

Annual Report and Accounts 2020

Compensation Report

Letter from the Chairman of the Remuneration Committee

Dear Shareholders,

On behalf of the Board of Directors and the Remuneration Committee, I am pleased to introduce ARYZTA's Compensation Report for the financial period 2020 ('FY 2020'), which was marked by the COVID-19 pandemic.

Throughout FY 2020, COVID-19 has had a material impact on our business and Group performance. This was also reflected in temporary compensation measures for the Board of Directors ('Board') and the Executive Management. At the beginning of April, the Board agreed to a 30% reduction for a three-month share of their total compensation. The Executive Management agreed to a three-month 30% base salary reduction, while the broader leadership team agreed up to a 15% base salary reduction.

Despite these challenging times, the Remuneration Committee ('RemCo') focused on the on-going refinement of the compensation framework and the on-going engagement and dialogue with investors and stakeholders. As of FY 2020, Shareholding Guidelines for members of the Executive Management were introduced to further strengthen the long-term focus and to additionally increase the alignment of the Executive Management's interests with those of ARYZTA's shareholders. Furthermore, the Long-Term Incentive Plan ('LTIP') granted in FY 2020 includes a market-related performance measure expressed as a relative Total Shareholder Return. At the same time, a strong focus on operating measures that capture both profitability and capital efficiency was kept. Going forward, LTIP grants will only involve Performance Share Units which will convert into shares; options were abolished. In addition, ARYZTA takes a comprehensive approach to target setting. Targets for the LTIP were set by the Board following a thorough outside-in approach supported by ARYZTA's external independent advisor. As indicated after the Annual General Meeting ('AGM') in November 2019, the level of disclosure with regards to STIP and LTIP target achievement as well as multi-year realized compensation of the CEO was increased.

At the upcoming AGM, we will ask you to approve, as last year, prospectively in a binding vote the maximum compensation of the Board for the period from AGM until the next 2021 AGM, and the maximum aggregate compensation for the Executive Management for FY 2022. Furthermore, you will have the opportunity to register your opinion on this Compensation Report in a consultative vote.

Looking ahead, we will continue refining our compensation framework in order to ensure that it continues to fulfill its purpose in the evolving context in which ARYZTA operates.

On behalf of ARYZTA and the RemCo, I would like to thank you for your support and valuable feedback.



Chair of the RemCo
Heiner Kamps, 6 October 2020

Compensation Report (continued)

Introduction to Compensation

ARYZTA's Compensation Report for FY 2020 has been prepared in accordance with Swiss laws and regulations, including the Ordinance against Excessive Compensation of Listed Stock Companies and the Directive on Information relating to Corporate Governance, issued by SIX Swiss Exchange. The report also takes into account the recommendations set out in the Swiss Code of Best Practice for Corporate Governance of *economiesuisse*.

Compensation Governance

The compensation governance at ARYZTA is mainly comprised of three key bodies: The RemCo which advises the Board in compensation-related matters; the Board which ultimately decides on compensation-related matters; and the shareholders of ARYZTA at the AGM. The Organizational Regulations, the Terms of Reference of the RemCo and the Articles of Association describe and define the roles and responsibilities of these three bodies. The Articles of Association contain the following relevant provisions on compensation:

- Compensation principles for the compensation of the Board and the Executive Management (Art. 21 and 22)
- Approval of compensation by the AGM (Art. 23a)
- Supplementary amounts available for members joining the Executive Management or being promoted within the Executive Management to CEO after the relevant approval of compensation by the AGM (Art. 23e)
- Retirement benefits and pensions (Art. 24)
- Duration and Termination of Employment Contracts (Art. 26)

The Articles of Association can be found on our homepage: https://www.aryzta.com/wp-content/uploads/2018/02/Articles-of-Association-of-ARYZTA-AG-English_Updated.pdf.

The general division of duties, responsibilities, and powers between the three key bodies of compensation governance (RemCo, Board and AGM) is shown in the table below.

	CEO	RemCo	Board	AGM
Compensation strategy and guidelines		P	A	
Compensation principles (Articles of Association)		P	A (subject to AGM approval)	A (binding vote, in case of changes)
Key terms of compensation plans for Board and Executive Management		P	A	
Total compensation for the Board		P	A (subject to AGM approval)	A (binding vote)
Total compensation for the Executive Management		P	A (subject to AGM approval)	A (binding vote)
Individual total compensation for the CEO		P	A	
Individual total compensation for other members of the Executive Management	P	R	A	
Employment and termination agreements for the CEO		P	A	
Employment and termination agreements for other members of the Executive Management	P	R	A	
Compensation Report		P	A	A (consultative vote)

A: Approve, P: Propose, R: Review

Compensation Report (continued)

Role of the Shareholders regarding the AGM

The AGM approves the maximum aggregate amount of compensation of the Board for the period from AGM until the next AGM and the maximum aggregate amount of compensation for the Executive Management for the subsequent financial period (Art. 23a of the Articles of Association). Conclusively, shareholders will be asked at the 2020 AGM, to be held on 11 November 2020, to approve the maximum aggregate amount of compensation of:

- the Board for the period from AGM until the next AGM (i.e. the period until the 2021 AGM); and
- the Executive Management for the following financial period (i.e. the financial period ending 31 July 2022).

In addition, as in prior periods, the Board will submit this Compensation Report to a separate advisory vote for the shareholders at the 2020 AGM in line with the Swiss Code of Best Practice for Corporate Governance.

