

Compensation Report 2019

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Introduction

The future success of Nestlé is dependent on its ability to attract, motivate and retain the right talented employees. Among the various programs to support this ambition is a competitive remuneration policy. Nestlé believes in a performance culture as well as good corporate governance and corporate social responsibility.

Therefore, remuneration at Nestlé is based on the following principles:

- pay for performance to support the Company's short-term and long-term objectives;
- compensation aligned with long-term Group strategy and shareholders' interests;
- coherence in our remuneration plans and levels throughout the Company;
- competitiveness versus external market comparisons;
- appropriate balance of fixed and variable remuneration and short-term and long-term rewards.

This Compensation Report shall be submitted to the advisory vote of the shareholders at the Annual General Meeting 2020.

At the 2019 Annual General Meeting, shareholders approved the total compensation budgets for the Board of Directors and the Executive Board with large majorities.

To ensure complete accountability, the shareholders will be able to retrospectively vote on the Compensation Report and payouts in a consultative vote.

Changes to Compensation

For 2019 the following changes have been implemented:

- The compensation budget will be adjusted routinely to the number of Executive Board members as at December 31 of the prior business year.
- Share ownership: Subject to an appropriate phase-in period, each Executive Board Member is required to hold shares at least equal to twice his/her annual base salary. The CEO is required to hold shares for at least five times his annual base salary.
- Market value (for blocked shares): We start disclosing the market value (instead of tax value) for blocked shares awarded to the Board of Directors (50% of their remuneration) and the Executive Board (as part of their Short Term Bonus) in the Compensation Report 2019.
- Individual objectives of Executive Board members are integrated into the business and functional objectives.

Governance

The Board of Directors has the overall responsibility for defining the compensation principles used in the Group. Pursuant to art. 21^{bis} of Nestlé's Articles of Association ^(*), the total compensation of the Board of Directors and of the Executive Board is subject to approval by the shareholders, upon proposal by the Board of Directors.

As of December 31, 2019, the governance for setting the compensation of the members of the Board of Directors and the Executive Board is defined as follows:

Compensation of	Recommended by	Approved by
Board of Directors as a whole	Board of Directors	Shareholders
Executive Board as a whole	Board of Directors	Shareholders
Chairman of the Board, CEO	Compensation Committee	Board of Directors ^(a)
Non-executive members of the Board of Directors	Compensation Committee	Board of Directors ^(b)
Members of the Executive Board	CEO together with Chairman	Compensation Committee ^(c)

(a) Chairman as well as CEO not voting on own compensation, and not participating in the relevant meetings.

(b) Members not voting on own compensation to the extent that Committee fees are concerned.

(c) Executive Board members not participating in the relevant meetings.

Compensation Committee (CC)

The CC is governed by the Compensation Committee Charter (see point 3.5.2 in the Corporate Governance section). The Committee consists of the Chairperson who is an independent and non-executive member of the Board. The other members shall be a minimum of three other non-executive members of the Board.

The members of the CC have been elected by the shareholders for one year. The Chairman was appointed by the Board of Directors. On December 31, 2019, the composition of the CC is as follows:

Chairman	Members
Beat W. Hess	Patrick Aebischer
	Ursula M. Burns
	Pablo Isla

The tasks and areas of responsibility of the CC are described on page 13 of the Corporate Governance Report 2019.

(*) Nestlé S.A.'s Articles of Association can be found on page 51 and on www.nestle.com/investors/corporate-governance/articles

Board of Directors

Principles of compensation for the members of the Board of Directors

Governance

Pursuant to art. 21^{bis} par. 1 of Nestlé's Articles of Association, the General Meeting shall approve annually the proposal of the Board of Directors in relation to the maximum aggregate amount of the compensation of the Board of Directors for the period until the next Annual General Meeting ^(a).

In the event the General Meeting has not approved a proposal of the Board of Directors, the Board of Directors shall determine the respective maximum aggregate amount or maximum partial amounts of compensation provided that:

- a) the Board of Directors takes into account (i) the proposed maximum aggregate amount of compensation; (ii) the decision of the General Meeting and, to the extent known to the Board of Directors, the main reasons for the negative vote; and (iii) Nestlé's compensation principles; and
- b) the Board of Directors submits the amount(s) so determined for approval by the same General Meeting, a subsequent Extraordinary General Meeting or the next Annual General Meeting (art. 21^{bis} par. 2 of the Articles of Association).

The compensation of the members of the Board of Directors is subject to "claw back" rules in accordance with art. 678 of the Swiss Code of Obligations. Members of the Board of Directors could be obligated to return benefits received from the Company to the extent these are manifestly disproportionate to the performance rendered in return and to the Company's economic situation (including as a result of fraud or accounting misstatement).

