Annual Report and Accounts 2016
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 short-term performance related bonus and 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 short-term and the long-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 2016 Annual General Meeting ('AGM').

Additionally, in compliance with the Articles of Association, shareholders at the 2016 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 2017 AGM); and
- Executive Management for the following financial year – (i.e. the financial year ending 31 July 2018).

Compensation Process
Role of the Remuneration Committee of the Board ('RemCo')
As in prior years, for the financial year ending 31 July 2016 ('FY 2016') the RemCo was responsible for:

- determining the remuneration of executive and non-executive members of the Board; and
- approving the remuneration of other members of senior management, upon the recommendation of the CEO.

The RemCo reviews the various elements of remuneration on an annual basis to ensure that executives are remunerated in line with the level of their authority and responsibility within the Group. The RemCo reports to the Board at the next Board meeting following each meeting of the RemCo. In addition, all RemCo papers (e.g., agenda, minutes, presentations, etc.) are available to all members of the Board. The CEO attends meetings of the RemCo by invitation only.

Compensation Report (continued)

Shareholder Approval
At our 2015 AGM, shareholders ratified the FY 2015 Compensation Report in a separate advisory vote and approved, with strong majorities, the Board's proposals for maximum possible remuneration for the Board and Group Executive Management.

In FY 2016, ARYZTA took independent external professional advice from an independent, internationally respected, compensation consulting firm and engaged with market participants regarding ARYZTA's compensation practices. The expert consulting firm was commissioned to:

– benchmark Executive Management compensation;
– make recommendations regarding the ARYZTA LTIP; and
– benchmark non-executive director compensation.

The expert consulting firm reported that Executive Management target total direct compensation, comprising (a) base salary, (b) target bonus and (c) grant date fair value long-term incentive, is positioned within the competitive range (+/– 15%) of the ARYZTA Peer Group[1] median. Regarding the ARYZTA LTIP, the expert consulting firm recommended that ARYZTA:

– utilise not just performance-based share options, but also performance-based shares;
– adopt Total Shareholder Return ('TSR'), relative to the ARYZTA Peer Group TSR, as an additional metric to complement the EPS Growth Condition (with the two metrics being weighted on a 50:50 basis);
– maintain a three-year performance period, but replace the two-year holding period with a two-year malus claw-back obligation; and
– make grants annually to drive continuous level of retention.

The Board has accepted these recommendations. The expert consulting firm also reported that ARYZTA non-executive director compensation is consistent with European headquartered companies.

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, were introduced in FY 2015 and remain unchanged in FY 2016.

1 The ARYZTA Peer Group for this purpose means Associated British Foods Plc, Campbell Soup Company, ConAgra Foods Inc., Cranswick Plc, Flowers Foods Inc., Glanbia Plc, Greencore Group Plc., Greggs Plc, Hershey Company, J&J Snack Foods Corp., JM Smucker Company, Kerry Group Plc, Chocoladefabriken Lindt & Sprungli AG, Mondelez International Inc., Treehouse Foods Inc.

Compensation Report (continued)

Compensation to members of the Board of Directors – FY 2016

For FY 2016, consistent with the shareholder approval, 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 2016 and 2015. Fluctuations in amounts received are reflective of the changing roles and responsibilities held by the individual directors, during each respective year.

Audited in CHF `000	**Direct payments year ended 31 July 2016**	Direct payments year ended 31 July 2015
Denis Lucey	**323**	323
Charles Adair	**100**	96
Hugh Cooney[1]	**–**	40
J Brian Davy[2]	**43**	104
Dan Flinter[2]	**69**	–
Annette Flynn[1]	**100**	64
Shaun B. Higgins	**104**	104
Owen Killian	**–**	–
Patrick McEniff[2]	**–**	–
Andrew Morgan	**96**	96
Götz-Michael Müller[1]	**–**	22
Wolfgang Werlé	**96**	96
John Yamin[2]	**–**	–
Total	**931**	945

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 The terms of office as Members of the Board of Directors of J.B. Davy, P. McEniff and J. Yamin expired on 8 December 2015 and on that date D. Flinter was elected to the Board.