At the 2019 AGM, the Board submitted three separate compensation-related resolutions, which were all approved by the shareholders:

- The maximum aggregate amount of compensation for the members of the Board for the period from the 2019 AGM until the 2020 AGM (binding vote): CHF 1,500,000.
- The maximum aggregate amount of compensation for the Executive Management for the FY 2021 (binding vote): CHF 18,000,000.
- The compensation report for the FY 2019

In addition and without further approval, ARYZTA is authorised to use supplementary amounts of 40% of the approved maximum aggregate amount (in full and not pro rata) of the compensation for the Executive Management for the relevant financial periods for members joining the Executive Management and/or being promoted from a member of the Executive Management to CEO after the AGM has approved the relevant maximum aggregate amount (Art. 23e of the Articles of Association).

Compensation Report (continued)

Role of the Remuneration Committee

The RemCo has the duties of supervision and governance of ARYZTA's compensation framework and philosophy as well as the purpose to assist the Board in fulfilling its responsibilities regarding the compensation of the members of the Board and the Executive Management of ARYZTA.

The RemCo consists of three to four independent non-executive members of the Board who are elected annually and individually by the AGM pursuant to Swiss law for a one-year period until the next AGM. The RemCo Chair is appointed by the Board (Art. 20a of the Articles of Association). For FY 2020, the RemCo consisted of four members: Rolf Watter, Mike Andres, Dan Flinter, and Gary McGann, with Rolf Watter approved by the Board as Chair of RemCo. Please refer to the Corporate Governance Report section for further details on RemCo composition, duties, and election.

As in prior periods, in FY 2020 the RemCo acted within the limits of the relevant shareholder approvals, being responsible for (Art. 20b of the Articles of Association):

- Considering and determining all elements of the compensation of the members of the Board and the Executive Management
- Approving the compensation of other members of the Executive Management, upon the recommendation of the CEO
- Reviewing and recommending to the Board on an annual basis a proposal regarding the total compensation amount of the Board and the Executive Management for the following period
- Preparing and recommending to the Board the Compensation Report for approval

The RemCo reviews the level and structure of the compensation for the Executive Management on an annual basis to ensure that executives are remunerated in line with the level of their authority and responsibility within the Group and so as to ensure ARYZTA's capacity to recruit and retain a high calibre of professional managers (for details with regards to the conducted compensation benchmarking in FY 2020, see page 77).

After each RemCo meeting, the RemCo Chair reports to the Board at the following Board meeting, ensuring that the Board members are kept informed in a timely and appropriate manner of all material matters within the RemCo's area of responsibility. In addition, all RemCo papers (e.g. agenda, minutes, presentations, etc.) are available to all members of the Board. When the RemCo considers it appropriate to do so, it may directly ask members of the Executive Management or members of the Human Resources department to attend meetings as a guest. The RemCo regularly holds private sessions (i.e. without the presence of members of the Executive Management, members of the Human Resource department or third parties). Executives and the Chair of the Board do not participate during the sections of the meetings where their own performance and/or compensation are discussed. The RemCo is authorised to obtain appropriate external advice and to invite those persons to attend at meetings of the RemCo. During FY 2020, the RemCo consulted HCM International Ltd. (HCM) as an external independent advisor on compensation-related matters.

The RemCo Chair convenes meetings of the RemCo as often as the business affairs of ARYZTA requires. During FY 2020, the RemCo held seven meetings with an average duration of two hours each. All members of the Committee had full meeting attendance during the reporting period except one absence due to medical leave.

Compensation Report (continued)

The agenda items covered by the RemCo during the seven meetings of FY 2020 are described in the table below.

	Agenda item	Aug 2019	Sep 2019	Nov 2019	Jan 2020	Mar 2020	May 2020	July 2020
General Framework	Impact of COVID-19 on compensation						•	•
	Shareholding Requirements for Executive Management				•	•	•	
	Notice periods for Executive Management							•
Executive Management compensation	Maximum aggregate compensation amount FY 2021		•			•		
	STIP							
	– Review of STIP FY 2021 design				•	•	•	
	– Performance achievement FY 2019		•				•	
	– Target setting for STIP FY 2021				•		•	•
	LTIP							
	– Design LTIP grant FY 2020	•						
	– Target setting and award of LTIP grant FY 2020	•	•	•	•		•	
– Review of LTIP Regulations						•	•	
Benchmarking				•	•	•	•	
Board compensation	Maximum aggregate compensation amount from 2019 AGM until the 2020 AGM		•					
Communication	Shareholder engagement				•		•	•
	Compensation Report FY 2020					•	•	
	– Review FY 2019		•					
	– Disclosure level FY 2020				•	•	•	

Compensation Principles

ARYZTA's compensation framework and principles are designed to attract and retain top talent, to underpin the implementation and support the Group's strategic plans and to provide a balance between motivating and challenging the members of the Executive Management to deliver ARYZTA's near-term business priorities together with achieving sustainable, long-term success (Art. 21a of the Articles of Association). Furthermore, ARYZTA's compensation framework aims to be aligned with shareholders' interest, driving the creation of shareholder value, as well as fostering entrepreneurial thinking.

The RemCo gives careful and detailed consideration to the Board and Executive Management compensation. As one reference point, the RemCo regards market data on compensation to assess its competitiveness in the market environment.

While ARYZTA's primary listing is in Switzerland, given the global scale of our business, the RemCo keeps apprised of key developments regarding corporate governance and compensation across the globe.

