

Annual Report and Accounts 2017

Compensation Report

Introduction

FY17 was a difficult year for ARYZTA and one of significant change at Board and Executive Management level.

In the context of these changes, the Board, and the Remuneration Committee ("The Committee") in particular, invested significant time in reviewing our remuneration framework. The Board and the Remuneration Committee were supported by independent external consultants in this work (PricewaterhouseCoopers, Pearl Meyer and FTI Consulting).

Details regarding our future remuneration framework, which will be informed in advance by feedback from major shareholders and proxy advisors, will be set out in our AGM materials and put to shareholders at our December 2017 Annual General Meeting ('AGM'). Also, as in prior years, the Board will submit this Compensation Report to a separate advisory vote of the shareholders at the AGM.

Executive Management Changes

In connection with their departure from the Group, ARYZTA entered Termination Agreements with Owen Killian, Patrick McEniff and John Yamin whereby any claims arising under their Employment Contracts were extinguished at a cost to ARYZTA substantially below the maximum potential contractual amount.

Specifically, the Employment Contracts expressly provided for:-

- 12 month notice period - fully remunerated, i.e. base salary, pension and other annual benefits, short term bonus and LTIP; and
- 12 month post termination non-compete - remunerated at base salary plus short term bonus).

The Termination Agreements provided for a settlement of any potential claims on the following basis:-

- 12 month notice period - base salary, pension and other annual benefits, 33.33% of the maximum short term bonus (or, to express it differently, 50% of the target short term bonus) and 0% re LTIP; and
- 12 month post termination non-compete - remunerated at base salary plus 33.33% of the maximum short term bonus (or, to express it differently, 50% of the target short term bonus).

As set out in Note 31 to the FY17 Group Consolidated Financial Statements, in accordance with IFRS, ARYZTA has, provided in its FY17 accounts for the entire amounts payable under the three Termination Agreements and the Group's current estimate for any potential claims by Ronan Minahan - assuming the same treatment - i.e. €10,368,000 of which €5,398,000 relates to the 12 month notice period and €4,970,000 relates to the 12 month post termination non-compete.

The table on page 54 of this Compensation Report presents total FY17 remuneration for Executive Management in accordance with applicable Swiss law (rather than IFRS). For greater transparency, this is broken out further in the table on page 55 where a distinction is drawn between current and former Executive Management.

Compensation Report (continued)

CEO Remuneration

In May 2017 we announced the appointment of Kevin Toland as our new Group CEO. The appointment was made following a rigorous recruitment process, which was international in scope, and had unanimous Board support.

The Committee has given careful and detailed consideration to the new CEO's remuneration. In particular, the Committee took time to assess European best-practice in terms of structuring the package. As a reference point, the Committee was also provided with information on market data on remuneration to ensure it was market competitive.

The aim of the Committee, in designing remuneration arrangements for the new CEO, was to ensure they reflect evolving best-practice, have clear alignment with shareholders, incorporating both robust structural elements and an emphasis on performance, and that they promote the long-term success of the company.

To further align with shareholders' interest and reflect current market conditions for executive remuneration, reductions have been made to the CEO's remuneration package in comparison to the previous arrangements.

The Board is committed to ensuring that our remuneration framework supports ARYZTA's strategy, and provides a balance between motivating and challenging the CEO to deliver ARYZTA's near term business priorities together with sustainable, long term success. A significant part of the proposed performance related reward will be delivered through shares. This ensures that the CEO has a meaningful long-term investment in the business, and that his interests are aligned with shareholders.

While the Committee is still finalising the performance measures and targets for 2018, in line with a commitment to best-practice, this report sets out the framework under which the CEO will be remunerated in the year ahead.

Compensation Report (continued)

Key Changes to the remuneration framework for 2017/18

Increased alignment with shareholders	Inclusion of post-vesting holding period for long-term incentives
Reduction in fixed pay	Emphasis on performance-based compensation to further align the interests of the CEO and shareholders

Overview of CEO's 2017/18 Remuneration

	FY18	FY17	Rationale
Salary	CHF 969,000	CHF 1,277,000	Competitive market salary
Pension	20% of salary	15% of salary	Competitive pension arrangement
Annual Bonus	Maximum opportunity of 150% of salary	Maximum opportunity of 150% of salary	Promote the delivery of strategy and shareholder value by including challenging performance measures
Long-term incentive plan	Maximum opportunity of 200% of salary	Maximum opportunity of 150% of salary	Increase alignment with shareholders through extended holding period Promote the delivery of strategy and shareholder value by including challenging performance measures

It is the Committee's intention to continually review the CEO's remuneration arrangements, performance relative to targets and evolving best-practice. In the event that any material alterations are proposed, the Committee would engage with shareholders regarding any changes prior to confirming those decisions.

