Annual Report and Accounts 2014
Compensation Report

Compensation Report 2014

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.

ARYZTA's remuneration tools, in particular the ARYZTA Long-Term Incentive Plan ('LTIP'), are key instruments in this regard. These remuneration tools are designed to focus management on the delivery of ARYZTA's key corporate goals, over the long-term and the short-term, as set by the Board and communicated to the market through ARYZTA's investor relations activities.

As in prior years, the Board will submit this Compensation Report to a separate advisory vote of the shareholders at the ARYZTA 2014 Annual General Meeting ('AGM').

Context
The Food Group has undergone a substantial repositioning since ARYZTA was first listed in 2008. It bears little operational resemblance to what it was initially and the Food Group is now the largest global speciality bakery business.

Since 2009, Food Group Revenue has increased by 98%, Food Group EBITA has increased by 138%, and ARYZTA Underlying Earnings per Share has increased by 80%.

As part of this repositioning, the Food Group has:

– created an integrated customer centric business;
– rolled out a single-instance global ERP system;
– invested in the ARYZTA Transformation Initiative ('ATI') to support our objective of achieving 15% ROIC on FY 2011 underlying Food net assets (EUR 3.0bn); and
– established ARYZTA Business Services ('ABS') shared centres of excellence to support the Group's customer centric strategy.

With substantial completion of the ATI programme, our immediate focus is to unlock additional revenue growth from our customer centric teams, while continuing to leverage our bakery infrastructure and fully integrate recent acquisitions.

Future Compensation Process
Financial year 2014 marks the conclusion of the performance period applicable to the most recent round of LTIP awards and also coincides with the coming into force of the Ordinance Against Excessive Compensation with respect to Listed Stock Corporations ('the Ordinance'), subject to certain transitional provisions.

Against the backdrop of continued on-going transformation within ARYZTA and transition to the requirements of the Ordinance, the Board is implementing certain changes to the Group's compensation process. Accordingly, the Board intends to propose amendments to the Articles of Association at the 2014 AGM, which meet the requirements of the

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Ordinance and current corporate governance and compensation best practices. On the basis that the amendments to the Articles of Association will be adopted as proposed, the 2015 AGM will vote:

- with binding effect, on the compensation of (i) Executive Management for the following financial year (i.e. FY 2017) and (ii) the Board of Directors until the next AGM (i.e. 2016 AGM); and
- on an advisory basis, on the Compensation Report for the preceding year (i.e. FY 2015).

Likewise, the 2016 AGM will vote:
- with binding effect, on the compensation of (i) Executive Management for the following financial year (i.e. FY 2018) and (ii) the Board of Directors until the next AGM (i.e. 2017 AGM); and
- on an advisory basis, on the Compensation Report for the preceding year (i.e. FY 2016).

While continuing to compensate, incentivise and focus Executive Management by utilising a blend of (i) basic salary and benefits (ii) short-term performance-related bonus and (iii) long-term incentives (LTIP), changes in how aspects of these tools are employed are being introduced immediately.

LTIP – what is not changing?
The essential terms of ARYZTA's LTIP tools, which the Board believes have served the business and the shareholders well, are not changing. Accordingly, the vesting of future awards under the Matching Plan and the Option Equivalent Plan will continue to be subject to current rules, including:
- EPS growth hurdles – (minimum 10% CAGR over 3 years in the case of the Matching Plan and CPI plus 5% in the case of the Option Equivalent Plan);
- ROIC to exceed WACC;
- Dividend maintenance; and
- Employment continuation.

Likewise, the dilutive control rules of no more than 10% over ten years and no more than 3% over three years will continue to apply.

LTIP – what is changing?
The major substantive change stemming from the coming into effect of the new Ordinance in this context is that shareholders will vote annually, with binding effect, on the maximum aggregate compensation for Executive Management. The detail around this new approval process will be defined in the amendments to the Articles of Association to be voted on at the December 2014 AGM. In the meanwhile, in light of developments in corporate governance, future LTIP awards will be subject to a two year retention period. This new two year retention period would commence at the end of the three year performance period and, during the retention period, forfeiture/clawback will apply in the event of material misstatement of financial statements or serious reputational damage to ARYZTA as a result of participant misconduct.