Compensation objectives and principles

- Retain and incentivise top talent to support delivery of the strategic plan
- Provide balance between a motivating and a challenging environment to achieve near-term business goals and drive long-term success
- Align compensation outcomes with shareholder interests in the context of rewarding management for creating shareholder value
- Provide equal opportunities in recruitment, selection, promotion, employee development, succession planning, training, and compensation

Compensation Report (continued)

Compensation Framework for the Board of Directors

Compensation Approach for the Board of Directors

The total compensation of the Board consists of an annual base fee, an additional fee for individual assignments to Committees of the Board (Art. 21c of the Articles of Association) and travel expenses in case the member of the Board is based outside of Europe.

In order to assure the independence of the members of the Board in executing their supervisory duties, the total compensation of the Board is fixed and does not include any performance-related, variable compensation component.

For FY 2020, non-executive Board members were paid a fixed annual base fee, reflecting the time commitment and responsibilities of the role, and additional compensation for non-executive directors for service on a Board Committees was paid (see table below). 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 given to Board members based outside of Europe. The CEO received no additional compensation for his role as a Board member. The compensation structure and fee levels for the members of the Board remained unchanged compared to the previous term.

Annual base fee for Board membership for non-executive directors, in CHF		Annual committee fees (AGM to AGM)					
		Audit Committee		Governance and Nomination Committee		Remuneration Committee	
		Chair	Member	Chair	Member	Chair	Member
Chair	323,000	Not entitled					
Other Board members	88,000	25,000	8,000	16,000	8,000	16,000	8,000

Since the 2019 AGM the individual sum of the fixed annual base fee and, where applicable, the fixed annual committee fee per member are compensated 60% in cash and 40% in the form of Restricted Shares or Restricted Share Units ('RSUs'), entitling the recipient to receive ARYZTA shares upon expiration of the three-year holding period for the Restricted Shares, or upon a three-year vesting period of the RSUs. This equity component further strengthens the long-term focus of the Board in performing its duties as well as the alignment of the Board's interests with those of ARYZTA's shareholders.

The compensation of the Board is subject to regular social security contributions and is not pensionable. On the cash component, ARYZTA pays the employer contribution of social security, on the share component, ARYZTA pays both contributions. No additional compensation components such as pension entitlements, lump-sum expenses or attendance fees are awarded to the members of the Board.

Compensation Report (continued)

Compensation Awarded to the Board of Directors (audited)

The following table reflects the total compensation of the Board for FY 2020 including information of the prior financial period. The total compensation of the Board for FY 2020 amounted to CHF 1,205,000 which is within the maximum amount approved at the AGM 2019 of CHF 1,500,000. Due to the COVID-19 impact on the business and the Group performance, the Board agreed to a 30% reduction for a three-month share of their total compensation.

in CHF'000	Board	Audit Committee	Governance and Nomination Committee	RemCo	Settled in cash	Settled in shares ¹	Total compensation FY 2020	Total compensation FY 2019
Gary McGann	Chair		•	•	170	129	299	323
Michael Andres	•			•	58	44	102	83
Luisa Delgado ²	•	•			23	38	61	-
Greg Flack	•	•			58	44	102	83
Dan Flinter	•		Chair	•	59	45	104	110
Annette Flynn	•	Chair			59	45	104	113
Alejandro Legarda ²	•		•		23	38	61	-
Jim Leighton	•		•		58	44	102	227
Tim Lodge	•	•			50	38	88	72
Kevin Toland	•					Not entitled		-
Rolf Watter	•		•	Chair	59	45	104	110
Chuck Adair ³					-	-	-	40
Andrew Morgan ⁴					28	-	28	96
Total					645	510	1,155	1,257
Social security payments							50	33
Total including social security							1,205	1,290

1 Equity is awarded once a year at 40% of the total annual compensation, with the number of shares based on the average closing price of the ARYZTA shares on the SIX over the five trading days immediately preceding the award date. The balance of the compensation for the financial period is settled in cash.

2 L. Delgado and A. Legarda were elected to the Board effective as of 14 November 2019 (2019 AGM).

3 C. Adair retired from the Board effective as of 1 November 2018.

4 A. Morgan was not standing for further re-election for the Board effective as of 14 November 2019 (2019 AGM).

Compensation Report (continued)

The following table shows the shareholdings of the Board as of 1 August 2020 including information of the prior financial period. This table includes registered shares purchased privately as well as fully vested shares allocated in connection with compensation. Furthermore, unvested RSUs and restricted shares are included. In total, the members of the Board held 846,704 shares or 0.09% of the share capital (FY19: 264,704 shares or 0.03% of the share capital).

Shares in ARYZTA at CHF 0.02 each	No. of restricted shares/ unvested RSUs		Total 2020	Total 2019
	No. of ordinary shares 2020	2020		
Directors				
Gary McGann	161,700	245,229	406,929	278,128
Mike Andres	–	84,274	84,274	40,011
Luisa Delgado ¹	–	38,281	38,281	–
Greg Flack	–	84,274	84,274	40,011
Dan Flinter	13,365	85,033	98,398	53,736
Annette Flynn	11,132	82,548	93,680	48,620
Jim Leighton ²	–	84,274	84,274	40,011
Tim Lodge	–	72,885	72,885	34,604
Andrew Morgan ³	–	34,604	34,604	34,604
Rolf Watter	528,507	85,033	613,540	118,878
Alejandro Zaragueta ¹	132,000	38,281	170,281	–
Total	846,704	934,716	1,781,420	688,603

¹ Effective 14 November 2019, L. Delgado and A. Zaragueta were elected to the Board.

² The Beneficial holding of J. Leighton in FY 2019 was held in the form of Restricted Stock Units.

³ A. Morgan was not standing for further re-election for the Board effective as of 14 November 2019 (2019 AGM).

