•	•	
	LTIP eligibility for new hires					•	
	STIP & LTIP FY20					•	•
Board compensation	Share Proposal	•	•				
General framework	Shareholding Requirements				•	•	•
Communication	Compensation Report	•				•	•
RemCo	Terms of Reference	•					
	RemCo Charter review			•			

### Compensation Principles

ARYZTA's compensation framework and principles are designed to attract and retain top talent, to underpin the implementation and support the company's strategic plans and to provide a balance between motivating and challenging the members of the Executive Management to deliver ARYZTA's near-term business priorities together with achieving sustainable, long-term success. Furthermore, the company's compensation framework aims to be aligned with shareholders' interest, driving the creation of shareholder value, as well as fostering entrepreneurial thinking.

The RemCo gives careful and detailed consideration to the Board and Executive Management compensation. As one reference point, the RemCo regards market data on compensation to assess its competitiveness in the market environment. The aim of the RemCo in designing compensation arrangements is to be oriented towards best practice, have clear alignment with shareholders, incorporate an emphasis on performance, and promote the long-term success of the company.

While ARYZTA's primary listing is in Switzerland, given the global scale of our business, the RemCo keeps apprised of key developments regarding corporate governance and compensation across the globe.

#### Compensation objectives and principles

- Retain and incentivise top talent to support delivery of the strategic plan (multi-year turnaround)
- Provide balance between motivating and challenging employees to deliver on near-term business priorities together with driving sustainable, long-term success
- Align with shareholder interests in the context of rewarding management for creating shareholder value
- Support short- and long-term alignment with market practices while maintaining shareholder support

## Compensation Report (continued)

### Compensation Framework for the Board of Directors

#### Compensation Approach for the Board of Directors

In order to assure the independence of the members of the Board in executing their supervisory duties of the company, the total compensation of the Board is fixed and does not include any performance-related, variable compensation component.

For FY19, consistent with the shareholder approval, non-executive Board members were paid a fixed annual base fee of CHF 88,000, reflecting the time commitment and responsibilities of the role. Additional compensation for non-executive directors for service on a Board Committee was CHF 8,000, CHF 25,000 for the Chair of the Audit Committee and CHF 16,000 for the Chairs of the other Committees. In addition, in recognition of the extra burden and time commitment associated with transatlantic travel, an additional allowance of CHF 15,000 per annum was given to Board members based in North America. The Chair of the Board's fee amounts to CHF 323,000 reflecting the requirements of the role. Non-executive Board members are not eligible for performance-related payments and therefore did not participate in the LTIP. The CEO received no additional compensation for his role as a Board member.

The following table provides an overview of membership in Board Committees for the members of the Board as of the end of FY19.

	Board of Directors	Audit Committee	Governance and Nomination Committee	Remuneration Committee
Gary McGann	Chair		•	•
Chuck Adair <sup>1</sup>				
Mike Andres <sup>1</sup>	•			•
Greg Flack <sup>1</sup>	•	•		
Dan Flinter	•		Chair	•
Annette Flynn	•	Chair		
Jim Leighton	•		•	
Tim Lodge <sup>1</sup>	•	•		
Andrew Morgan	•	•		
Kevin Toland	•			
Rolf Watter	•		•	Chair

<sup>1</sup> Effective 1 November 2018, C. Adair retired from the Board and M. Andres, G. Flack and T. Lodge were elected to the Board.

Since the 2018 AGM, the individual sum of the fixed annual base fee and, where applicable, the fixed annual committee fee per member are compensated 60% in cash and 40% in the form of Restricted Shares or Restricted Share Units ('RSUs'), entitling the recipient to receive ARYZTA shares upon expiration of the holding period for the Restricted Shares, or vesting of the RSUs. Non-executive Board members must elect to receive either Restricted Shares or RSUs, which are subject to either a three-year holding or vesting period respectively, ending on the third anniversary of each grant. This equity component further strengthens the long-term focus of the Board in performing its duties as well as the alignment of the Board's interests with those of ARYZTA's shareholders.