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Other changes in remuneration-related matters being introduced in FY 2015 include:
- change in how the short-term performance-related bonus for Executive Management is determined, with discontinuation of the 'Underlying' concept (comparing to the ROI of FY 2011) and instead determined by reference to incremental gains in Food Group Reported ROIC, adjusted for the impact of currency movements and acquisitions/ disposals; and
- introduction of employment contracts for Executive Management with maximum notice periods of 12 months and a cap on post-contractual competition restrictions of one year (with compensation for such commitments accordingly capped at the executive's most recent annual compensation).

These matters will be addressed in further detail in the 2014 AGM documentation and the FY 2015 Compensation Report.

Compensation process – FY 2014
As in prior years, for financial year 2014 the Nomination and Remuneration Committee of the Board ('NRC') was 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 CEO.

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.

The cost of the LTIP has been controlled through dilution control rules (no more than 10% over ten years and no more than 3% over three years) and by the fact that rights generally vest only after accounting for the cost of the award (per IFRS 2, Share-based Payment). The NRC has controlled the level of participation by individuals within these prescribed limits. The NRC has also controlled the maximum level of the short-term performance-related bonus for Executive Management, which was capped at 100% of base salary.

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Compensation to members of the Board of Directors – FY 2014
For financial year 2014, the NRC determined, at its discretion, the level of yearly fees and additional compensation payable to each executive and non-executive Board member for service (i) on a Board Committee and (ii) for the Chair thereof.

Non-executive board members were paid a yearly fee (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 and CHF 16,000 for the Chair thereof. Non-executive Board members were not eligible for performance-related payments and did not participate in the LTIP. Executive directors received no additional compensation for their role as a board member.

The following table reflects the direct payments received by Board members during the years ended 31 July 2014 and 2013. Fluctuations in amounts received are reflective of the changing roles and responsibilities held by the individual directors, during each respective year.

in CHF `000	**Direct payments year ended 31 July 2014**	Direct payments year ended 31 July 2013
Denis Lucey	**323**	323
Charles Adair	**96**	96
Hugh Cooney	**96**	96
J Brian Davy	**104**	104
Shaun B. Higgins	**104**	104
Owen Killian	**–**	–
Patrick McEniff	**–**	–
Andrew Morgan[1]	**62**	N/A
Götz-Michael Müller	**88**	88
William Murphy[2]	**N/A**	35
Hans Sigrist[2]	**N/A**	32
Wolfgang Werlé[2]	**96**	62
John Yamin[1]	**–**	N/A
Total	**969**	940

1 Effective 10 December 2013 A. Morgan and J. Yamin were elected to the Board.

2 The terms of office as Members of the Board of Directors of H. Sigrist and W. Murphy expired on 11 December 2012, and on that date W. Werlé was elected to the Board.

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Compensation to members of the Executive Management

The elements of the remuneration package for Executive Management for financial year 2014 comprised:

- 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).

As per page 40 of the Corporate Governance Report, for the financial year 2013, Group Executive Management consisted of Owen Killian (Group CEO), Patrick McEniff (Group CFO/COO) and Pat Morrissey (Group General Counsel, Company Secretary and CAO).

For financial year 2014, Group Executive Management included the three individuals above, as well as John Yamin (CEO of the Americas).

The highest total compensation in financial year 2014 was earned by Owen Killian, and his total remuneration is disclosed separately in the table below.

in CHF `000	**Total Executive Management 2014**	**Owen Killian 2014**	Total Executive Management 2013	Owen Killian 2013
Basic salaries	**3,234**	**1,277**	2,645	1,277
Benefits in kind	**241**	**83**	171	83
Pension contributions	**423**	**192**	397	192
Performance-related bonus	**3,234**	**1,277**	1,617	780
Long-term incentives (LTIP)	**8,420**	**3,312**	4,230	2,007
Total compensation paid to members of ARYZTA Executive Management	**15,552**	**6,141**	9,060	4,339
Average total compensation per member of ARYZTA Executive Management	**3,888**		3,020	

The compensation to members of Executive Management includes compensation for their roles as members of the Board or Company Secretary 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 financial year 2014.

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Executive Management basic salary and benefits
For financial year 2014, the basic salary of Executive Management was reviewed by the NRC with regard to personal performance and corporate goals. When reviewing Executive Management's 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 2014, the short-term performance-related bonus for Executive Management was determined by reference to incremental gains in Food Group Underlying ROIC, as shown below. This measurement is based on the net 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).

Subject to a minimum incremental increase in Underlying ROIC of 50 bps being achieved during the year, Executive Management and other senior executives throughout the Group earn 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 was capped at 100% of basic salary.