Compensation Report (continued)

Compensation to members of Executive Management

As per pages 42 to 43 of the Corporate Governance Report, for financial year 2015, 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). For financial year 2016, Group Executive Management comprised the same four individuals, as well as Hilliard Lombard, until his resignation, announced on 26 November 2015 and effective 31 January 2016.

The elements of the remuneration package for Executive Management for financial years 2016 and 2015 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 2016 was earned by Owen Killian, and his total remuneration is disclosed separately in the following table.

Audited in CHF `000	**Total Executive Management 2016**	**Owen Killian 2016**	Total Executive Management 2015	Owen Killian 2015
Basic salaries	**4,077**	**1,277**	3,551	1,277
Benefits in kind	**205**	**83**	189	83
Pension contributions	**489**	**192**	441	192
Performance-related bonus	**3,058**[1]	**958**[1]	–	–
Non-compete compensation and pension	**545**	**–**	–	–
Long-term incentives (LTIP)[2]	**–**	**–**	986	305
Total compensation	**8,374**	**2,510**	5,167	1,857
Average total compensation per member	**1,675**		1,292	

1 The performance-related bonus earned by Owen Killian in FY 2016 has been withheld pending resumption of growth in underlying fully diluted earnings per share.

2 ARYZTA The FY 2015 Executive Management LTIP compensation expense relates entirely to 2012 LTIP awards, which vested in September 2015. No compensation expense has been recognized 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. Additionally, no compensation expense has been recognized to date for LTIP awards made in FY 2016, as the required minimum performance targets have not yet been achieved.

The compensation to members of Executive Management, during financial years 2016 and 2015, 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) until October 2015.

No severance and/or termination payments were made to any member of Executive Management during financial years 2016 and 2015. Hilliard Lombard, who departed the Group to pursue other interests effective 31 January 2016, was paid no more than his contractual entitlements.

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 2016 (2015: none).

Compensation Report (continued)

Executive Management basic salary and benefits

For financial year 2016, the basic salary of Executive Management was reviewed by the RemCo with regard to personal performance and corporate goals. For financial year 2016, when reviewing Executive Management's remuneration, the applicable weighting of each component was at the discretion of the RemCo. Employment-related benefits consist principally of a car allowance and pension. Pension benefits are determined solely in relation to basic salary. For financial year 2017 and future years, the shareholders have the authority to set the maximum remuneration for Executive Management.

Executive Management short-term performance-related bonus

For financial year 2016, the short-term performance-related bonus targets for Executive Management were set at 100% of basic salary, with the potential amounts earned being capped at 150% of basic salary. The short-term performance-related bonus targets were determined 50% by reference to incremental gains in ROIC and the remaining 50% being measured by reference to the achievement of free cash generation targets.

The incremental gain in ROIC is calculated on a constant currency basis, by comparing the FY 2016 ROIC to FY 2015 ROIC. Any asset impairments or non-recurring charges recorded in FY 2016 are reversed for the purposes of the comparison, so ensuring that Executive Management do not benefit therefrom. Likewise, the net assets and historical annual EBITA levels of any acquisitions (disposals) made in FY 2016 are added to (subtracted from) the FY 2015 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 ROIC. For example, if an ROIC increase of 80 bps were achieved, Executive Management would earn 80% of their relevant individual bonus targets. As there was no incremental increase in ROIC in FY 2016, no amount of short-term bonus was earned by Executive Management regarding this element.

The remaining 50% of the short-term performance-related bonus target for Executive Management was based on free cash generation as follows:

Free cash generation achieved	% of base salary earned as short-term performance-related bonus
€250m or more	75% of base salary
€225m	50% of base salary
€200m	25% of base salary
Less than €200m	0% of base salary
Between €200m-€250m	+1% of base salary earned for every €1m of cash generation

As free cash generation of €267m was achieved in FY 2016, 75% of base salary was earned by Executive Management as their short-term performance-related bonus.

