Annual Report and Accounts 2012
Compensation Report

Compensation Report 2012

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.

As in the prior year, the Board has decided to submit this Compensation Report to a separate advisory vote of the shareholders at the ARYZTA 2012 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; and
- the cost of the LTIP.

Part 2 of the Compensation Report sets out relevant compensation details for the 2012 financial year.

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

Compensation Report (continued)

Compensation Report – Part 1

Corporate goals

The LTIP and short-term performance-related bonus are intended to direct and focus management's efforts towards the achievement of ARYZTA's key corporate goals over the long-term and short-term, respectively, as set by the Board and communicated to the market through ARYZTA's investor relations activities, including the annual report.

– **EPS growth**
  In ARYZTA's July 2008 Prospectus, it set itself the goal, as a primary strategic objective, of doubling its earnings base within five 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 development of an international business capable of sustainable growth and the delivery of significant value for shareholders. This imperative is supported through adherence to prudent capital discipline policies.

Shareholder value, capital discipline

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

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

  Food Group ROIC for this purpose refers to the ARYZTA Food Group pro forma trailing twelve months earnings before interest tax and amortisation ('TTM EBITA') reflecting the full twelve months' contribution from acquisitions, taken as a percentage of ARYZTA Food Group net assets. For this purpose, EBITA includes the net profit contribution from joint ventures, and is before interest, tax, non-ERP amortisation and before 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 annual and half-year results and is presented on a Group and segmental basis. As presented on page 19, the Food Group ROIC reported for the year ended 31 July 2012 was 10.5% (2011: 10.2%).

  In order to compare ROIC on a like-for-like basis, the Group also calculates the Food Group Underlying ROIC. This measurement indicator is based on the assets of the Food Group business that existed as of 31 July 2011, using currency rates consistent with 2011, excluding net assets and historical EBITA levels of acquisitions completed after 1 August 2011 and adding back asset impairments (unless recovered once the assets are disposed of). Based on these adjustments, the Food Group Underlying ROIC for the year ended 31 July 2012 was 11.3%, compared with the Food Group 2011 Reported ROIC of 10.2%.

Compensation Report (continued)

WACC is determined as a blend of the Food Group's deemed cost of capital and deemed cost of debt, with each of these components weighted on the basis of the Food Group's debt to equity ratio. WACC is measured annually by an external specialist using standard calculation methodology and reported to investors in conjunction with the announcement of yearly and half-yearly results. For the year ended 31 July 2012, the Food Group pre-tax WACC was 8.0% (2011: 8.0%).

– **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 the payout ratio is based on 15% of underlying fully diluted EPS.

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.

The Matching Plan
Participants with Matching Plan awards have the prospect of receiving a multiple (ranging from one to three times) of the number of Qualifying Investment Shares held for the purposes of the Matching Plan. This multiple is determined on a fractional pro-rata basis ranging from one to three based on compound annual underlying fully diluted EPS growth between 10.0% and 15.0%. In the event of the minimum 10% growth target not being achieved, no awards vest. The satisfaction of additional criteria is also required, including compliance with the condition that Food Group reported ROIC must have exceeded the Food Group WACC throughout the performance period and the additional condition regarding maintenance of the ARYZTA dividend policy.

The Option Equivalent Plan
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 compound growth in the eurozone Core Consumer Price Index, plus 5%, on an annualised basis. The satisfaction of additional criteria is also required including compliance with the condition that Food Group Reported ROIC must have exceeded the Food Group WACC throughout the performance period and the additional condition regarding maintenance of the ARYZTA dividend policy.

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

Compensation Report (continued)

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 on page 95 details the total cost of €7,065,000[1] (2011: €19,063,000[1]) recognised in relation to share-based payments for the financial year 2012.

- **LTIP – dilutive effect and 10%/ten year rule**
  Under the LTIP rules, no more than 10% of share capital may be allocated for issue over its ten year life. No awards may be made under the current LTIP after 31 July 2019.

