Annual Report and Accounts 2015
Compensation Report

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 2015 Annual General Meeting ('AGM').

Additionally, in compliance with the revisions to the Articles of Association approved at the 2014 AGM, shareholders at the 2015 AGM will be asked to approve the maximum aggregate amount of remuneration of:

– the Board of Directors for the period until the next AGM (i.e. the 2016 AGM); and
– Executive Management for the following financial year – (i.e. the financial year ending 31 July 2017).

Compensation process – FY 2015
As in prior years, for the financial year ending 31 July 2015 ('FY 2015') 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.

Changes implemented in FY 2015
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 were introduced in FY 2015, as outlined in the next four paragraphs.

Shareholder Approval
The new shareholder approval process governing the remuneration of the Board of Directors and Executive Management was defined in the revisions to the Articles of Association approved at the 2014 AGM.

Compensation Report (continued)

LTIP Forfeiture / Claw-back Controls
LTIP awards were made subject to a two year retention period and forfeiture / claw-back controls. The new two year retention period runs from the end of the three year performance period and forfeiture / claw-back applies in the event of material misstatement of financial statements or serious reputational damage to ARYZTA as a result of participant misconduct.

Short-term Performance Related Bonus
Following completion of the ATI Programme (launched in FY 2012), changes were implemented in how the short-term performance-related bonus for Executive Management is determined with discontinuation of the 'Underlying' concept. Instead short-term performance related bonuses are now determined by reference to incremental gains in Food Group Reported ROIC, as set out on page 20. The NRC believe that this measure aligns management's short-term performance reward with shareholder interests.

Employment Contracts
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) were introduced.

Compensation to members of the Board of Directors – FY 2015

For FY 2015, 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 2015 and 2014. Fluctuations in amounts received are reflective of the changing roles and responsibilities held by the individual directors, during each respective year.

Compensation Report (continued)

Direct Payments Board of Directors – Audited in CHF '000	**Year ended 31 July 2015**	Year ended 31 July 2014
Denis Lucey	**323**	323
Charles Adair	**96**	96
Hugh Cooney[1]	**40**	96
J Brian Davy	**104**	104
Annette Flynn[1]	**64**	N/A
Shaun B. Higgins	**104**	104
Owen Killian	**–**	–
Patrick McEniff	**–**	–
Andrew Morgan[2]	**96**	62
Götz-Michael Müller[1]	**22**	88
Wolfgang Werlé	**96**	96
John Yamin[2]	**–**	–
Total	**945**	969

1 The terms of office as Members of the Board of Directors of H. Cooney and G-M. Müller expired on 2 December 2014, and on that date A. Flynn was elected to the Board.

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

Compensation to members of Executive Management

As per page 41 of the Corporate Governance Report, for the financial years 2015 and 2014, Group Executive Management consisted of Owen Killian (Group CEO), Patrick McEniff (Group CFO/COO), John Yamin (CEO of the Americas) and Pat Morrissey (Group General Counsel, Company Secretary and CAO).

The elements of the remuneration package for Executive Management for financial years 2015 and 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).

The highest total compensation in financial year 2015 was earned by Owen Killian, and his total remuneration is disclosed separately in the table below.

Total Compensation Executive Management – Audited in CHF '000	**Total Executive Management 2015**	**Owen Killian 2015**	Total Executive Management 2014	Owen Killian 2014
Basic salaries	**3,551**	**1,277**	3,234	1,277
Benefits in kind	**189**	**83**	241	83
Pension contributions	**441**	**192**	423	192
Performance-related bonus	**–**	**–**	3,234	1,277
Long-term incentives (LTIP)	**986[1]**	**305[1]**	8,420	3,312
Total compensation	**5,167**	**1,857**	15,552	6,141
Average total compensation per member	**1,292**		3,888	

1 The FY 2015 Executive Management LTIP compensation expense relates entirely to 2012 LTIP awards, which vested in September 2014. No compensation expense has been recognised to date for LTIP awards granted in September 2014, as the performance criteria for those awards requires that Underlying EPS in FY 2017 would exceed 500 cent per share, which is currently considered remote.

Compensation Report (continued)

The compensation to members of Executive Management, during financial years 2015 and 2014, 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 years 2015 and 2014.

No loans or advances were made by the ARYZTA Group to members of the Board of Directors or to Executive Management during the financial year, or were outstanding at 31 July 2015 (2014: none).

Executive Management basic salary and benefits

For financial year 2015, 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 2015, the short-term performance-related bonus for Executive Management was determined by reference to incremental gains in Food Group ROIC.

The incremental gain in Food Group ROIC is calculated on a constant currency basis, by comparing the FY 2015 ROIC (as included on page 20) to FY 2014 ROIC. Any asset impairments or non-recurring charges recorded in FY 2015 are reversed for the purposes of the comparison, thereby ensuring that Executive Management do not benefit therefrom. Likewise, the net assets and historical annual EBITA levels of any acquisitions made in FY 2015 are added to the FY 2014 ROIC base, for the purposes of the comparison.

Executive Management have the potential to earn a percentage of their set target bonus, based on the incremental gain in Food Group ROIC. For example, if an ROIC increase of 80 bps were achieved, Executive Management would earn 80% of their individual bonus targets.

