Annual Report and Accounts 2011
Compensation Report

Compensation Report 2011

Introduction
ARYZTA's overriding long-term goal is to achieve sustainable, profitable growth and deliver enhanced shareholder value. ARYZTA pursues this objective in a competitive and changing environment. ARYZTA's success is intrinsically connected with its ability to attract, retain and motivate good people who are incentivised to achieve ARYZTA's corporate goals. ARYZTA's remuneration tools, in particular the ARYZTA Long-Term Incentive Plan ('LTIP')[1], are key instruments in this regard.

31 July 2011 marks the completion of the first three year cycle of the LTIP. ARYZTA has taken the opportunity of this third anniversary to:
– revise the form in which it reports to shareholders on remuneration matters;
– introduce additional conditions and terms relating to the LTIP;
– implement new criteria applicable to the determination of the annual bonus element of Executive Management remuneration.

Moreover, in light of current trends in corporate governance practice, the Board has decided to submit this Compensation Report to a separate advisory vote of the shareholders at the ARYZTA 2011 Annual General Meeting.

Part 1 of the Compensation Report explains the remuneration system focusing on:
– the corporate goals pursued by ARYZTA;
– the LTIP as employed in the pursuit of those goals;
– the cost of the LTIP.

Part 2 of the Compensation Report sets out relevant compensation details for the 2011 financial year.

Compensation Report – Part 1

Corporate Goals
The LTIP is intended to direct and focus management's efforts towards the achievement of ARYZTA's key corporate goals over the long-term as set by the Board and communicated to the market through ARYZTA's investor relations activities.

– **EPS growth**
  In ARYZTA's July 2008 Prospectus, it set itself the goal, as a primary strategic objective, of doubling its earnings base within 5 years. The Board continues to target 15% compound annual earnings growth.

– **Shareholder Value**
  The pursuit of earnings growth is not an isolated end in itself. The underlying purpose is to support the delivery of significant value for shareholders. This imperative is supported through adherence to prudent capital discipline policies.

1 THE ARYZTA Long-Term Incentive Plan refers to both the Matching Plan and the Option Equivalent Plan.

Compensation Report (continued)

ARYZTA actual EPS growth over the initial three year period to 31 July 2011
Over the initial three year cycle of the LTIP, underlying fully diluted EPS has been driven from the 2008 base of 202.2 cent to 310.1 cent at 31 July 2011. This growth, at more than 15% compound per annum, has been achieved in the face of major changes in the economic environment in which ARYZTA operates: changes which have impacted customers, suppliers, commodity prices, financing and, especially, consumers. Moreover, and in recognition of and response to the changed and changing environment, ARYZTA has, over the initial three year cycle, put in place stable, long-term financing facilities and undertaken significant acquisition initiatives. These acquisition initiatives have significantly diversified ARYZTA's customer channel, product and geographic profile to achieve a more balanced mix, while at the same time increasing exposure to developing markets.

Shareholder Value, Capital Discipline
While pursuing 15% compound annual growth in EPS, ARYZTA policy is to maintain investment grade credit status. Capital discipline controls applicable to the LTIP are as follows:

– **ROIC and WACC**
  The rules governing awards under the LTIP require that the ARYZTA Food Group Return on Invested Capital[1] ('ROIC') over the performance period must exceed ARYZTA's Weighted Average Cost of Capital[2] ('WACC').

– **Dividend Policy**
  ARYZTA has adopted the additional vesting condition, applicable to LTIP awards made after 31 July 2011, requiring that the Board would continue to recommend throughout the performance period adherence to ARYZTA dividend policy. ARYZTA dividend policy is that payout ratio is based on 15% of underlying fully diluted EPS.

The LTIP as employed in the pursuit of the Corporate Goals
To date, ARYZTA has employed the Matching Plan and the Option Equivalent Plan to focus pursuit of its corporate goals.

Two parallel plans
Having the Matching Plan and the Option Equivalent Plan running in parallel gives beneficial tension in the pursuit of the corporate goals between the pursuit of EPS growth, the driver of returns under the Matching Plan, and the need for long-term share price growth which is necessary to make valuable awards under the Option Equivalent Plan.

