Annual Report and Accounts 2013
Compensation Report

Compensation Report 2013

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 also intrinsically connected with its ability to attract, retain and motivate good people who are incentivised to achieve ARYZTA's corporate goals. ARYZTA's remuneration tools, in particular the ARYZTA Long-Term Incentive Plan ('LTIP')[1], are key instruments in this regard.

As in the prior year, the Board has decided to submit this Compensation Report to a separate advisory vote of the shareholders at the ARYZTA 2013 Annual General Meeting.

Part 1 of the Compensation Report explains the remuneration system, focusing on:
– the corporate goals pursued by ARYZTA;
– the LTIP as employed in the pursuit of those goals; and
– the cost of the LTIP.

Part 2 of the Compensation Report sets out relevant compensation details for the 2013 financial year.

1 The ARYZTA Long-Term Incentive Plan refers to both the Matching Plan and the Option Equivalent Plan.

Compensation Report (continued)

Compensation Report – Part 1

Corporate goals

The LTIP and short-term performance-related bonus are intended to direct and focus management's efforts towards the achievement of ARYZTA's key corporate goals over the long-term and short-term, respectively, as set by the Board and communicated to the market through ARYZTA's investor relations activities, including the annual report.

– **EPS growth**
  In ARYZTA's July 2008 Prospectus, the Board set the primary strategic objective of doubling its earnings base within five years. The Board continues to target 15% compound annual earnings growth.

– **Shareholder value**
  The pursuit of earnings growth is not an isolated end in itself. The underlying purpose is to support the development of an international business capable of sustainable growth and the delivery of significant value for shareholders. This imperative is supported through adherence to prudent capital discipline policies.

Shareholder value, capital discipline

While pursuing 15% compound annual growth in EPS, ARYZTA's policy is to maintain investment grade credit status. Capital discipline controls applicable to the LTIP are as follows:

– **Reported ROIC, Underlying ROIC and WACC**

  The rules governing awards under the LTIP require that the ARYZTA Food Group Return on Invested Capital ('Food Group ROIC') over the performance period must exceed the Food Group Weighted Average Cost of Capital ('WACC').

  Food Group ROIC for this purpose refers to the ARYZTA Food Group pro forma trailing twelve months earnings before interest tax and amortisation ('TTM EBITA') reflecting the full twelve months' contribution from acquisitions, taken as a percentage of ARYZTA Food Group net assets. For this purpose, EBITA includes the net profit contribution from joint ventures, and is before interest, tax, non-ERP amortisation and before the impact of non-recurring items. Net assets exclude all bank debt, cash, cash equivalents and tax-related balances. 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 16, the Food Group ROIC reported for the year ended 31 July 2013 was 11.6% (2012: 10.5%).

  In order to compare ROIC on a like-for-like basis, the Food Group Underlying ROIC is also calculated, as presented on page 48. This measurement indicator is based on the assets of the Food Group business that existed as of 31 July 2011, using currency rates consistent with 2011, excluding net assets and historical EBITA levels of acquisitions completed after 1 August 2011 and adding back asset impairments (unless recovered once the assets are disposed).

Compensation Report (continued)

WACC is determined as a blend of the Food Group's deemed cost of capital and deemed cost of debt, with each of these components weighted on the basis of the Food Group's debt to equity ratio. WACC is measured annually by an external specialist using standard calculation methodology and is reported to investors in conjunction with the announcement of yearly and half-yearly results. For the year ended 31 July 2013, the Food Group pre-tax WACC was 7.7% (2012: 8.0%).

– **Dividend policy**
  For LTIP awards made after 31 July 2011, ARYZTA has adopted the additional vesting condition requiring that the Board continue to recommend adherence to the ARYZTA dividend policy that the payout ratio be based on 15% of underlying fully diluted EPS, throughout the performance period.

LTIP as employed in the pursuit of the corporate goals
ARYZTA has employed the Matching Plan and the Option Equivalent Plan to focus pursuit of its corporate goals.

Two parallel plans
Having the Matching Plan and the Option Equivalent Plan running in parallel gives beneficial tension in the pursuit of the corporate goals between the pursuit of EPS growth, the driver of returns under the Matching Plan, and the need for long-term share price growth.

The Matching Plan
Participants with Matching Plan awards have the prospect of receiving a multiple (ranging from one to three times) of the number of Qualifying Investment Shares held for the purposes of the Matching Plan. This multiple is determined on a fractional pro-rata basis ranging from one to three, based on compound annual underlying fully diluted EPS growth between 10.0% and 15.0%. In the event of the minimum 10% growth target not being achieved, no awards vest. The satisfaction of additional criteria is also required, including compliance with the condition that Food Group reported ROIC must have exceeded the Food Group WACC throughout the performance period and the additional condition regarding maintenance of the ARYZTA dividend policy.

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 Euro-zone Core Consumer Price Index, plus 5%, on an annualised basis. The satisfaction of additional criteria is also required including compliance with the condition that Food Group Reported ROIC must have exceeded the Food Group WACC throughout the performance period and the additional condition regarding maintenance of the ARYZTA dividend policy.