In the case of Owen Killian, Patrick McEniff, John Yamin and Pat Morrissey, the short-term performance-related bonus targets were set at 100% of their basic salary, with the potential amounts earned being capped at 150% of basic salary.

As there was no incremental increase in Food Group ROIC in FY 2015, no amount of short-term bonus was earned by Executive Management.

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.

Compensation Report (continued)

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 pay-out 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 20, the Food Group ROIC reported for the year ended 31 July 2015 was 10.7% (2014: 12.0%).

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 2015, the Food Group pre-tax WACC was 7.4% (2014: 7.0%).

Benefits under the LTIP vest upon a change of control by reference to the fair value of the LTIP instruments. The final determination of such fair value falls to be made by the Board of Directors (acting through the Remuneration Committee thereof) on the basis of independent, external, professional advice. Otherwise, the agreements and plans benefitting 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 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 between 10.0% and 15.0%. If the minimum 10% growth target is not 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.

Executive Management were granted no awards under the Matching Plan during FY 2015 and the last awards made under the Matching Plan were made during FY 2013.

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.

Compensation Report (continued)

Executive Management were granted 980,000 Option Equivalent Awards under the Option Equivalent Plan during FY 2015, as detailed in the table on page 54. As stated above, no expense was recognised for these awards in FY 2015, as the possibility of the performance criteria being achieved is considered remote.

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 years 2015 and 2014 is detailed in note 8 of the Group Consolidated Financial Statements on page 98.

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

The vesting of all outstanding Matching Plan awards and the vesting and net exercise of all Option Equivalent Plan awards outstanding (based on the closing share price of CHF 49.07 on 31 July 2015), 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 below relates to all awards and is not confined to awards in favour of Executive Management.

	3 year/3% 1 August 2012 to 31 July 2015	10 year/10% 1 August 2008 to 31 July 2015
Shares outstanding at beginning of relevant control period	88,037,675	78,940,460
Matching Plan Awards		
Awards granted in control period and exercised	25,339	1,302,052
Awards granted in control period and outstanding	–	–
Total	25,339	1,302,052
Potential dilution from Matching Plan awards	0.03%	1.62%
Option Equivalent Plan Awards		
Awards granted in control period and exercised	38,659	393,800
Awards granted in control period and outstanding, net	3,960	315,556
Total	42,619	709,356
Potential dilution from Option Equivalent Plan awards	0.05%	0.89%
Total potential dilution in control period	0.08%	2.48%
Annualised potential dilution in control period	0.03%	0.35%

Compensation Report (continued)

As set out in the previous table, 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.

As shown in the following tables with respect to Executive Management, awards under the Matching Plan and Option Equivalent Plan, for which the vesting criteria are not met, lapse and are no longer capable of vesting.

Executive Management Matching Plan Allocation

	Maximum share allocation carried forward 1 August 2014	Exercised during the period[1]	Forfeited during the period[1]	**Closing position 31 July 2015**
Executive Management				
Owen Killian	150,000	(66,676)	(83,324)	–
Patrick McEniff	120,000	(53,341)	(66,659)	–
Pat Morrissey	60,000	(26,671)	(33,329)	–
John Yamin	60,000	(26,671)	(33,329)	–
Total	**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 327,052 Matching Plan awards (173,359 of which were held by Executive Management) were fulfilled during the year ended 31 July 2014. Therefore, these awards were approved as vested by the Nomination and Remuneration Committee and were subsequently exercised by management during the period ended 31 July 2015. As the performance criteria for the remaining Matching Plan awards were not met, they were no longer capable of vesting and were forfeited.

Executive Management Option Equivalent Plan Allocation

	Maximum share allocation carried forward 1 August 2014	Exercised during the period	Granted during the period[2]	**Closing position 31 July 2015**	Of which Vesting criteria have been fulfilled[3]
Executive Management					
Owen Killian	750,000	–	410,000	1,160,000	750,000
Patrick McEniff	610,000	–	300,000	910,000	610,000
Pat Morrissey	100,000	–	120,000	220,000	100,000
John Yamin	60,000	(60,000)	150,000	150,000	–
Total	**1,520,000**	**(60,000)**	**980,000**	**2,440,000**	**1,460,000**

2 During the period ended 31 July 2015, 980,000 Option Equivalent Plan awards were granted to Executive Management, with a weighted average exercise price of CHF 81.00 (EUR 67.11). The possibility of these awards becoming eligible to vest is considered remote.

3 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 39.36.

Report of the statutory auditor to the General Meeting of ARYZTA AG on the compensation report 2015

pwc

We have audited the information marked as “audited” in the accompanying compensation report of ARYZTA AG for the year ended 31 July 2015 (from page 48 to 54 in the printed report).

Board of Directors’ responsibility
The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance. The Board of Directors is also responsible for designing the remuneration system and defining individual compensation packages.

Auditor’s responsibility
Our responsibility is to express an opinion on the accompanying compensation 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 compensation 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 compensation 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 compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the compensation 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 compensation report of ARYZTA AG for the year ended 31 July 2015 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Patrick Balkanyi Audit expert Auditor in charge	Carrie Rohner

Zürich, 2 October 2015