1 Return on Invested Capital (ROIC) for this purpose refers to the ARYZTA Food Group earnings before interest tax and amortisation (EBITA) taken as a percentage of ARYZTA Food Group net assets. For this purpose, EBITA includes the net profit contribution from associates and JVs (i.e. after interest and tax) and excludes the impact of non-recurring items. Net assets exclude all bank debt, cash, cash equivalents and tax-related balances. ROIC is reported to investors in conjunction with announcement of yearly and half-yearly results and presented on a Group basis and segmental basis. For the financial year 2011, ROIC was 10.2%.

2 WACC is determined as a blend of ARYZTA's deemed cost of capital and deemed cost of debt with each of these components weighted on the basis of ARYZTA's debt to equity ratio. WACC is measured annually by an external specialist, using standard calculation methodology and reported to investors in conjunction with announcement of yearly and half-yearly results. For the financial year 2011, the pre-tax WACC was 8.0%.

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The Matching Plan – vesting of awards made in financial year ending 31 July 2009
Participants with Matching Plan awards made in financial year ending 31 July 2009[1] had the prospect of receiving a multiple (ranging from one to three times) of the number of Qualifying Investment Shares recognised as held for the purposes of the Matching Plan, subject to satisfaction of the applicable rules, including notably the EPS growth target[2] and compliance with the condition that ROIC must have exceeded WACC. Compound annual growth in underlying fully diluted EPS over the three year period has exceeded 15%, the highest earnings growth performance hurdle. The condition that ROIC exceed WACC has also been met. Accordingly, the performance conditions have been achieved to vest three shares per recognised Qualifying Investment Share.

The Matching Plan – future awards
As set out above, ARYZTA has resolved to supplement the capital discipline condition that the ARYZTA Food Group ROIC must exceed WACC for LTIP awards made after 31 July 2011 through the adoption of the additional condition regarding maintenance of the ARYZTA dividend policy.

In addition, for future awards, vesting may occur on a fractional pro-rata basis ranging from a multiple of 1 to 3 for growth between 10.0% and 15.0% rather than thresholds of 1, 2 and 3 at 10.0% to 12.4%, 12.5% to 15.0% and 15.0% or more. In the event of the minimum 10% growth target not being achieved, no awards vest.

The Option Equivalent Plan
Awards under the Option Equivalent Plan were made in financial year ending 31 July 2010. No awards were made under the Option Equivalent Plan in the financial years ending 31 July 2009 or 31 July 2011. Vesting of awards under the Option Equivalent Plan is conditional on compound annual growth in underlying fully diluted EPS in three consecutive accounting periods exceeding the growth in the Euro zone Core Consumer Price Index plus 5%[3]. The new condition regarding maintenance of the ARYZTA dividend policy will also apply to new awards under the Option Equivalent Plan.

Cost of the LTIP
The cost of the Matching Plan and the Option Equivalent Plan can be considered in accounting and dilutive terms.

LTIP – Accounting Cost
Awards under the LTIP are equity-settled share-based payments as defined in IFRS 2, Share-based Payment. Note 8 of the Group Financial Statements details the total cost of €19,063,000[4] recognised in relation to share-based payments for the financial year 2011.

1 No awards under the Matching Plan were made in the financial years ending 31 July 2010 or 31 July 2011.

2 Compound annual growth in underlying fully diluted EPS over the period had to equal or exceed the minimum 10% EPS growth target, having expensed the awards in the Income Statement in accordance with IFRS.

3 The cost of awards under the Option Equivalent Plan is charged to the Income Statement over the current estimated vesting period from grant date.

4 Includes costs of Executive Management and other management participants in the LTIP and costs of the Origin Plan which is specifically not available to ARYZTA executives, officers or employees.

Compensation Report (continued)

- **LTIP – Dilutive effect and 10% / ten year rule**
  The LTIP has a ten year life and expires on 31 July 2019. Under the LTIP rules, not more than 10% of share capital may be allocated for issue over this ten year life pursuant to LTIP awards.

- **LTIP – Adoption of additional dilutive control rule**
  ARYZTA has resolved to supplement the existing ten year/10% dilutive control rule by the adoption of the additional control that, for the three year cycle commencing 1 August 2011, not more than 3.0% of share capital should be allocated for issue under the LTIP (all plans).