Compensation Report (continued)

Executive Management Long-term Incentive Plan (LTIP)

While the LTIP has been particularly associated 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.

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 RemCo) on the basis of independent, external, professional advice. Otherwise, the agreements and plans benefiting the members of the Board or the Group Executive Management are unaffected by a change of control.

The long-term incentive remuneration of Executive Management consists of both Matching Plan and Option Equivalent Plan awards.

The Matching Plan

Executive Management were granted no awards under the Matching Plan during FY 2016 or FY 2015 as the last awards made under the Matching Plan were made during FY 2013. No awards under the matching plan remain outstanding as of 31 July 2016.

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.

Awards under the Option Equivalent Plan are also subject to additional conditions, including notably:

(a) the requirement to remain in service throughout the performance period;
(b) the requirement that the ARYZTA's reported ROIC over the expected performance period is not less than its weighted average cost of capital for awards granted before financial year 2016 and not less than 120% of its weighted average cost of capital for awards granted thereafter; and
(c) the requirement that annual dividends to shareholders are at least 15% of the underlying EPS during 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 21, the ROIC reported for the year ended 31 July 2016 was 10.5% (2015: 10.9%).

WACC is determined as a blend of the Group’s deemed cost of capital and deemed cost of debt, with each of these components weighted on the basis of the 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 2016, the pre-tax WACC was 8.0% (2015: 7.4%).

Compensation Report (continued)

The Option Equivalent Plan awards granted in the years before financial year 2016 can be exercised as of the time the performance conditions described above have been met, but no longer than ten years after grant date. Awards granted during financial year 2016, which meet the conditions for vesting after the initial three year performance period, are subject to additional conditions, including notably an additional two year holding period before they can be exercised.

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 2016 and 2015 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.

The vesting and net exercise of (1) all Option Equivalent Plan awards outstanding (based on the closing share price of CHF 36.45 on 31 July 2016), plus (2) the impact of any LTIP awards that have already been exercised, would result in a dilution of 2.1% of total shares outstanding (or 0.26% annualised) in the period since 2008.

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. Based on the closing share price of CHF 36.45 on 31 July 2016, no dilution arises in respect of awards granted in the last three years.

Compensation Report (continued)

Executive Management Option Equivalent Plan Allocation

Executive Management were granted 1,130,000 Option Equivalent Awards under the Option Equivalent Plan during FY 2016, as detailed below. As shown in the table on page 52, no expense was recognised for these awards in FY 2016. The following table details awards outstanding under the Option Equivalent Plan in favour of Executive Management:

	Options carried forward 1 August 2015	Granted during the year[1]	Forfeited during the year[2]	**Closing position 31 July 2016**	Of which Vesting criteria have been fulfilled[3]
Executive Management					
Owen Killian	1,160,000	410,000	–	**1,570,000**	750,000
Patrick McEniff	910,000	300,000	–	**1,210,000**	610,000
Pat Morrissey	220,000	120,000	–	**340,000**	100,000
John Yamin	150,000	150,000	–	**300,000**	–
Hilliard Lombard[2]	–	150,000	(150,000)	**–**	–
Total	**2,440,000**	**1,130,000**	**(150,000)**	**3,420,000**	1,460,000

1 During the period ended 31 July 2016, an additional 1,130,000 Option Equivalent Plan awards were granted to Executive Management, at a weighted average exercise price of CHF 44.98.

2 During September 2015, the Board of Directors approved that Hilliard Lombard become a member of Executive Management. Effective January 2016, Hilliard Lombard resigned from Executive Management.

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 39.34.

Report of the statutory auditor to the General Meeting of ARYZTA AG on the compensation report 2016

pwc

We have audited the information marked as 'audited' in the accompanying compensation report of ARYZTA AG for the year ended 31 July 2016 (from page 49 to 56 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 2016 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Patrick Balkanyi
Audit expert
Auditor in charge

Carrie Rohner

Zurich, 3 October 2016