Performance Measures and Targets

The Board and our new CEO continue to review our strategy with the aim of narrowing the focus to our core B2B business. Our remuneration framework will be designed to align the interests of management and shareholders and incentivise management's pursuit of goals that the Committee consider central to our refocused strategy and the restoration of performance. This will include a focus on building increased trust with our key stakeholders (customers, employees and suppliers) which is critical to delivering ARYZTA's strategy.

As part of the process to establish appropriate performance measures, targets and vesting schedules and our commitment to transparency, ARYZTA will be consulting

Compensation Report (continued)

with shareholders to provide them with the opportunity to express their views on the Remuneration Committee's proposals and our remuneration framework. Subsequent to that initial consultation, and the setting of a detailed three year plan under the strategic direction communicated to shareholders at the time of our FY17 results, we will finalise targets to be employed under our LTIP in FY18. We will advise shareholders before finalising our position.

Looking Ahead

The Committee is conscious of the increased focus on executive remuneration from a number of stakeholders. While ARYZTA's primary listing is in Switzerland, given the global scale of our business, the Committee keeps apprised of key developments with regard to corporate governance and remuneration throughout Europe.

Compensation Process

Role of the Remuneration Committee of the Board

As in prior years, for the financial year ending 31 July 2017 ('FY 2017') the Committee was, within the limits of the relevant shareholder approvals, 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 Committee 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 Committee reports to the Board at the next Board meeting following each meeting of the Committee. In addition, all Committee papers (e.g., agenda, minutes, presentations, etc.) are available to all members of the Board. The CEO attends meetings of the Committee by invitation only.

Shareholder Approval and Payouts

At our December 2016 AGM, shareholders ratified the FY 2016 Compensation Report in a separate advisory vote. Also, at that meeting, shareholders fixed CHF 1,000,000 as the maximum remuneration of the Board of Directors for the period ending at the next AGM. As per the table on page 53, directors fees for FY17 total CHF 966,000.

At our 2015 AGM, subject to the Articles of Association, shareholders fixed, CHF 17,750,000 as the maximum FY17 remuneration for Executive Management. As per the table on page 54, Executive Management FY17 remuneration totals CHF 6,539,000.

Employment Contracts

As reported in prior years, the Employment Contracts for Owen Killian, Patrick McEniff, John Yamin and Pat Morrissey, include (a) 12 month notice periods (fully remunerated) and (b) 12 month non-compete periods (remunerated at base salary plus short term bonus). Contracts in the same terms were put in place for Dermot Murphy, COO Europe, Robert O'Boyle, COO APMEA and Ronan Minahan, former COO Americas on their appointment to Executive Management as announced on 13 March 2017.

Compensation Report (continued)

Compensation to members of the Board of Directors – FY 2017

For FY 2017, 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. In addition, in recognition of the extra burden and time commitment associated with transatlantic travel, an additional allowance of CHF 15,000 per annum was introduced for board members based in North America.

The non-executive Chairman of the Board was paid an annual fee of (CHF 323,000) to cover all his duties.

Non-executive Board members are not eligible for performance-related payments and therefore did not participate in the LTIP.

Executive directors received no additional compensation for their role as a board member.

The following table reflects the payments received by Board members during the years ended 31 July 2017 and 2016 (inclusive of any additional fees for service on a committee). 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 2017	Direct payments year ended 31 July 2016
Denis Lucey ¹	135	323
Gary McGann ¹	215	–
Charles Adair	104	100
J Brian Davy ²	–	43
Dan Flinter ²	104	69
Annette Flynn	104	100
Shaun B. Higgins ¹	43	104
Owen Killian	–	–
Patrick McEniff ²	–	–
Andrew Morgan	96	96
Rolf Watter ¹	69	–
Wolfgang Werlé	96	96
John Yamin ²	–	–
Total	966	931

¹ The terms of office as Members of the Board of Directors of D. Lucey and S. Higgins expired on 13 December 2016 and on that date G. McGann and R. Watter were 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 2016, Group Executive Management consisted of Owen Killian (former Group CEO), Patrick McEniff (former Group CFO / COO), John Yamin (former CEO of the Americas) and Pat Morrissey (Group General Counsel, Company Secretary and CAO).