Cost of the LTIP
The cost of the Matching Plan and the Option Equivalent Plan can be considered in accounting and dilutive terms.

Compensation Report (continued)

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 year 2013 is detailed in note 8 of the Group Consolidated Financial Statements on page 89[1].

LTIP – 10%/ ten year dilutive control rule
Under the LTIP rules, no more than 10% of share capital may be allocated for issue over its ten year life. No awards may be made under the current LTIP after 31 July 2019.

LTIP – 3% / three year dilutive control rule
ARYZTA has supplemented the existing ten year/10% dilutive control rule by the adoption of the additional control rule that, for the three-year cycle commencing 1 August 2011, not more than 3.0% of share capital should be allocated for issue under the LTIP (all plans).

Dilutive effect of LTIP awards outstanding at 31 July 2013
The vesting of all outstanding Matching Plan awards and the vesting and net exercise of all Option Plan awards (based on the share price of CHF 57.25 on 31 July 2013), plus the impact of any awards that have already been exercised over that period, would result in the following dilution from LTIP awards, as related to of each of these dilutive control rules.

	3 year / 3% 1 August 2010 to 31 July 2013	10 year / 10% 1 August 2009 to 31 July 2013
Shares outstanding at beginning of relevant control period	82,810,436	78,940,460
Matching Plan Awards		
Awards granted in control period and exercised	–	975,000
Awards granted in control period and outstanding	726,000	726,000
Total	726,000	1,701,000
Potential dilution from Matching Plan awards	0.86%	2.09%
Option Plan Awards		
Awards granted in control period and exercised	–	81,915
Awards granted in control period and outstanding, net	424,288	691,804
Total	424,288	773,719
Potential dilution from Option Plan awards	0.51%	0.95%
Total potential dilution in control period	1.37%	3.04%
Annualised potential dilution in control period	0.46%	0.61%

1 Includes costs of Executive Management and other management participants in the LTIP and costs of the Origin Plan. The Origin Plan is specifically not available to ARYZTA executives, officers or employees.

Compensation Report (continued)

Short-term performance-related bonus and Food Group Underlying ROIC

Since financial year 2012, the short-term bonus has been determined primarily by reference to incremental gains in Food Group Underlying ROIC.

Subject to a minimum incremental increase in Underlying ROIC of 50bps being achieved during the year, Executive Management and other senior executives throughout the Group receive a percentage of their set target bonus based on the corresponding gain in Food Group Underlying ROIC. The short-term performance-related bonus for Executive Management is capped at 100% of basic salary.

For the year ended 31 July 2013, the Food Group Underlying ROIC was 12.1%. This represents an increase of 80 bps during the year, compared to the Food Group Underlying ROIC of 11.3% for the year ended 31 July 2012. A 110 bps improvement in Underlying ROIC was realised during 2012, when compared to the 2011 Reported ROIC of 10.2%, which serves as the baseline for the Underlying ROI calculation as shown below.

in EUR million	Food Group Reported ROIC	Food Group Underlying ROIC
2013		
Share of net assets	3,688	3,003
EBITA & associates/JVs cont.	426	364
ROIC	11.6%	12.1%
2012		
Share of net assets	3,572	3,137
EBITA & associates/JVs cont.	376	353
ROIC	10.5%	11.3%
2011		
Share of net assets	3,256	3,256
EBITA & associates/JVs cont.	332	332
ROIC	10.2%	10.2%

Compensation Report – Part 2

Compensation process

The Nomination and Remuneration Committee of the Board ('NRC') is responsible for determining the remuneration of executive and non-executive members of the Board and for approving the remuneration of other members of senior management, upon the recommendation of the CEO.

Executives are remunerated in line with the level of their authority and responsibility within the Group, with the various elements of the remuneration package for Executive Management being reviewed annually by the NRC. The NRC reports to the Board at the next Board meeting following each meeting of the NRC. The CEO attends meetings of the NRC by invitation only.

The cost of the long-term element of Executive Management remuneration (i.e. the Matching Plan and the Option Equivalent Plan) is controlled through the dilution control rules and by the fact that rights generally vest only after accounting for the cost of the award (per IFRS 2, Share-based Payment). Within the prescribed limits, the NRC controls the level of participation by individuals. The NRC also controls the maximum level of the short-term performance-related bonus for Executive Management.

Compensation Report (continued)

Compensation to members of the Board of Directors

Non-executive board members are paid a yearly fee (CHF 88,000), which reflects the time commitment and responsibilities of the role. Additional compensation for non-executive directors is payable for service on a Board Committee (CHF 8,000) and for the Chair thereof (CHF 16,000). Executive directors do not receive additional compensation for their role as a board member. The NRC determines, at its discretion, the level of these yearly fees and additional compensation paid to each executive and non-executive Board member. Non-executive Board members are not eligible for performance-related payments and do not participate in the LTIP.