## Compensation Report (continued)

In June 2018, the Group entered into a six-month consultancy arrangement with Jim Leighton pursuant to which Mr. Leighton provided advice in relation to the implementation of ARYZTA's three-year €200m cost reduction, Project Renew. The compensation payable to Mr. Leighton under the arrangement only includes a cash element and amounts to \$150,000 over the course of the consultancy and was fully paid out during FY19. The consultancy arrangement with Mr. Leighton ended on 30 November 2018.

### Compensation Awarded to the Board of Directors (audited)

The following table reflects the payments received by Board members during FY18 and FY19. The total compensation for FY19 for the Board amounted to CHF 1,290,000 which is within the maximum amount approved at the AGM 2018 of CHF 1,500,000.

in CHF'000	Settled in cash	Settled in shares <sup>1</sup>	Direct payments year ended 31 July 2019	Direct payments year ended 31 July 2018
Gary McGann	194	129	323	323
Chuck Adair <sup>2</sup>	40	–	40	119
Mike Andres <sup>2</sup>	39	44	83	–
Gregory Flack <sup>2</sup>	39	44	83	–
Dan Flinter	65	45	110	104
Annette Flynn	71	42	113	104
Jim Leighton <sup>3,4</sup>	183	44	227	106
Tim Lodge <sup>2</sup>	34	38	72	–
Andrew Morgan	58	38	96	96
Rolf Watter	65	45	110	104
Wolfgang Werlé <sup>4</sup>	–	–	–	34
<b>Total</b>	<b>788</b>	<b>469</b>	<b>1,257</b>	<b>990</b>
Social security payments			33	20
<b>Total payments including social security</b>			<b>1,290</b>	<b>1,010</b>

1 Equity is awarded once a year at 40% of the total annual compensation. The balance of the compensation for the financial year is settled in cash.

2 Effective 1 November 2018, C. Adair retired from the Board and M. Andres, G. Flack and T. Lodge were elected to the Board.

3 The fee for J. Leighton includes a consultancy payment of CHF 116,000 for advice in relation to the implementation of ARYZTA's three-year €200m cost reduction, Project Renew.

4 The terms of office as Member of the Board of Directors of W. Werlé expired on 7 December 2017 and on that date J. Leighton was elected to the Board.

The compensation of the Board is subject to regular social security contributions and is not pensionable. On the cash component, ARYZTA pays the employer contribution of social security, and on the share component, ARYZTA pays both contributions. No additional compensation components such as pension entitlements, lump-sum expenses or attendance fees are awarded to the members of the Board.



## Compensation Report (continued)

### Non-executive Directors' share interests

As at 31 July 2019 and 31 July 2018, the Directors and Company Secretary had no interests, other than those shown below, in the ordinary shares in, or loan stock of, the Company or other Group undertakings.

Shares in ARYZTA at CHF 0.02 each	No. of ordinary shares 2019	No. of restricted shares/ unvested RSUs 2019	Total No. of ordinary shares 2019	No. of ordinary shares 2018
<b>Directors</b>				
Gary McGann	161,700	116,428	<b>278,128</b>	14,700
Chuck Adair <sup>1</sup>	N/A	N/A	<b>N/A</b>	5,062
Mike Andres <sup>1</sup>	–	40,011	<b>40,011</b>	N/A
Greg Flack <sup>1</sup>	–	40,011	<b>40,011</b>	N/A
Dan Flinter	13,365	40,371	<b>53,736</b>	1,215
Annette Flynn	11,132	37,488	<b>48,620</b>	1,012
Jim Leighton <sup>2</sup>	–	40,011	<b>40,011</b>	–
Tim Lodge <sup>1</sup>	–	34,604	<b>34,604</b>	N/A
Andrew Morgan	–	34,604	<b>34,604</b>	–
Rolf Watter	78,507	40,371	<b>118,878</b>	7,137
<b>Total</b>	<b>264,704</b>	<b>423,899</b>	<b>688,603</b>	29,126

<sup>1</sup> Effective 1 November 2018, C. Adair retired from the Board and M. Andres, G. Flack and T. Lodge were elected to the Board.

<sup>2</sup> The Beneficial holding of J. Leighton is held in the form of Restricted Stock Units.