- **Dilutive effect of all awards under the LTIP**
  Full vesting and exercise of all awards outstanding made over the first three year cycle of the LTIP (Matching Plan and the Option Equivalent Plan) would deliver a maximum 2,175,000 shares to participants – i.e. 2.62% dilution for delivery of > 15.0% compound annual growth rate in EPS (having expensed the awards)[1].
  > Dilutive effect of all awards under the Matching Plan – Full vesting of all outstanding Matching Awards made over the first three year cycle of the LTIP delivers 975,000 shares to participants – i.e. 1.18% dilution or 0.39% per annum.
  > Dilutive effect of all awards under the Option Equivalent Plan – Full exercise of all awards made to date under the Option Equivalent Plan would deliver 1,200,000 shares to participants – i.e. 1.44% dilution or 0.48% per annum.

Annual bonus and ROIC
To date, the annual short-term performance related bonus element of Executive Management remuneration has been determined primarily based on delivery of the annual budget for the Group. For financial year 2012, it is intended that annual bonus will be determined by reference to incremental gains in ROIC. This change in how the annual bonus is determined will apply to Executive Management and other senior executives throughout the Group.

1 Disregarding the fact that the earliest vesting date for outstanding Option Equivalents is 31 July 2012.

Compensation Report (continued)

Compensation Report – Part 2

Compensation Process
The Nomination and Remuneration Committee of the Board ('NRC') is responsible for determining the remuneration of executive and non-executive members of the Board and for approving the remuneration of other members of senior management upon the recommendation of the Chief Executive Officer. Executives are remunerated in line with the level of their authority and responsibility within the Group, with the various elements of the remuneration package for Executive Management being reviewed annually by the NRC.

The NRC reports to the Board at each Board meeting next succeeding each meeting of the NRC. The CEO attends meetings of the NRC by invitation only.

Consultation with market participants with regard to the LTIP was undertaken during the financial year 2011. This consultation has informed the decision of the NRC and Board to:

- revise the form in which ARYZTA reports to shareholders on remuneration matters;
- introduce additional conditions and terms relating to the LTIP;
- implement new criteria applicable to the determination of the annual bonus element of Executive Management remuneration;
- submit this compensation report to a separate advisory vote of the shareholders at the ARYZTA 2011 Annual General Meeting.

Against that background, it was decided not to undertake a benchmarking exercise in relation to Executive Management remuneration (short term and long term) during the financial year 2011.

The cost of the long-term element of Executive Management remuneration (i.e. the Matching Plan and the Option Equivalent Plan) is controlled through the dilution control rules and by the fact that rights generally vest only after accounting for the cost of the initial award (per IFRS 2, Share-based Payment). Within the prescribed limits, the NRC controls the level of participation by individuals. The NRC also controls the maximum level of the short-term performance related bonus for Executive Management.

Compensation Report (continued)

Compensation to members of the Board of Directors
Non-executive Board members are paid a yearly fee which reflects the time commitment and responsibilities of the role. Additional compensation is payable for service on a Board Committee (including the Chair thereof). The NRC determines at its discretion the level of the yearly fee and additional compensation paid to each non-executive Board member. Non-executive Board members are not eligible for performance-related payments and do not participate in the LTIP.

in CHF `000	**Direct payments year ended 31 July 2011**	Direct payments year ended 31 July 2010
Denis Lucey	**323**	323
Albert Abderhalden[1]	**29**	88
Charles Adair[1]	**59**	–
Denis Buckley	**96**	96
J Brian Davy	**112**	112
Noreen Hynes[1]	**37**	112
Hugo Kane[1]	**29**	88
Owen Killian (CEO)	**88**	88
Patrick McEniff (CFO)	**88**	88
William Murphy	**105**	96
Hans Sigrist	**93**	88
Dr J Maurice Zufferey	**96**	96
Total	**1,155**	1,275

1 A. Abderhalden, N. Hynes and H. Kane resigned from the Board on 2 December 2010 and C. Adair was elected to the Board on 2 December 2010.
2 Details of each Director's attendance at Board and Committee meetings during the year can be found in the ARYZTA Corporate Governance Report on page 38.