For financial year 2017, Group Executive Management comprised Owen Killian (former Group CEO), Patrick McEniff (former CFO / COO), John Yamin (former CEO of the Americas) and Pat Morrissey (Group General Counsel, Company Secretary and CAO), until the resignations of Owen Killian, Patrick McEniff and John Yamin, effective 31 March 2017.

On 13 March 2017, ARYZTA announced the appointment of David Wilkinson as Interim Group CFO and a new Executive Management team comprising Pat Morrissey (Group General Counsel, Company Secretary and CAO), Dermot Murphy (COO Europe); Ronan Minahan (COO Americas), and Robert O'Boyle (COO APMEA). On 20 June 2017, ARYZTA announced the departure of Mr. Minahan.

As of 31 July 2017, the Group Executive Management comprised Pat Morrissey (Group General Counsel, Company Secretary and CAO), Dermot Murphy (COO Europe); and Robert O'Boyle (COO APMEA).

The elements of the remuneration package for Executive Management for financial years 2017 and 2016 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 for FY17 only, retention payments; and
- long-term incentives (LTIP).

The highest total compensation in financial year 2017 was earned by Owen Killian, and his total remuneration is disclosed separately in the following table.

in CHF `000	Total Executive Management 2017	Owen Killian 2017	Total Executive Management 2016	Owen Killian 2016
Basic salaries	4,340	1,277	4,077	1,277
Benefits in kind	316	83	205	83
Pension contributions	487	192	489	192
Performance and contractual related bonus and retention	1,396	213	3,058	958
Long-term incentives (LTIP) ¹	–	–	–	–
Total compensation paid to members of ARYZTA Executive Management	6,539	1,765	7,829	2,510
Average total compensation per member of ARYZTA Executive Management	1,090		1,566	

¹ No compensation expense has been recognized to date for LTIP awards made in FY 2016, as the required minimum performance targets have not been achieved.

The compensation to members of Executive Management, during financial years 2017 and 2016, 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,

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non-executive director and Company Secretary) until October 2015. Amounts for Dermot Murphy, Ronan Minahan and Robert O'Boyle reflect their compensation since becoming members of executive management on 13 March 2017.

The total remuneration for Executive management during 2017 is allocated between current and former Executive Management as follows:

in CHF `000	Current Executive Management 2017	Former Executive Management 2017	Total Executive Management 2017
Basic salaries	859	3,481	4,340
Benefits in kind	112	204	316
Pension contributions	101	386	487
Performance and contractual related bonus and retention	633	763	1,396
Long-term incentives (LTIP)	–	–	–
Total compensation paid to members of ARYZTA Executive Management	1,705	4,834	6,539

Severance

Outside of contractual entitlements, no severance or termination payments were made to any member of Executive Management during financial years 2017 and 2016.

As detailed on page 52, the Termination Agreements entered into with Owen Killian, Patrick McEniff and John Yamin in connection with their departure are fully in line with the terms of their Employment Contracts.

One-off Retention Payments

Given the extent of management change during the year and the risk of further upheaval from consequent flight risk, to ensure senior executive continuity payments of 50% of base salary were awarded to the Executive Management team (Pat Morrissey, Dermot Murphy, Rob O'Boyle and Ronan Minahan). These payments are one-off in nature and reflect the exceptional circumstances and challenges facing ARYZTA during FY17, including the need to ensure continuity and stability within the business, particularly for our customers, our employees and shareholders. The Remuneration Committee does not envisage making similar payments in the future.

Performance Payments

In addition, Dermot Murphy and Robert O'Boyle were awarded performance related bonuses based on criteria in place prior to their joining Executive Management of CHF 377,088, of which CHF 188,544 has been reflected as part of Executive Management compensation during FY 2017 as the proportionate amount associated with the period of their service since becoming members of Executive management.

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 2017 (2016: none).

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Executive Management basic salary and benefits

At the 2015 AGM, shareholders approved the maximum base salaries for Executive Management for FY2017 (CHF 4,250,000).