Compensation Report (continued)

Compensation Framework for the Executive Management

General compensation approach for the Executive Management

The compensation of the Executive Management consists of fixed and variable components. The fixed compensation consists of the following elements, an annual base salary, additional fixed compensation in the form of pension and other benefits. The variable compensation includes short-term and a long-term incentive plans. These variable elements are dependent on the achievement of performance which include the financial performance of the Group and regional segments, performance relative to the market, and individual performance (Art. 21d and 22a of the Articles of Association). The overview of the compensation elements of the Executive Management are summarized in the following table:

	Base salary	Pension and other benefits	Short-term incentive plan (STIP)	Long-term incentive plan (LTIP)
Basis	Fixed	Fixed	Variable	Variable
Purpose	Attraction, retention, reward for scope and complexity of the function as well as level of responsibility	Participation in pension plans, insurance and health care plans in line with local market practice	Motivation, reward for achieving annual business objectives	Retention, alignment with shareholders, reward for delivering long-term performance
Performance period	-	-	One year	Three years
Performance measures	-	-	Group and (if relevant) regional measures, qualitative individual measures (except CEO and CFO)	Three equally weighted financial measures (Underlying EBITDA ¹ , ROIC, relative TSR)
Payout range	-	-	0 to 150% of individual target award	0% to 200% of number of granted PSUs
Payment	Cash	Contributions to pension and insurance plans, other in-kind benefits	Cash	Shares

¹ As disclosed in financial statements.

Annual base salary

The annual base salary is the main fixed compensation component paid to the members of the Executive Management. Typically, it is paid in cash in twelve equal monthly instalments unless local laws require otherwise. The annual base salary is contractually agreed in local currency. The level of base salary is determined considering the scope and complexity of the function, level of responsibility, and other relevant factors deemed appropriate. Furthermore, the compensation for the role in the location where ARYZTA competes for talent is considered. Fixed base salaries of the Executive Management members are reviewed every year based on the abovementioned factors and adjustments are made according to market developments.

Compensation Report (continued)

Pension and other benefits

ARYZTA may establish one or more independent pension fund for occupational pension benefits or may join such funds. Contributions to such pension funds on the part of the employer, but not contributions which are paid out by such pension funds, are deemed part of the compensation. Retirement benefits accumulated or paid directly by the employer based on country-specific regulations on occupational pension benefits are treated the same way as contributions to and benefits by pension funds (Art. 24a of the Articles of Association). Members of the Executive Management participate in the pension plans, which consist primarily of retirement, insurance and health care plans designed to provide an adequate level of protection for employees and their dependants in the event of retirement, sickness, disability or death. The plans vary according to legal conditions, but at least meet the legal requirements of the countries concerned. The members of the Executive Management are also granted certain benefits and benefits in-kind in accordance with competitive market practice e.g. a car allowance.

Short-term incentive plan (STIP)

The short-term incentive plan (STIP) is a variable compensation element designed to reward eligible participants for delivering strong short-term performance and contribution to ARYZTA's annual business objectives, whilst limiting the Group's exposure to downside risk in the case of financial underperformance, over a time horizon of one year. The STIP for the Executive Management drives alignment across the Group by a shared philosophy with common core measures.

The STIP consists of performance measures on Group and Regional level, as well as qualitative individual performance measures. The composition and weighting of the different levels of performance measures (as shown in the table below) are determined by taking into consideration the scope of influence of each role (e.g. global, regional). Regional targets are assigned to members with regional responsibilities, while other members' performance, including the performance of the CEO and CFO, are assessed at Group level only.

	CEO & CFO	Regional leaders	Functional leads
Group measures	100%	10%	80%
Group Underlying EBITDA	50%	5%	40%
Group Operating Free Cash Flow	–	5%	–
Group Net Debt : Underlying EBITDA Ratio	50%	–	40%
Regional measures	–	70%	–
Regional Underlying EBITDA	–	35%	–
Regional Operating Free Cash Flow	–	35%	–
Qualitative individual targets	–	20%	20%

The Board or the RemCo determines performance metrics and target levels, and their achievement (Art. 22b of the Articles of Association). At the beginning of the financial period, STIP targets are set for each financial performance measure in a calibration process in accordance with the overall business plan and a robust budget of the respective year. Minimum and maximum performance achievement levels are defined considering, amongst other elements, the previous year's performance level. A rigorous approach is conducted in order to define the individual objectives for the respective members of the Executive Management. The individual objectives are specific for each member, taking into account their scope of influence and responsibilities as well as focusing on value-addition

Compensation Report (continued)

to the business. The STIP targets represent commercially sensitive information and are therefore not disclosed.

The individual target level for the STIP is expressed as a percentage of the annual base salary. Depending on achieved performance, this element of compensation may amount up to a pre-determined multiplier of target level.

For the STIP FY 2020, the individual STIP targets amount to 100% of the base salary for all members of the Executive Management. The STIP payout varies between 0% and a maximum of 150% of the individual target amount (i.e. of base salary).

For each member of the Executive Management, their respective Underlying EBITDA measure (Group or Regional) serves as a primary measure, with a minimum performance threshold set by the Board which needs to be met before any STIP payout is triggered. Once the minimum performance threshold of the respective primary measure is met, all other performance measures are assessed. For the financial performance measures, overachievement is driven by their respective performance. For the qualitative individual performance measure, overachievement is fully driven by the respective primary measure. For each performance measure, a minimum threshold performance, below which there is no payout, as well as a maximum performance, at which payout is capped at 150% of target (i.e. of base salary), applies. In case of termination of employment during the performance period, the STIP payout may be reduced or forfeited depending on country-specific forfeiture rules and subject to applicable law.