- **LTIP – adoption of additional dilutive control rule**
  ARYZTA has supplemented 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 LTIP awards outstanding at 31 July 2012**
  > The vesting of Matching Plan Awards made during FY 2009 resulted in a total of 975,000 shares being issued to participants (1.22% of the total number of shares in issue at the time of grant or 0.43% per annum over the applicable 3 year performance period ending 31 July 2011).
  > The vesting and net exercise of all Option Equivalent Plan Awards made during FY 2010, which remain outstanding at 31 July 2012, would result in a total of 264,639[2] shares being issued to participants, based on the CHF 48.55 share price on 31 July 2012 (0.33% of the total number of shares in issue at the time of grant or 0.12% per annum over the applicable 3 year performance period ending 31 July 2012).
  > The vesting of all Matching Plan Awards made during FY 2012, which remain outstanding at 31 July 2012, would result in a total of 750,000 shares being issued to participants (0.89% of the total number of shares in issue at the time of grant or 0.31% per annum over the applicable 3 year performance period ending 31 July 2014).
  > The vesting and net exercise of all Option Equivalent Plan Awards made during FY 2012, which remain outstanding at 31 July 2012, would result in a total of 243,563 shares being issued to participants, based on the CHF 48.55 share price on 31 July 2012 (0.29% of the total number of shares in issue at the time of grant or 0.10% per annum over the applicable 3 year performance period ending 31 July 2014).

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

2 The Group's compound annual growth in underlying fully diluted EPS over the last three consecutive accounting periods was 12.9%, which exceeded the growth in the eurozone Core Consumer Price Index over the same period of 1.3%, plus 5%. Accordingly, the performance conditions associated with the Option Plan awards outstanding as of 1 August 2011 were met during FY 2012. As a result, 1,135,000 Option Plan awards (650,000 of which are held by Executive Management) are eligible for vesting, pending Nomination and Remuneration Committee approval. The exercise price of all Option Plan awards for which the vesting conditions have been met is CHF 37.23.

Compensation Report (continued)

Short-term performance-related bonus and Food Group Underlying ROIC
In prior years, the short-term performance-related bonus element of Executive Management remuneration has been determined primarily based on delivery of the annual budget for the Group. In the financial year 2012, the short-term bonus was determined exclusively by reference to incremental gains in Food Group Underlying ROIC.

Subject to a minimum incremental increase in Underlying ROIC of 50bps being achieved during the year, Executive Management and other senior executives throughout the Group receive a percentage of their set target bonus based on the corresponding gain in Food Group Underlying ROIC. The short-term performance-related bonus for Executive Management is capped at 100% of basic salary.

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 the next Board meeting following 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 2011 financial year. This consultation resulted in the NRC and Board:

- revising the form in which ARYZTA reports to shareholders on remuneration matters;
- introducing additional conditions and terms relating to the LTIP;
- implementing new criteria applicable to the determination of the annual bonus element of Executive Management remuneration; and
- submitting this compensation report to a separate advisory vote of the shareholders at the ARYZTA 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 2012 financial year.

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 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

Executive and non-executive board members are paid a yearly fee (CHF 88,000), which reflects the time commitment and responsibilities of the role. Additional compensation is payable for service on a Board Committee (CHF 8,000) and for the Chair thereof (CHF 16,000). The NRC determines, at its discretion, the level of these yearly fees and additional compensation paid to each executive and 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 2012**	Direct payments year ended 31 July 2011
Denis Lucey	**323**	323
Albert Abderhalden[2]	**N/A**	29
Charles Adair[2]	**88**	59
Denis Buckley[1]	**32**	96
Hugh Cooney[1]	**64**	N/A
J Brian Davy	**107**	112
Shaun B. Higgins[1]	**70**	N/A
Noreen Hynes[2]	**N/A**	37
Hugo Kane[2]	**N/A**	29
Owen Killian	**88**	88
Patrick McEniff	**88**	88
Götz-Michael Müller[1]	**64**	N/A
William Murphy	**101**	105
Hans Sigrist	**91**	93
Dr J Maurice Zufferey[1]	**32**	96
Total	**1,148**	1,155

1 Effective 1 December 2011 D. Buckley and M. Zufferey resigned from the Board and S. Higgins, H. Cooney and G. Müller were elected to the Board.