Compensation to members of the Executive Management
The elements of the remuneration package for Executive Management may comprise:

- basic salary and benefits (including benefits in kind and pension contributions);
- short-term performance related bonus (measured by reference to performance in the financial year); and
- long-term incentives (LTIP).

in CHF `000	**Total Executive Management 2011**	**Owen Killian 2011**	Total Executive Management 2010	Owen Killian 2010
Basic salaries	**3,082**	**1,277**	3,196	1,277
Benefits in kind	**226**	**83**	234	83
Pension contributions	**630**	**191**	467	191
Performance related bonus	**2,758**	**894**	–	–
Long-term incentives (LTIP)	**15,455**	**6,123**	2,350	903
Total compensation paid to members of ARYZTA Executive Management	**22,151**	**8,568**	6,247	2,454

Executive Management at 31 July 2011, as per the Corporate Governance Report at page 39, consists of Owen Killian (CEO), Patrick McEniff (CFO), Hugo Kane (COO), and Pat Morrissey (General Counsel and Company Secretary).

Compensation Report (continued)

The highest total compensation in the reporting period was received by Owen Killian, and his total remuneration is disclosed separately in the preceding table.

The compensation to members of Executive Management disclosed for the financial year includes compensation for their roles as members of the Board of ARYZTA for the period from 1 August 2010 to 31 July 2011 and, in the case of Owen Killian, Patrick McEniff and Pat Morrissey, for their service as officers of Origin Enterprises plc (respectively, Chairman, non-executive Director and Company Secretary).

No severance and/or termination payments were made to any member of Executive Management during the financial year 2011.

Executive Management Basic Salary and Benefits
The basic salary of Executive Management is reviewed annually by the NRC with regard to personal performance and corporate goals (as set out in Part 1 of this report). When reviewing Executive Managements' basic salary, the applicable weighting of each component is at the discretion of the NRC. Employment related benefits consist principally of a car allowance and pension. Pension benefits are determined solely in relation to basic salary.

Executive Management Short-term Performance Related Bonus
To date, the annual short-term performance related bonus has been determined based on personal performance and delivery of the annual ARYZTA Group budget. When determining Executive Managements' short-term performance related bonus, the applicable weighting of each component is at the discretion of the NRC. It has been the NRC's policy that the short-term performance related bonus does not exceed 100% of basic salary for Executive Management and while for the financial year 2012, the annual bonus will be determined by reference to incremental gains in ARYZTA Food Group ROIC, the maximum available to Executive Management remains capped at 100% of basic salary.

Executive Management Long-term Incentives (LTIP)
As set out in Part 1 of this report, the long-term incentive remuneration of Executive Management consist of both Matching Plan and Option Equivalent Plan awards.
The costs of these awards are accrued to each member of Executive Management based on the accounting principles applicable to share-based payments under IFRS 2, Share-based Payment. The average annual cost of the long-term incentive attributable to individual members of Executive Management over the initial plan period has ranged between 171% and 292% of basic salary.

Compensation Report (continued)

Executive Management Matching Plan Allocation

	Maximum share allocation carried forward 1 August 2010	Granted during financial year	Vested during financial year[1]	Closing position 31 July 2011
Directors				
Owen Killian	300,000	–	–	300,000
Patrick McEniff	180,000	–	–	180,000
Hugo Kane	180,000	–	–	180,000
General Counsel & Company Secretary				
Pat Morrissey	90,000	–	–	90,000
Total	**750,000**	–	–	**750,000**

Executive Management Option Equivalent Plan Allocation[2]

	Options carried forward 1 August 2010	Granted during financial year	Vested during financial year	Closing position 31 July 2011
Directors				
Owen Killian	300,000	–	–	300,000
Patrick McEniff	250,000	–	–	250,000
Hugo Kane	150,000	–	–	150,000
General Counsel & Company Secretary				
Pat Morrissey	100,000	–	–	100,000
Total	**800,000**	–	–	**800,000**

1 As stated in Part 1 of the Compensation Report, the performance conditions associated with the Matching Plan were met in FY 2011. Accordingly, the maximum allocation of shares are eligible for vesting.

2 Earliest date by which qualifying conditions can be met is 31 July 2012. Vested options must be exercised no later than 7 years following vesting. The exercise price of all options is CHF 37.23.