### Compensation Framework for the Executive Management

#### Compensation Approach for the Executive Management

The compensation package for the Executive Management is comprised of three different elements:

- Fixed compensation in the form of an annual base salary and additional benefits (including benefits-in-kind and pension contributions);
- Variable short-term incentive plan ('STIP');
- Variable long-term incentive plan ('LTIP').

#### Fixed Compensation

##### *Annual base salary*

The annual base salary is the main fixed compensation component paid to Executive Management members. Typically, it is paid in cash in twelve equal monthly instalments. The level of base salary is determined considering the scope and complexity of the function, level of responsibility, and other factors deemed appropriate. In addition, the compensation for the role in the location where the company competes for talent is considered. Fixed base salaries of the Executive Management members are reviewed every year based on the abovementioned factors and adjustments are made according to market developments.

## Compensation Report (continued)

### Pension and benefits

Members of the Executive Management participate in the company's pension plans, which consist primarily of retirement, insurance and health care plans designed to provide an adequate level of protection for employees and their dependents in the event of retirement, sickness, disability or death. The plans vary according to legal conditions, but at least meet the legal requirements of the countries concerned. The members of the Executive Management are also granted certain benefits and benefits in kind in accordance with competitive market practice (e.g. a car allowance).

### Short-term incentive plan ('STIP')

The short-term incentive plan ('STIP') is a variable incentive designed to reward eligible participants for delivering strong short-term performance and contribution to ARYZTA's annual business objectives, whilst limiting the company's exposure to downside risk in the case of financial underperformance, over a time horizon of one year. In order to drive alignment across the Group, the STIP design consists of group-focused (financial) measures to drive global thinking amongst key executives and regional performance measures to account for regional responsibilities.

STIP targets are based on a mix of targets set at a Group level as well as on a regional level, taking into consideration the scope of influence of each role (e.g. global, regional, business unit). Regional targets are assigned to members with regional responsibilities, while other members' performance, including the performance of the CEO and CFO, is assessed at Group level only. The STIP FY19 is based on the following primary financial measures:

- Underlying EBITDA
- Net Debt:EBITDA ratio
- Operating Free Cash Generation

The individual STIP target amounts to 100% of the base salary for all members of the Executive Management. Depending on achieved performance, the STIP target value may amount up to a pre-determined multiplier of the target value, but never exceeds 150% of base salary in the case of outperforming targets.

The STIP targets for the Executive Management are set by the Board in accordance with the overall business plan. To calibrate the target achievement curve for the following year, a target achievement level is identified based on a robust budget for the respective year. Minimum and maximum performance achievement levels are defined considering, amongst other metrics, the previous year's performance level. For both primary financial performance measures, the Board sets a minimum threshold level under which there is no payout. The maximum payout is capped at 150% of the target amount. Various country-specific forfeiture rules apply in case of termination of employment during the performance year.

## Compensation Report (continued)

During FY19, STIP was paid to the members of Executive Management where the approved performance thresholds were exceeded according to the level of achievement of the defined short-term targets (Underlying EBITDA, Net Debt:EBITDA ratio, and Operating Free Cash Flow). For the assessment of the Net Debt:EBITDA ratio, the target was recalibrated in order to mitigate the effect of the capital raise, and the exceptional efforts to deliver the recapitalization of the company were considered. Performance targets were achieved at different levels and resulted in an overall payout range of 35% and 131% for the Executive Committee; for the CEO the overall achievement was 98%.

### Renew Special Bonus Plan ('RSBP')

The Renew Special Bonus Plan ('RSBP') is an exceptional element of the compensation package of members of the Executive Management in the regions which are affected by the cumulative three-year €200 million cost reduction and efficiency plan, Project Renew. The purpose of the plan is to reward eligible participants for delivering on this plan. The RSBP was launched for FY19 and FY20 and aims to incentivize the implementation of Project Renew in the different regions.

This is a two-year bonus plan with two separate one-year performance targets per region. For the regional members of the Executive Management eligible under this plan, the target of the individual Renew Special Bonus amounts up to 35% of the base salary. It can range up to 45% of the base salary, depending on the level of over achievement of the performance targets. Payout in cash is accrued, based on the regional delivery per year, and deferred to the end of FY20. In addition, country-specific forfeiture rules apply in case of termination of employment during the two-year period.