2 Effective 2 December 2010 A. Abderhalden, N. Hynes and H. Kane resigned from the Board and C. Adair was elected to the Board.

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 2012**	**Owen Killian 2012**	Total Executive Management 2011	Owen Killian 2011
Basic salaries	**2,641**	**1,277**	3,082	1,277
Benefits in kind	**170**	**83**	226	83
Pension contributions	**460**	**191**	630	191
Performance-related bonus	**1,879**	**908**	2,758	894
Long-term incentives (LTIP)	**4,569**	**2,219**	15,455	6,123
Total compensation paid to members of ARYZTA Executive Management	**9,719**	**4,678**	22,151	8,568

Compensation Report (continued)

As per the Corporate Governance Report on page 41, for the 2012 financial year Group Executive Management consists of Owen Killian (Chief Executive Officer), Patrick McEniff (Chief Financial Officer) and Pat Morrissey (General Counsel and Secretary). For the 2011 financial year, Group Executive Management also included Hugo Kane, who resigned from the role of Chief Operating Officer at the beginning of 2012 financial year and is no longer part of the Group Executive Management team.

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 includes compensation for their roles as members of the Board of ARYZTA 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 2012.

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 the Compensation 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
For financial year 2012, the short-term performance-related bonus for Executive Management was determined exclusively by reference to incremental gains in Food Group Underlying ROIC (as set out in Part 1 of the Compensation Report). The short-term performance-related bonus for Executive Management is capped at 100% of basic salary.

Executive Management Long-term Incentives (LTIP)
As set out in Part 1 of the Compensation Report, the long-term incentive remuneration of Executive Management consists 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.

Compensation Report (continued)

Executive Management Matching Plan Allocation

	Maximum share allocation carried forward 1 August 2011	Exercised during financial year[1]	Granted during financial year	Closing position 31 July 2012
Directors				
Owen Killian	300,000	(300,000)	150,000	150,000
Patrick McEniff	180,000	(180,000)	120,000	120,000
General Counsel & Company Secretary				
Pat Morrissey	90,000	(90,000)	60,000	60,000
Total	**570,000**	**(570,000)**	**330,000**	**330,000**

Executive Management Option Equivalent Plan Allocation

	Options carried forward 1 August 2011[2]	Exercised during financial year	Granted during financial year	Closing position 31 July 2012
Directors				
Owen Killian	300,000	–	450,000	750,000
Patrick McEniff	250,000	–	360,000	610,000
General Counsel & Company Secretary				
Pat Morrissey	100,000	–	100,000	200,000
Total	**650,000**	**–**	**910,000**	**1,560,000**

1 On 23 September 2011, the Nomination and Remuneration Committee approved the vesting of all equity entitlements out-standing under the ARYZTA Matching Plan LTIP, as all performance conditions associated with those awards were met as of 31 July 2011.

2 The Group's compound annual growth in underlying fully diluted EPS over the last three consecutive accounting periods was 12.9%, which exceeded the growth in the eurozone Core Consumer Price Index over the same period of 1.3%, plus 5%. Accordingly, the performance conditions associated with the Option Plan awards outstanding as of 1 August 2011 were met during FY 2012. As a result, 1,135,000 Option Plan awards (650,000 of which are held by Executive Management) are eligible for vesting, pending Nomination and Remuneration Committee approval. The exercise price of all Option Plan awards for which the vesting conditions have been met is CHF 37.23.