The Food Group Underlying ROIC for the year ended 31 July 2014 was 14.2%. This represents an increase of 120 bps during the year, compared to the Food Group Underlying ROIC of 13.0% for FY 2013. The relevant increases in Underlying ROIC in prior years were 80 bps for FY 2013 and 110 bps for FY 2012, when compared to the FY 2011 Reported ROIC of 11.1%, which serves as the baseline for the Underlying ROIC calculation, as shown below.

in EUR million	2011	2012	2013	2014
Underlying ROIC				
Underlying net assets	3,004	2,901	2,797	**2,915**
EBITA & associates / JVs cont.	332	353	364	**416**
Underlying ROIC	11.1%	12.2%	13.0%	**14.2%**
Reported ROIC				
Reported net assets	3,004	3,315	3,447	**4,357**
EBITA & associates / JVs cont.	332	376	426	**524**
Reported ROIC	11.1%	11.3%	12.4%	**12.0%**

As of 31 July 2014, and for the comparative periods shown, the definition of 'Net Assets' has been refined to be presented net of non-cash deferred tax liabilities on intangible assets from acquisitions (FY 2014: €246.7m, FY 2011: €251.7m). These deferred tax liabilities represent a notional non-cash tax impact, which in turn gave rise to a related increase in goodwill upon acquisition. Therefore, inclusion of these deferred tax liabilities within net assets allows for a direct offsetting of these impacts, so that the net assets used for return on investment calculations more closely approximate the consideration transferred.

This refinement had no impact on the Underlying ROIC incremental movements since FY 2011 or on the associated management compensation calculations.

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With substantial completion of the ATI programme and to provide greater transparency, the short-term performance-related bonus for Executive Management for FY 2015 will be determined by reference to incremental gains in Food Group Reported ROIC, adjusted for the impact of currency movements and acquisitions/disposals – i.e. the 'Underlying' ROIC concept of comparing to FY 2011 will be discontinued.

Executive Management Long-term Incentive Plan (LTIP)
While the LTIP is connected with EPS growth, EPS growth is not an isolated end in itself. The underlying goal is to drive the development of an international business capable of sustainable growth and the delivery of significant value for shareholders. This is supported through adherence to prudent capital discipline and ARYZTA's intent to maintain investment-grade credit status.

In addition, for LTIP awards to vest, Food Group Return on Invested Capital ('Food Group ROIC') over the performance period must exceed the Food Group Weighted Average Cost of Capital ('WACC') and the Board must continue to recommend adherence to the ARYZTA dividend policy that the payout ratio be based on 15% of underlying fully diluted EPS, throughout the performance period.

ROIC is reported to investors in conjunction with the announcement of annual and half-year results and is presented on a Group and segmental basis. As presented on page 18, the Food Group ROIC reported for the year ended 31 July 2014 was 12.0% (2013: 12.4%).

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 is reported to investors in conjunction with the announcement of yearly and half-yearly results. For the year ended 31 July 2014, the Food Group pre-tax WACC was 7.0% (2013: 7.7%).

Benefits under the LTIP vest upon a change of control. Otherwise, the agreements and plans benefiting the members of the Board or the Group Executive Management are unaffected by a change of control.

The Matching Plan
Participants with Matching Plan awards could earn a multiple of the number of Qualifying Investment Shares held for 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 (which includes the associated cost of any awards expected to vest) between 10.0% and 15.0%. If the minimum 10% growth target is not achieved, no awards vest.

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The Option Equivalent Plan
Vesting of awards under the Option Equivalent Plan is conditional on compound annual growth in underlying fully diluted EPS (which includes the associated cost of any awards expected to vest) in three consecutive accounting periods exceeding the compound growth in the Eurozone Core Consumer Price Index, plus 5%, on an annualised basis.

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. The total cost recognised in relation to share-based payments for the financial year 2014 is detailed in note 8 of the Group Consolidated Financial Statements on page 97[1].

LTIP – 10%/ten year dilutive control rule
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 – 3%/three year dilutive control rule
No more than 3.0% of share capital may be allocated for issue over any 3 year period.

LTIP as employed in the pursuit of the corporate goals
ARYZTA has employed the Matching Plan and the Option Equivalent Plan to focus pursuit of its corporate goals and financial year 2014 marks the conclusion of the performance period applicable to the most recent round of LTIP awards.