### Long-term incentive plan ('LTIP')

ARYZTA's long-term incentive plan ('LTIP') rewards eligible participants for delivering significant long-term performance. The purpose of the LTIP is to provide performance-driven equity-based future rewards to the participants for the accomplishment of the Group's long-term financial and strategic goals. The LTIP is intended to retain and motivate highly talented eligible participants and to promote behaviour towards enhancing the value of the company for the benefit of its shareholders. The structure of this incentive framework plays a central role in incentivising the delivery of ARYZTA's turnaround plan and the return of the company to acceptable levels of performance starting from a very difficult position.

In principle, for each financial year, an LTIP is granted for eligible participants which will be in the form of a certain number of options and Performance Share Units ('PSUs'). The option offers the LTIP participant the right to purchase a certain amount of ARYZTA shares subject to the achievement of certain performance targets at the end of the 3-year performance period. Options have a strike price equivalent to the market price of ARYZTA shares at the grant date and can be exercised no earlier than three years after the vesting date and no later than the ten-year expiration period. PSUs represent an unsecured contingent right to receive ARYZTA shares subject to the achievement of certain performance targets at the end of the performance period.

In light of the initial progress in stabilising the business, last year the RemCo granted two LTIP awards during FY19:

- FY18 Award – 2-year performance period (i.e. FY19 and FY20)
- FY19 Award – 3-year performance period (i.e. FY19, FY20 and FY21)

## Compensation Report (continued)

When deciding on the FY18 award, the RemCo was aware of the norm that LTIP awards are generally subject to a three-year performance period. However, in light of the exceptional circumstances that the business faced during FY18 with ARYZTA going through a period of stabilization and change with the successful capital increase giving the go-ahead for Project Renew, the RemCo delayed the grant of the FY18 award to FY19, with a shortened two-year performance period and based on FY19 and FY20 performance. The RemCo believes that the shift of the FY18 award to a grant date in FY19 ensures that there is alignment of the LTIP with shareholder expectations of the future financial performance of the Group and supports the business by incentivizing the Executive Management to deliver our strategic goals, while also fulfilling the company's previous contractual commitments to members of the Executive Management. When taking its decision, the RemCo also considered the retention element that is built into the LTIP. The two awards granted in FY19, together with all other management compensation do not exceed the approved maximum amount of compensation for the Executive Management of CHF 21,000,000.

The payout under the LTIP is based on the achievement of pre-defined operating performance measures. Both LTIP awards, FY18 and FY19, vest subject to the achievement of the following conditions and subject to continuing service:

- Operating Free Cash Generation (50%)
- Return on Invested Capital (50%)
- Requirement to remain in service throughout the performance period

Both operating key performance measures have an overall vesting range of 0% to 200% of base salary for the CEO and 0% to 175% of base salary for other members of the Executive Management. Below threshold, the vesting multiple is 0%. At threshold, the vesting multiple is 50% base salary for the CEO and 43.75% base salary for other members of the Executive Management. The respective vesting multiple runs linear to the respective target vesting multiple of 125% of base salary for the CEO and 109% of base salary for other members of the Executive Management, up to a maximum vesting multiple of 200% and 175% respectively depending on the level of achievement of the operating performance measures. After the three-year performance period, PSUs will be settled in shares and options and can be exercised until the end of the exercise period, subject to forfeiture rules in the case of termination of employment before the end of the plan cycle. The FY18 LTIP vests 50% in shares and 50% in options, the FY19 vests in 75% in shares and 25% in options. It is intended that by FY20 LTIP will only comprise of shares (PSUs). The vested options can be exercised no later than ten years after the grant date and the exercise price is defined as the share price at grant date.

The number of granted options and PSUs depends on the individual LTIP grant, which is determined by the Board each year and whose value is expressed as a percentage of the annual base salary and the fair value of ARYZTA shares at grant. Depending on the achieved performance, the LTIP target value may amount to a pre-determined multiplier of the target value but can never exceed 160% of granted PSU for any member of the Executive Management, including the CEO.