	Actual performance FY 2020	STIP Achievement factor in %
Group Underlying EBITDA ¹	EURm 206.0	0%
Group Operating Free Cash Flow	(EURm 84.5)	0%
Group Net Debt: Underlying EBITDA Ratio	3.68x	0%

¹ Underlying EBITDA before impact of IFRS 16 as presented in glossary on page 22.

Performance thresholds for Group measures were not met in FY 2020. Performance thresholds for Regional measures were not met in FY 2020, except for Brazil, where an overall STIP payout of 111% of the target (i.e. of base salary) was reached. All other members of the Executive Management including the CEO had an overall payout of 0%. When determining the final overall payouts, no discretionary decisions were applied. This compares to an overall payout range of 35% to 131% of target (i.e. of base salary) for the Executive Management and an overall payout for the CEO of 98% of target (i.e. of base salary) in FY 2019.

Renew Special Bonus Plan (RSBP)

The Renew Special Bonus Plan (RSBP) has been an exceptional element of the compensation package of members of the Executive Management with exposure to the regions which are affected by the cumulative three-year €200 million cost reduction and efficiency plan, Project Renew. The purpose of the plan was to reward eligible participants for delivering on this plan. The RSBP had been launched for FY 2019 and FY 2020 and aimed to incentivize the implementation of Project Renew in the different regions as well as on Group level.

Compensation Report (continued)

The performance targets were determined by converting the three-year efficiency plan into a two-year bonus plan with two separate one-year performance targets per region. For the members of the Executive Management eligible to this plan, the target of the individual Renew Special Bonus amounts up to 35% of the base salary. The payout can range up to 45% of the base salary, depending on the level of overachievement of the performance targets. Payout in cash is accrued, based on the regional delivery per year, and deferred to the end of FY 2020. In addition, country-specific forfeiture rules apply in case of termination of employment during the two-year period.

Performance thresholds for the RSBP were met in Europe for FY 2020 and in the US for FY 2019 and FY 2020. As a result, three members of the Executive Management received a payout under this plan with an overall payout between 18% and 33% of base salary.

Long-term incentive plan (LTIP)

ARYZTA's long-term incentive plan (LTIP) rewards eligible participants for delivering long-term performance. The purpose of the equity-based LTIP is to provide the participants with performance-driven future rewards for the accomplishment of the Group's long-term financial and strategic goals. The LTIP is intended to retain and motivate and to promote behaviour towards enhancing the value of ARYZTA for the benefit of its shareholders.

For each financial period, an LTIP is granted in the form of Performance Share Units ('PSUs'), which represent an unsecured contingent right to receive ARYZTA shares at the end of the three-year performance period, subject to the achievement of certain pre-defined performance targets and subject to continuous employment.

The number of granted PSUs depends on the individual LTIP grant, which is determined by the Board each year and the fair value of one PSU at the grant date. The individual target grant levels under the LTIP are expressed as a percentage of the annual base salary (Art. 22c of the Articles of Association) and cannot exceed the equivalent of 125% of participants' base salaries in any year.

For the LTIP grant FY 2020, the individual target grant amount for the CEO corresponds to 125% of his base salary and for other members of the Executive Management it represents 100% of their respective base salaries. The LTIP payout varies between 0% and a maximum of 200% of the individual target amount (i.e. a maximum of 250% of base salary for the CEO and a maximum of 200% of base salary for other members of the Executive Management).

The vesting of granted PSUs depends on the achievement of the following equally weighted performance measures and is subject to continued service:

LTIP performance measure	Three-year average Underlying EBITDA ¹	Three-year average ROIC	Three-year relative TSR ²
Weighting	1/3	1/3	1/3
Performance period	3-year performance period	3-year performance period	3-year award cycle
Vesting range	0.00 – 2.00 (of number of vested PSUs)		

¹ As disclosed in financial statements.

² Total shareholder return relative to iSTOXX® Europe Total Market Food Producers Capped 30-15 Index in percentage points.

Compensation Report (continued)

The Underlying EBITDA (as disclosed in the financial statements) provides a focus on profitability. It is weighted at one third and is calculated as the three-year average in EUR. The Return on Invested Capital provides a focus on capital efficiency. It is at weighted one third and is calculated as the three-year average in %. The relative TSR measure adds a stock market perspective to ARYZTA's LTIP and is designed to reward management for outperformance as well as to create alignment with shareholder experience. It is weighted at one third and calculated as the percentage point difference over the three-year performance period between ARYZTA's TSR and the TSR of the iSTOXX® Europe Total Market Food Producers Capped 30-15 index. The TSR is the total shareholders' return, considering the variations of the share price and dividends distributed over the performance period, assuming the reinvestment of any dividends paid during the performance period into ARYZTA shares. The iSTOXX® Europe Total Market Food Producers Capped 30-15 Index includes 40 stocks (as of October 8, 2020) and is a capped version of the STOXX Europe Total Market Food Producers Index. STOXX is the service provider and administrator of the index, therefore responsible for quality standards and legal compliance of the index as well as maintenance in terms of rebalancing and handling of corporate events of index constituents. The index is rebalanced on a quarterly basis, whereas the largest component is capped at 30% and the second largest at 15%. The threshold for a payout of the rTSR measure is at - 20 percentage points, while the cap for a 2.00 vesting multiple is at + 20 percentage points. The payout curve provides for stretching and, at the same time, sets statistically reasonable performance corridors, and therewith supports symmetrical performance and payout situations below and above the target. In doing so, potential excessive risk-taking around the kink of payout curves is avoided.