Also, at the 2015 AGM, the shareholders established the ratio between base salaries and maximum variable contingent income – 1:3 of which up to 1.5 times base salaries by way of short-term performance-related bonus; and up to 1.5 times base salaries for long-term incentive plans (based on fair value at grant).

Employment related benefits consist principally of a car allowance and pension. Pension benefits are determined solely in relation to basic salary.

At the 2016 AGM, shareholders approved the maximum possible remuneration for Executive Management for FY2018 (CHF 15,050,000) and shareholders have the authority to set the maximum remuneration for Executive Management for future years.

Executive Management short-term performance-related bonus

At the 2015 AGM, shareholders approved the FY 2017 short-term performance-related bonus targets for Executive Management at 100% of base salaries, with the maximum potential amounts to be earned being capped at 150% of base for outperformance of targets.

In connection with their departure, the Group entered Termination Agreements with Owen Killian, Patrick McEniff and John Yamin, consistent with the terms of their Employment Contracts and providing for, inter alia, payment of 50% of their base salaries (33.33% of the maximum short term performance related bonus) in settlement of any and all claims to any short term performance related bonus.

As disclosed on page 55, retention payments, set at 50% of their base salaries, were established for the other members of FY2017 Executive Management (Pat Morrissey, Dermot Murphy, Rob O'Boyle and Ronan Minahan).

In addition, Mr Murphy, and Mr O' Boyle were awarded performance related bonuses put in place prior to their joining Executive Management.

Executive Management Long-term Incentive Plan (LTIP)

No LTIP awards were made in FY17.

LTIP awards in favour of Executive Management made in FY2015 lapsed as at 31 July 2017 as the performance criteria were not satisfied.

No expense has been recognized to date for LTIP awards made in FY 2016, as the required minimum performance targets have not been achieved. 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 Committee) on the basis of independent, external, professional advice. Otherwise, the agreements and plans benefiting Group Executive Management are unaffected by a change of control.

In prior years, the ARYZTA long-term incentive remuneration of Executive Management has consisted of a Matching Plan and an Option Equivalent Plan awards.

Compensation Report (continued)

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 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.

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.

The vesting and net exercise of (1) all Option Equivalent Plan awards outstanding (based on the closing share price of CHF 31.08 on 31 July 2017), plus (2) the impact of any LTIP awards that have already been exercised, would result in a dilution of 2.32% of total shares outstanding (or 0.26% annualised) in the period since 2008.

Executive Management Option Equivalent Plan Allocation

Executive Management were granted no Option Equivalent Awards under the Option Equivalent Plan during FY 2017. As shown in the table on page 54, no expense was recognised for Executive Management LTIP awards in FY 2017 or FY 2016.

The following table details awards outstanding under the Option Equivalent Plan in favour of Executive Management:

	Options carried forward 1 August 2016	Granted during the year	Forfeited during the year	Closing position 31 July 2017	Of which Vesting criteria have been fulfilled ¹
Executive Management					
Owen Killian	1,570,000	–	(410,000)	1,160,000	750,000
Patrick McEniff	1,210,000	–	(300,000)	910,000	610,000
John Yamin	300,000	–	(150,000)	150,000	–
Pat Morrissey	340,000	–	(120,000)	220,000	100,000
Dermot Murphy	125,000	–	–	125,000	50,000
Ronan Minahan	120,000	–	–	120,000	–
Robert O'Boyle	32,500	–	–	32,500	22,500
Total	3,697,500	–	(980,000)	2,717,500	1,532,500

¹ 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 39.22 (the exercise prices of which range from CHF 37.23 to CHF 46.70).

Report of the statutory auditor to the General Meeting of ARYZTA AG on the compensation report 2017

We have audited the remuneration report of ARYZTA AG for the year ended 31 July 2017. The audit was limited to the information according to articles 14-16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained within the tables on pages 53 to 54.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying remuneration 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 remuneration 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 remuneration 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 remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration 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 remuneration report of ARYZTA AG for the year ended 31 July 2017 complies with Swiss law and articles 14–16 of the Ordinance.



PricewaterhouseCoopers AG

A handwritten signature in black ink, appearing to read 'Sandra Böhm'.

Sandra Böhm
Audit expert
Auditor in charge

A handwritten signature in black ink, appearing to read 'Garrett Young'.

Garrett Young

Zurich, 2 October 2017