## Compensation Report (continued)

### Compensation awarded to the Executive Management (audited)

The following table summarises the total compensation for the current and former members of the Executive Management during FY18 and FY19. The total compensation for the Executive Management amounted to CHF 19,113,000 which is within the maximum amount approved at the AGM 2017 of CHF 21,000,000.

in CHF'000	Total Executive Management 2019 <sup>1</sup>	Kevin Toland 2019	Total Executive Management 2018 <sup>2</sup>	Kevin Toland 2018	Owen Killian 2018 <sup>3</sup>
Basic salaries	5,102	961	6,477	881	853
Benefits in kind	458	45	510	41	55
Pension contributions	645	192	786	176	128
Performance and contractual related bonus and retention	3,842	941	2,176	–	425
Long-term incentives ('LTIP') <sup>4</sup>	9,066	2,393	–	–	–
<b>Total compensation paid to members of ARYZTA Executive Management</b>	<b>19,113</b>	<b>4,532</b>	9,949	1,098	1,461
<b>Average total compensation per member of ARYZTA Executive Management</b>	<b>1,738</b>		995		

1 Executive Management compensation in FY19 includes remuneration for former Executive Management members Pat Morrissey and Dermot Murphy who resigned in FY18.

2 Executive Management compensation in FY18 includes remuneration for former Executive Management members.

3 The highest total compensation in FY18 was earned by Owen Killian who resigned from the Executive Management on 31 March 2017.

4 Represents the target value of the FY18 and FY19 LTIP awarded. The value may change depending on the achievement of operating performance measures at vesting. All awards are unvested as at 31 July 2019.

## Compensation Report (continued)

### Executive Management's interests in equity under the FY18 and FY19 LTIP awards

The following table shows the Executive Management's interests in equity instruments under the LTIP awards granted during FY19.

	Opening position 31 July 2018	No. of PSUs granted during the year <sup>1</sup>	No. of PSUs Closing position 31 July 2019 <sup>2</sup>	No. of options granted during the year <sup>1</sup>	No. of options Closing position 31 July 2019 <sup>2</sup>
<b>Executive Management</b>					
Kevin Toland	–	1,225,794	<b>1,225,794</b>	1,936,777	<b>1,936,777</b>
Claudio Gekker	–	326,547	<b>326,547</b>	515,951	<b>515,951</b>
John Heffernan	–	302,843	<b>302,843</b>	397,324	<b>397,324</b>
Dave Johnson	–	948,457	<b>948,457</b>	1,561,245	<b>1,561,245</b>
Anthony Murphy	–	378,554	<b>378,554</b>	598,122	<b>598,122</b>
Robert O'Boyle	–	324,731	<b>324,731</b>	513,080	<b>513,080</b>
Rhona O'Brien	–	174,135	<b>174,135</b>	150,670	<b>150,670</b>
Frederic Pflanz	–	668,779	<b>668,779</b>	1,056,683	<b>1,056,683</b>
Gregory Sklikas <sup>3</sup>	–	393,696	<b>393,696</b>	340,645	<b>340,645</b>
<b>Total</b>	–	<b>4,743,536</b>	<b>4,743,536</b>	<b>7,070,497</b>	<b>7,070,497</b>

1 PSUs and options are presented at target award. The number of PSUs and options vested may change depending on the achievement of operating performance measures at vesting.

2 All awards are unvested as at 31 July 2019.

3 By REMCO decision on 25 September 2019, G Sklikas will be granted an LTIP award equivalent to the value of two thirds of the FY18 LTIP. This will be granted at the next open period.

### Employment conditions for the Executive Management

The employment contracts of the CEO and the other members of the Executive Management provide for notice periods of a maximum of 12 months and non-compete clauses of up to a further 12 months thereafter, in compliance with the Swiss Ordinance Against Excessive Compensation in Listed Stock Companies and other applicable laws and regulations. None of these contracts foresee severance or termination payments.

### Previous and Discontinued Compensation Plans

#### Option equivalent plan

Vesting of the awards under the Option Equivalent Plan issued during FY16 was conditional on compound annual growth in underlying diluted EPS (including the associated cost of any awards expected to vest) in three consecutive accounting periods exceeding the compound growth in the Euro-zone Core Consumer Price Index, plus 5%, on an annualised basis. The awards were also subject to additional conditions, including:

- the requirement to remain in service throughout the performance period;
- the requirement that ARYZTA's reported ROIC over the expected performance period is not less than 120% of its weighted average cost of capital; and
- the requirement that annual dividends to shareholders are at least 15% of underlying EPS during the performance period.