Targets for the LTIP grant FY 2020 were set by the Board upon recommendation of the RemCo (Art. 22c of the Articles of Association), which has been supported by an external, independent adviser. Following an outside-in approach, investors' return expectations on market value, stock risk profile, investment projections and current profitability levels were taken as a starting point and translated into Underlying EBITDA, ROIC and relative TSR targets, using multifactor valuation models and statistical analyses in order to establish an appropriate link between LTIP payouts and the value created for investors. The results of the outside-in approach were assessed against historical Group performance, as well as equity analysts' expectations and strategic plan as suggested by management, to reinforce the RemCo's and Board's confidence in the overall quality and robustness of the performance targets. The RemCo thoroughly discussed targets and the corresponding vesting curves for each performance measure and made a recommendation to the Board, which approved the respective vesting curves for the LTIP grant FY 2020.

LTIP grant FY 2020	Minimum threshold (0.0 vesting multiple)	Target (1.0 vesting multiple)	Maximum (2.0 vesting multiple)
Three-year average Underlying EBITDA ¹	78.5% of target	100% target as set by the Board	121.5% of target
Three-year average ROIC	76.3% of target	100% target as set by the Board	136.8% of target
Three-year relative TSR	-20 p.p. of index	0 p.p.	+20 p.p. of index

¹ As disclosed in financial statements.

Compensation Report (continued)

For the LTIP grant FY 2020, all three LTIP performance measures have an overall vesting multiple of 0.00 to 2.00 of the granted PSUs. To determine the vesting multiple of the granted PSUs, each performance measure will be assessed individually in a range from 0.00 to 2.00 and then combined according to the assigned equal weightings. This means that a low performance in one performance measure can be balanced by a higher performance in another performance measure. Overall, the combined vesting multiple will never exceed 2.00. If the performance of each of the three performance measures lies below the respective minimum performance requirement, the resulting combined vesting multiple would be 0.00 and consequently no PSUs would vest.

In the case of termination of employment or a change in control regarding ARYZTA before the end of the three-year performance period, modified vesting rules apply (Art. 22e of the Articles of Association).

In the case of death or disability, the number of unvested PSUs will be adjusted pro-rata and will vest immediately with an overall vesting multiple of 1.00. In the case of retirement or termination of employment by ARYZTA without cause, the number of unvested PSUs will be adjusted pro-rata and will vest at the ordinary vesting date according to the effective overall vesting multiple. Furthermore, in case of engagement in a competitive activity without prior consent of the Board, all unvested PSUs will lapse without any compensation. In all other cases (e.g. termination for cause), then effective on the date notice of termination is provided by either party, all unvested PSUs will lapse without any compensation.

In the event of change of control, the number of unvested PSUs will also be adjusted pro-rata.

Additionally, in the event of a serious breach of ARYZTA's Articles of Association, Organizational Regulations, any applicable policies, procedures or guidelines, the Board may recoup all or part of the vested shares or forfeit all or part of any unvested PSUs.

No LTIP vested during FY 2020 since no LTIP grant was awarded during FY 2017.

Peer group and benchmarking

The RemCo reviewed the compensation of the Executive Management in FY 2020 with the support of the global organizational consulting firm Korn Ferry as part of a peer compensation benchmarking analysis. The benchmarking serves as an additional external reference point to ARYZTA in order to remain competitive in its compensation arrangements.

The selection criteria for the peer group included comparability to ARYZTA with regards to business model, size (in terms of headcount, revenue, and market capitalization), respective roles and responsibilities, and relevant geographic presence. The composition of the peer group for benchmarking is reviewed on a periodical basis, every two to three years.

Based on the outcomes of the benchmarking, no adjustments of the compensation of the Executive Management for FY 2020 were made.

Realized compensation for CEO

To support shareholders' understanding of the link between pay and performance, ARYZTA discloses the multi-year target compensation for the CEO compared to his realized compensation. Target compensation consists of the STIP value at target and the LTIP value at grant/target, therefore reflecting initially awarded compensation without any performance

Compensation Report (continued)

considerations for the variable components. Realized compensation consists of the STIP payout and the LTIP value at vesting at the end of their respective performance periods, therefore reflecting actual payouts based on performance.

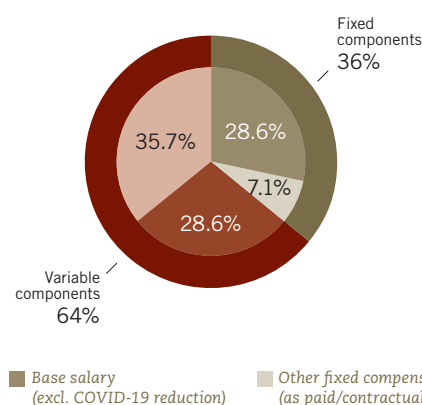
in CHF'000	Base salary ⁹	Other fixed compensation ²	STIP target	LTIP grant value	Total target compensation ³	STIP payout	LTIP vested value	Total realized compensation as of 1 August 2020 ⁴
FY 2020 ¹	847	226	916	1,062	3,051	-	subject to performance ⁷	1,073
FY 2019	961	237	961	2,393 ⁶	4,552	941	subject to performance ⁸	2,139
FY 2018 ⁵	881	217	881	- ⁶	1,980	-	n/a	1,098