The following table reflects the direct payments received by board members during the years ended 31 July 2013 and 2012. 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 2013**	Direct payments year ended 31 July 2012
Denis Lucey	**323**	323
Charles Adair	**96**	88
Denis Buckley[2]	**N/A**	32
Hugh Cooney[2]	**96**	64
J Brian Davy	**105**	107
Shaun B. Higgins[2]	**105**	70
Owen Killian	**–**	88
Patrick McEniff	**–**	88
Götz-Michael Müller[2]	**96**	64
William Murphy[1]	**35**	101
Hans Sigrist[1]	**32**	91
Dr J Maurice Zufferey[2]	**N/A**	32
Wolfgang Werlé[1]	**62**	N/A
Total	**950**	1,148

1 Effective 11 December 2012 H. Sigrist and W. Murphy resigned from the Board and W. Werlé was elected to the Board.

2 Effective 1 December 2011 D. Buckley and M. Zufferey resigned from the Board and S. Higgins, H. Cooney and G. Müller were elected to the Board.

Compensation Report (continued)

Compensation to members of the Executive Management

The elements of the remuneration package for Executive Management may comprise:

- 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).

in CHF `000	**Total Executive Management 2013**	**Owen Killian 2013**	Total Executive Management 2012	Owen Killian 2012
Basic salaries	**2,645**	**1,277**	2,641	1,277
Benefits in kind	**171**	**83**	170	83
Pension contributions	**397**	**192**	460	191
Performance-related bonus	**1,617**	**780**	1,879	908
Long-term incentives (LTIP)	**4,230**	**2,007**	4,569	2,219
Total compensation paid to members of ARYZTA Executive Management	**9,060**	**4,339**	9,719	4,678

As per page 37 of the Corporate Governance Report, for the 2013 and 2012 financial years Group Executive Management consists of Owen Killian (CEO), Patrick McEniff (CFO/COO) and Pat Morrissey (Group General Counsel, Company Secretary and CAO).

The highest total compensation in the reporting period was received by Owen Killian, and his total remuneration is disclosed separately in the preceding table.

The compensation to members of Executive Management disclosed includes compensation for their roles as members of the Board of ARYZTA and, in the case of Owen Killian, Patrick McEniff and Pat Morrissey, for their service as officers of Origin Enterprises plc (respectively, Chairman, non-executive director and Company Secretary).

No severance and/or termination payments were made to any member of Executive Management during financial year 2013.

Executive Management basic salary and benefits

The basic salary of Executive Management is reviewed annually by the NRC with regard to personal performance and corporate goals (as set out in Part 1 of the Compensation Report). When reviewing Executive Managements' basic salary, the applicable weighting of each component is at the discretion of the NRC. Employment-related benefits consist principally of a car allowance and pension. Pension benefits are determined solely in relation to basic salary.

Executive Management short-term performance-related bonus

For financial year 2013, the short-term performance-related bonus for Executive Management was determined by reference to incremental gains in Food Group Underlying ROIC (as set out in Part 1 of the Compensation Report). The short-term performance-related bonus for Executive Management is capped at 100% of basic salary.

Compensation Report (continued)

Executive Management Long-term Incentive Plan (LTIP)

As set out in Part 1 of the Compensation Report, the long-term incentive remuneration of Executive Management consists of both Matching Plan and Option Equivalent Plan awards. The costs of these awards are accrued to each member of Executive Management, based on the accounting principles applicable to share-based payments under IFRS 2, Share-based Payment.

Executive Management Matching Plan Allocation

	Maximum share allocation carried forward 1 August 2012	Exercised during financial year	Granted during financial year	Closing position 31 July 2013
Directors				
Owen Killian	150,000	–	–	150,000
Patrick McEniff	120,000	–	–	120,000
Group General Counsel, Company Secretary & CAO				
Pat Morrissey	60,000	–	–	60,000
Total	**330,000**	**–**	**–**	**330,000**

Executive Management Option Equivalent Plan Allocation

	Options carried forward 1 August 2012[1]	Exercised during financial year[1]	Granted during financial year	Closing position 31 July 2013
Directors				
Owen Killian	750,000	–	–	750,000
Patrick McEniff	610,000	–	–	610,000
Group General Counsel, Company Secretary & CAO				
Pat Morrissey	200,000	(100,000)	–	100,000
Total	**1,560,000**	**(100,000)**	**–**	**1,460,000**

1 The Group's compound annual growth in underlying fully diluted EPS for the three consecutive accounting periods ended 31 July 2012 was 12.9%, which exceeded the growth in the Euro-zone Core Consumer Price Index over the same period of 1.3%, plus 5%. Accordingly, the performance conditions associated with the Option Plan awards outstanding as of 1 August 2011 were met during FY 2012. As a result, 765,000 Option Plan awards (550,000 of which are held by Executive Management) are vested and eligible to be exercised. The exercise price of all Option Plan awards, for which the vesting conditions have been met, is CHF 37.23.