## Compensation Report (continued)

As the above performance conditions were not met during FY19, the Option Equivalent Plan awards granted during FY16, for which no expense had been recognised, were forfeited during the current year. The vested Option Equivalent Plan awards still outstanding as of 31 July 2019 can be exercised no longer than ten years after grant date.

No Option Equivalent Awards under the Option Equivalent Plan were granted to the Executive Management during FY19.

The following table details awards outstanding under the Option Equivalent Plan in favour of Executive Management:

	Options carried forward 1 August 2018	Modified during the year <sup>1</sup>	Closing position 31 July 2019	Of which Vesting criteria have been fulfilled <sup>2</sup>
<b>Executive Management</b>				
Kevin Toland	–	–	–	–
Frederic Pflanz	–	–	–	–
John Heffernan	–	–	–	–
Anthony Murphy	–	–	–	–
Rhona O'Brien	–	–	–	–
Dave Johnson	–	–	–	–
Gregory Sklikas	–	–	–	–
Robert O'Boyle	22,500	83,309	105,809	105,809
Claudio Gekker	–	–	–	–
<b>Total current executive management</b>	<b>22,500</b>	<b>83,309</b>	<b>105,809</b>	<b>105,809</b>
Owen Killian	750,000	2,776,961	3,526,961	3,526,961
Patrick McEniff	610,000	2,258,595	2,868,595	2,868,595
Pat Morrissey	100,000	370,261	470,261	470,261
Dermot Murphy	50,000	185,131	235,131	235,131
<b>Total former executive management</b>	<b>1,510,000</b>	<b>5,590,948</b>	<b>7,100,948</b>	<b>7,100,948</b>
<b>Total current and former executive management</b>	<b>1,532,500</b>	<b>5,674,257</b>	<b>7,206,757</b>	<b>7,206,757</b>

1 During the financial 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 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.

2 The weighted average exercise price of all Option Equivalent Plan awards that remain outstanding and for which the vesting conditions have been met is CHF 8.31.

### Loans Granted to the Board of Directors or the Executive Management

No loans or advances were made by the ARYZTA Group to members of the Board of Directors or to the Executive Management during FY19 or were outstanding at 31 July 2019 (2018: none).

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## Compensation Report (continued)

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### Future Considerations

As of FY20, Shareholding Guidelines for members of the Executive Management will be introduced to further strengthen the long-term focus and to additionally increase the alignment of the Executive Management's interests with those of ARYZTA's shareholders. The Shareholding Guidelines will apply to the Executive Management starting from FY20. Each member of Executive Management is expected to build up an ownership of shares of ARYZTA worth the equivalent of 150% of their annual base salary or 300% in the case of the CEO.

Furthermore, another grant of the LTIP is planned after the approval of the aggregate amount of compensation for the Executive Management at the AGM in November 2019. In line with the long-term focus, an unchanged three-year performance period is foreseen. For the upcoming LTIP FY20 grant, we will include a market-related performance measure expressed as relative Total Shareholder Return. We will keep a strong focus on operating measures that capture both profitability and capital efficiency. Furthermore, the new plan will only involve PSUs which will convert into shares; options will be abolished. In addition, ARYZTA will take an appropriate approach to target setting. Targets for the LTIP will be set by the Board following a thorough outside-in approach conducted by ARYZTA's external independent advisor on compensation matters, HCM.



## Report of the statutory auditor to the General Meeting of ARYZTA AG on the compensation report 2019

We have audited the remuneration report of ARYZTA AG for the year ended 31 July 2019. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables labeled 'audited' on pages 60 and 65 of the remuneration report.

### Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

### Auditor's responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Opinion

In our opinion, the remuneration report of ARYZTA AG for the year ended 31 July 2019 complies with Swiss law and articles 14–16 of the Ordinance.



PricewaterhouseCoopers AG

Sandra Böhm Uglow  
Audit expert  
Auditor in charge

Carrie Rohner

Zurich, 8 October 2019