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.

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The vesting of all outstanding Matching Plan awards and the vesting and net exercise of all Option Equivalent Plan awards outstanding (based on the share price of CHF 82.50 on 31 July 2014), plus the impact of any awards that have already been exercised, would result in the following dilution from LTIP awards, as related to of each of these dilutive control rules. Note that the detail presented relates to all awards and is not confined to awards in favour of Executive Management.

	3 year/3% 1 August 2011 to 31 July 2014	10 year/10% 1 August 2008 to 31 July 2014
Shares outstanding at beginning of relevant control period	82,810,436	78,940,460
Matching Plan Awards		
Awards granted in control period and exercised	–	975,000
Awards granted in control period and outstanding	723,000	723,000
Total	723,000	1,698,000
Potential dilution from Matching Plan awards	0.87%	2.11%
Option Equivalent Plan Awards		
Awards granted in control period and exercised	–	137,097
Awards granted in control period and outstanding, net	732,887	1,089,559
Total	732,887	1,226,656
Potential dilution from Option Equivalent Plan awards	0.88%	1.53%
Total potential dilution in control period	1.73%	3.57%
Annualised potential dilution in control period	0.58%	0.60%

The Group's compound annual growth in underlying fully diluted EPS for the three consecutive accounting periods ended 31 July 2014 was 10.8%. This growth rate exceeded the minimum 10% performance hurdle applicable to Matching Plan awards and yields a multiplier of 1.33 times the number of Qualifying Investment Shares held for purposes of the Matching Plan.

The 10.8% growth rate achieved also exceeded growth in the Eurozone Core Consumer Price Index over the same period of 1.2%, plus 5%. Accordingly, the performance conditions associated with all Option Equivalent Plan awards outstanding as of 31 July 2014 have been met.

As set out above, the LTIP remuneration of Executive Management consists of both Matching Plan and Option Equivalent Plan awards. 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. Awards under the Matching Plan for which the vesting criteria have not been met, (as shown in the following table with respect to Executive Management) lapse and are no longer capable of vesting.

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Executive Management Matching Plan Allocation

	Maximum share allocation carried forward 1 August 2013	Granted / (exercised) during financial year	Closing position 31 July 2014[1]	Of which Vesting criteria have been fulfilled[1]	Of which Vesting criteria not fulfilled
Executive Management					
Owen Killian	150,000	–	150,000	66,676	83,324
Patrick McEniff	120,000	–	120,000	53,341	66,659
Pat Morrissey	60,000	–	60,000	26,671	33,329
John Yamin	60,000	–	60,000	26,671	33,329
Total	**390,000**	**–**	**390,000**	**173,359**	**216,641**

1 The Group's compound annual growth in underlying fully diluted EPS for the three consecutive accounting periods ended 31 July 2014 was 10.8%. Accordingly, the performance conditions associated with 321,388 Matching Plan awards (173,359 of which are held by Executive Management) have been fulfilled and are therefore eligible for vesting, pending Nomination and Remuneration Committee approval.

Executive Management Option Equivalent Plan Allocation

	Maximum share allocation carried forward 1 August 2013[2]	Granted / (exercised) during financial year	Closing position 31 July 2014[2]	Of which Vesting criteria have been fulfilled[2]	Of which Vesting criteria not fulfilled
Executive Management					
Owen Killian	750,000	–	750,000	750,000	–
Patrick McEniff	610,000	–	610,000	610,000	–
Pat Morrissey	100,000	–	100,000	100,000	–
John Yamin	60,000	–	60,000	60,000	–
Total	**1,520,000**	**–**	**1,520,000**	**1,520,000**	**–**

2 The Group's compound annual growth in underlying fully diluted EPS for the three consecutive accounting periods ended 31 July 2014 was 10.8%, which exceeded the growth in the Eurozone Core Consumer Price Index over the same period of 1.2%, plus 5%. Accordingly, the performance conditions associated with all Option Plan awards outstanding as of 31 July 2014 have been met. As a result, 1,445,500 Option Plan awards (970,000 of which are held by Executive Management) are eligible for vesting, pending Nomination and Remuneration Committee approval.

650,000 additional Option Plan awards (550,000 of which are held by Executive Management) that remain outstanding as of 31 July 2014 were already fully vested and eligible to be exercised as of the beginning of the year.

The weighted average exercise price of all Option Plan awards, for which the vesting conditions have been met, is CHF 39.59.