- 1 Includes three month base salary reduction of 30% implemented in response to COVID-19.
- 2 Includes pension benefits and other benefits.
- 3 Includes base salary, other compensation, STIP value at target and the LTIP value at grant/target.
- 4 Includes base salary, other compensation, STIP payout and the LTIP value at vesting (if available) at the end of their respective performance periods.
- 5 Pro-rated to 11 months of employment during FY 2018.
- 6 In light of the exceptional circumstances that the business faced during FY 2018, the LTIP grant FY 2018 was postponed to FY 2019 with a shortened two-year performance period.
- 7 LTIP grant FY 2020 will vest in FY 2023 subject to performance.
- 8 The LTIP value granted in FY 2019 consists of the LTIP grant FY 2018 and the LTIP grant FY 2019. The LTIP grant FY 2018 will vest in FY 2021 subject to performance, the LTIP grant FY 2019 will vest in FY 2022 subject to performance.
- 9 The base salary is denominated in Euro. Any variance in base salary over the 3 years is due to the CHF EUR exchange rate. FY 2018 compensation is pro-rated for 11 months of employment.

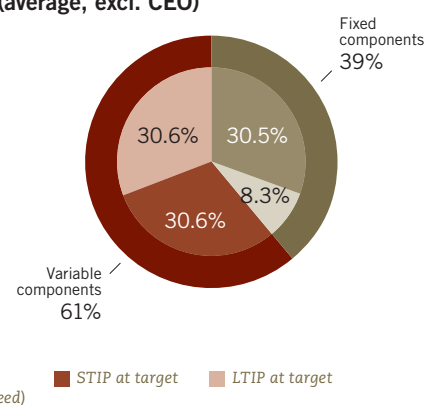
Total compensation mix

The following figure illustrates the total compensation mix for the CEO and the other members of the Executive Management at target level (i.e. STIP at target payout multiple of 1.00 and LTIP at grant value equalling a vesting multiple of 1.00). This compensation mix reflects ARYZTA's high-performance orientation and represents the strong emphasis on aligning the interests of the Executive Management and the shareholders to create long-term shareholder value and profitable growth, by making a substantial part of compensation dependent on the achievement of long-term goals.

Total target compensation mix for the CEO



Total target compensation mix for other members of the Executive Management (average, excl. CEO)



■ Base salary (excl. COVID-19 reduction) ■ Other fixed compensation (as paid/contractually agreed) ■ STIP at target ■ LTIP at target

Compensation Report (continued)

Since both STIP and LTIP targets amount to 100% of base salary for all other members of the Executive Management excluding the CEO, the fixed components (including annual base salary and pension benefits/other benefits) range around an average of 39% of the total target compensation and the variable components range around an average of 61% of the total target compensation.

Compensation awarded to the Executive Management (audited)

The following table summarises the total compensation for the current and former members of the Executive Management during the FY 2019 and FY 2020. The total compensation for the Executive Management amounted to CHF 10,914,000 which is within the maximum amount approved at the AGM 2019 of CHF 18,000,000. Due to the COVID-19 impact on the business and the Group performance, the Executive Management agreed to a three-month 30% base salary reduction.

in CHF'000	Total Executive Management incl. highest paid FY 2020 ^{1,2}	Highest paid Executive Management member, Kevin Toland CEO FY 2020	Total Executive Management incl. highest paid FY 2019 ²	Highest paid Executive Management member, Kevin Toland CEO FY 2019
Annual base salaries	4,118	847	5,102	961
Benefits in kind	438	43	458	45
Pension contributions	687	183	645	192
STIP (payout for respective FY)	340	-	3,842	941
Renew Special Bonus Plan (RSBP)	336	-	-	-
Total compensation paid to members of Executive Management	5,919	1,073	10,047	2,139
LTIP awarded ³ (subject to performance)	4,995	1,062	9,066 ⁴	2,393
Total compensation awarded to members of ARYZTA Executive Management	10,914	2,135	19,113	4,532

1 On 1 February 2020 Dave Johnson resigned as CEO North America, with Tyson Yu replacing him. On 31 July 2020 Rob O'Boyle resigned as COO APMEA, with Chris Plüss replacing him.

2 Former Executive Management compensation in FY 2020 performance and contractual related payments to Dermot Murphy of CHF 20K who resigned in FY 2018. Executive Management compensation in FY 2019 includes salaries and contractual related payments to former Executive Management Pat Morrissey and Dermot Murphy who resigned in FY 2018.

3 The number of PSUs is calculated by dividing the LTIP award amount by the allocation value per PSU. The allocation value at time of grant was CHF 0.98.

4 Represents the target value of the FY 2018 and FY 2019 LTIP awarded. The value may change depending on the achievement of operating performance measures at vesting. All awards are unvested as of 1 August 2020.

The employment contracts of the CEO and the other members of the Executive Management provide for notice periods of a maximum of 12 months and non-compete clauses of up to a further 12 months thereafter, in compliance with the Swiss Ordinance Against Excessive Compensation in Listed Stock Companies and other applicable laws and regulations (Art. 26a and 26b of the Articles of Association). None of these contracts foresee severance or termination payments.

Compensation Report (continued)

Shareholding Guidelines

As of FY 2020, Shareholding Guidelines for members of the Executive Management have been introduced to further strengthen the long-term focus and to additionally increase the alignment of the Executive Management's interests with those of ARYZTA's shareholders. The Shareholding Guidelines apply to the Executive Management starting from FY 2020. Each member of Executive Management is expected to build up an ownership of shares of ARYZTA worth the equivalent of 150% of their annual base salary or 300% in the case of the CEO.

