
Annual Report and Accounts 2016

Letter to Shareholders

In the financial year 2016, the key successes included strong free cash generation of €267m, the transition to a pure speciality food group, and the successful consolidation and commissioning of new modern capacity to support future growth.

Financial year 2016 also marked a return to positive underlying revenue growth of 0.5%, with strong underlying revenue growth of 4.0% in Europe and 6.2% in the Rest of World, which were offset by a recovering underlying revenue performance of negative 3.1% in North America, as a result of losses arising from long-term contract renewals with a small number of key customers. Acquisitions performed to expectation during the year and currency supported revenue growth by 1.4%.

Overall, revenue from continuing operations increased by 1.5% to €3.9bn, while EBITA from continuing operations decreased 5.7% to €485m and EBITA margins declined by 100 bps to 12.5%. Half of this margin decline reflects an increased investment in brand marketing, primarily in North America, where the Otis Spunkmeyer and La Brea ranges were extended. The remainder of the margin decline related to the negative operating leverage from the long-term contract renewals. While these revenue losses adversely impacted FY 2016, resulting in an overall 5.0% decline in underlying fully diluted EPS from continuing operations to 350.3c, the successful finalisation of new long-term contracts brings revenue stability and a solid foundation for future growth.

During FY 2016, we transitioned into a pure food business, focused on frozen speciality food, by exiting our investment in Origin Enterprises, which we first listed in 2007. Since that time, Origin returned over €1 billion to its founding shareholder. When I reflect on my period as Chairman, I am very proud of how this business transformed to establish a relevance opposite primary food producers.

During August 2015, we also re-invested €451m to acquire a 49% shareholding in Picard, with a call option to acquire the balance in FY19, FY20 or FY21. As the lines are blurring between previously delineated food channels, ARYZTA must continuously evolve, and Picard has the potential to enhance ARYZTA's relevance to customers and consumers, with its unique and innovative business. Picard performed well in terms of revenue and EBITDA growth since our investment, and generated €40.5m of free cash.

During the year, the Group also successfully commissioned its €150m investment in additional bakery capacity and capabilities in Germany and consolidated older, less efficient capacity onto the same site. These capital investments, combined with the subdued operating performance, negatively impacted ROIC, which declined by 40bps to 10.5%.

Proposed dividend

At the Annual General Meeting on 13 December 2016, shareholders will be invited to approve a proposed dividend of CHF 0.5731 (€0.5255) per share. If approved, the dividend will be paid to shareholders on 1 February 2017. A dividend of CHF 0.6555 per share was paid during the year, as approved by shareholders at the Annual General Meeting on 8 December 2015.

Letter to Shareholders (continued)

Board membership

At the 2015 AGM, held on 8 December 2015, the shareholders approved the re-election of myself, Mr. Denis Lucey as Chairman of the Board of Directors, together with the re-election of Mr. Charles Adair, Ms. Annette Flynn, Mr. Shaun B. Higgins, Mr. Owen Killian, Mr. Andrew Morgan, Mr. Wolfgang Werlé and the election of Mr. Dan Flinter. Mr. Patrick McEniff, CFO/COO and Mr. John Yamin, CEO Americas, did not present themselves for re-election to the Board, as the Board transitioned to more demonstrably independent governance. In addition, Mr. J Brian Davy, retired at the 2015 AGM.

The Board of ARYZTA AG now consists of one executive director and seven non-executive directors. The biographies of individual Board members and the Secretary to the Board are available on pages 33 to 36 in the Corporate Governance report.

At the 2016 AGM, to be held on 13 December 2016, the Board will propose the re-election of all current Board members other than Shaun B. Higgins and myself. Mr Gary McGann will be proposed as the new Chairman and Prof. Dr. Rolf Watter will be proposed as a new member of the Board. I want to welcome my successor and wholeheartedly recommend Gary McGann and Rolf Watter to you as very experienced, shareholder-friendly leaders, whose reputations are impeccable and whose values align with those of ARYZTA.

I thank my fellow and past directors for their courtesy and support during my time as Chairman. I thank you as shareholders who have encouraged, challenged and supported us throughout the period. I thank the nearly 20,000 people who turn up every day and bring their passionate expertise to our bakeries, our logistics centres and all parts of our organisation. In particular, I thank our customers for whom we exist and without whose support we would have no business.

ARYZTA, with its passion for good food, is in great hands, and I wish Gary and ARYZTA great success.



Denis Lucey
Chairman, Board of Directors

3 October 2016