Shareholdings of the Executive Management

The following table shows the shareholdings and interests in equity of the Executive Management as of 1 August 2020 and 27 July 2019. The number of shares held corresponds to the amount of directly or beneficially held ordinary registered shares of ARYZTA. The number of interests in equity held corresponds to the amount of PSUs and options granted through former LTIP awards. Both PSUs and options are disclosed at target. The vested number of PSUs and options will depend on performance achievement levels at vesting. In total, the members of the Executive Management held 874,514 shares or 0.09% of the share capital (FY19: 222,651 shares or 0.02% of the share capital).

	No. of shares Closing position FY 2020	No. of PSUs Closing position FY 2020 ^{1,2}	No. of options Closing position FY 2020 ²	No. of shares Closing position FY 2019	No. of PSUs Closing position FY 2019 ^{1,2}	No. of options Closing position FY 2019 ²
Kevin Toland	572,240	2,418,721	1,936,777	97,240	1,225,794	1,936,777
Claudio Gekker	–	617,232	515,951	–	326,547	515,951
John Heffernan	14,014	639,670	397,324	14,014	302,843	397,324
Dave Johnson ³	–	1,620,252	1,561,245	–	948,457	1,561,245
Anthony Murphy	–	715,381	598,122	–	378,554	598,122
Robert O'Boyle ³	111,397	–	–	111,397	324,731	513,080
Rhona Shakespeare (nee O'Brien)	–	466,051	150,670	–	174,135	150,670
Frederic Pflanz	100,000	1,263,839	1,056,683	–	668,779	1,056,683
Gregory Sklikas ⁴	–	1,152,505	804,712	–	393,696	340,645
Chris Plüss ³	76,863	494,556	381,973	–	–	–
Tyson Yu ³	–	570,843	452,867	–	–	–
Total	874,514	9,959,049	7,856,324	222,651	4,743,536	7,070,497

1 PSU's and options are presented at target award. The number of PSU's and options vested may change depending on the achievement of operating performance measures at vesting.

2 The FY 2019 and FY 2020 awards are unvested as at 1 August 2020.

3 On 1 February 2020 Dave Johnson resigned as CEO North America, with Tyson Yu replacing him. On 31 July 2020 Robert O'Boyle resigned as COO APMEA, with Chris Plüss replacing him.

4 By RemCo decision on 25 September 2019, G. Sklikas was granted an LTIP award equivalent to the value of two thirds of the FY 2018 LTIP.

Compensation Report (continued)

Further Information

Previous and Discontinued Compensation Plans

Option equivalent plan

Vesting of the awards under the Option Equivalent Plan issued during FY 2016 was conditional on compound annual growth in underlying diluted EPS (including the associated cost of any awards expected to vest) in three consecutive accounting periods exceeding the compound growth in the Euro-zone Core Consumer Price Index, plus 5%, on an annualized basis. The awards were also subject to additional conditions, including:

- (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 120% of its weighted average cost of capital; and
- (c) the requirement that annual dividends to shareholders are at least 15% of underlying EPS during the performance period.

The vested Option Equivalent Plan awards still outstanding as of 1 August 2020 can be exercised no longer than ten years after grant date.

No Option Equivalent Awards under the Option Equivalent Plan were granted to the Executive Management during FY 2020 nor during FY 2019.

	Options carried forward FY2020	Forfeited during the year	Closing position FY 2020	Of which Vesting criteria have been fulfilled ²
Executive Management				
Kevin Toland	-	-	-	-
Frederic Pflanz	-	-	-	-
John Heffernan	-	-	-	-
Anthony Murphy	-	-	-	-
Rhona Shakespeare (nee O'Brien)	-	-	-	-
Tyson Yu	-	-	-	-
Gregory Sklikas	-	-	-	-
Robert O'Boyle ¹	105,809	(105,809)	-	-
Claudio Gekker	-	-	-	-
Total current executive management	105,809	(105,809)	-	-
Owen Killian	3,526,961	(1,410,784)	2,116,177	2,116,177
Patrick McEniff	2,868,595	(1,175,654)	1,692,941	1,692,941
Pat Morrissey	470,261	-	470,261	470,261
Dermot Murphy	235,131	-	235,131	235,131
Total former executive management	7,100,948	(2,586,438)	4,514,510	4,514,510
Total current and former executive management	7,206,757	(2,692,247)	4,514,510	4,514,510

¹ On 31 July 2020 Robert O'Boyle resigned as COO APMEA.

² 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 8.53.

Compensation Report (continued)

Loans Granted to the Board of Directors or the Executive Management

No loans or advances were made by the ARYZTA Group to members of the Board of Directors or to the Executive Management during FY 2019 or were outstanding at 27 July 2019 (2018: none).

No loans or advances were made by the ARYZTA Group to members of the Board or to Executive Management during FY 2020 or were outstanding at 1 August 2020 (2019: none).

Compensation to former members of the Board of Directors

During FY 2020 no payments were made to former members of the Board or related parties.

Report of the statutory auditor to the General Meeting of ARYZTA AG on the compensation report 2020

We have audited the compensation report of ARYZTA AG for the period ended 1 August 2020. 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 in the tables labeled “audited” on pages 70 and 79 of the compensation 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 compensation system and defining individual compensation packages.



Auditor's responsibility

Our responsibility is to express an opinion on the 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 for the period ended 1 August 2020 of ARYZTA AG complies with Swiss law and articles 14–16 of the Ordinance.



Ernst & Young Ltd

Martin Gröli
Licensed audit expert
Auditor in charge

Jennifer Mathias
Certified public accountant

Zurich, 6 October 2020