Principles

The remuneration of the members of the Board of Directors is set to attract and retain highly qualified individuals to serve on the Board of Directors. The level of remuneration reflects the time and effort required from the members in fulfilling their Board and Committee responsibilities. The pay structure (cash and blocked shares) is designed to ensure the Board's focus on the long-term success of the Company. There is no variable compensation for non-executive members of the Board of Directors, in order to ensure a proper level of independence.

The principal benchmark used to define Board remuneration is a selection of large Swiss Market Index (SMI) companies ^(b), adjusted for the size of Nestlé. These figures are periodically reviewed against this benchmark.

Compensation 2019 for the members of the Board of Directors

Board membership fees and allowances

With the exception of the Chairman and the CEO, each member of the Board of Directors receives a Board membership fee of CHF 280 000 and an Expense Allowance of CHF 15 000. These figures have remained unchanged since 2006.

(a) The Board of Directors may submit for approval by the General Meeting deviating or additional proposals relating to the same or different periods.

(b) Novartis, Roche, Richemont, ABB, UBS and Credit Suisse.

Members of a Board Committee receive the following additional fees ^(a):

	Chair	Members
Chairman's and Corporate Governance Committee	CHF 300 000	CHF 200 000
Compensation Committee	CHF 150 000	CHF 70 000
Nomination and Sustainability Committee	CHF 150 000	CHF 70 000
Audit Committee	CHF 150 000	CHF 100 000

(a) The Chairman and the CEO Committee fees are included in their total remuneration.

Committee membership on December 31, 2019

	Chairman's and Corporate Governance Committee	Compensation Committee	Nomination and Sustainability Committee	Audit Committee
Paul Bulcke, Chairman	• (Chair)		•	
Ulf Mark Schneider, CEO	•			
Henri de Castries, Vice-Chairman, Lead Independent Director	•		• (Chair)	•
Beat W. Hess	•	• (Chair)		
Renato Fassbind	•			• (Chair)
Ann M. Veneman			•	
Eva Cheng			•	•
Patrick Aebischer		•		
Ursula M. Burns		•		
Kasper B. Rorsted				
Pablo Isla		•		
Kimberly A. Ross				•
Dick Boer				
Dinesh Paliwal				

The above fees and allowances cover the period between the Annual General Meeting 2019 and the Annual General Meeting 2020. They are paid in two instalments. Board membership and Committee fees are paid 50% in cash and 50% in Nestlé S.A. shares, which are subject to a three-year blocking period. The blocking period remains applicable upon termination of the mandate.

The number of Nestlé S.A. shares is determined by taking the closing price of the share on the SIX Swiss Exchange on the ex-dividend date of the respective financial year.

Mr. Jean-Pierre Roth and Mrs. Ruth K. Oniang'o did not stand in for re-election at the Annual General Meeting on April 11, 2019 and left the Board of Directors.

Compensation payout 2019

At the Annual General Meeting of April 11, 2019, the shareholders approved a maximum compensation for the Board of Directors of CHF 10.0 million for the period from the Annual General Meeting 2019 to the Annual General Meeting 2020. The total actual compensation pay-out for this period including social security contributions is CHF 9 130 292.

Summary of compensation 2019 **

	Cash in CHF ^(a)	Number of shares	Market value of shares in CHF ^(b)	Total Cash & Shares	Social security & addit. Fees ^(c)	Total Compensation
Paul Bulcke, Chairman	570 000	30 734	2 900 060	3 470 060	28 200	3 498 260
Ulf Mark Schneider, Chief Executive Officer ^(d)	–	–	–	–	–	–
Henri de Castries, Vice Chairman, Lead Independent Director	380 000	3 869	365 078	745 078	28 200	773 278
Beat W. Hess	330 000	3 339	315 068	645 068	28 200	673 268
Renato Fassbind	330 000	3 339	315 068	645 068	28 200	673 268
Ann M. Veneman	190 000	1 855	175 038	365 038	25 000	390 038
Eva Cheng	240 000	2 385	225 049	465 049	20 355	485 404
Patrick Aebischer	190 000	1 855	175 038	365 038	27 014	392 052
Ursula M. Burns	190 000	1 855	175 038	365 038	16 501	381 539
Kasper B. Rorsted	155 000	1 484	140 030	295 030	13 201	308 231
Pablo Isla	190 000	1 855	175 038	365 038	16 501	381 539
Kimberly A. Ross	205 000	2 014	190 041	395 041	–	395 041
Dick Boer	155 000	1 484	140 030	295 030	13 201	308 231
Dinesh Paliwal	155 000	1 484	140 030	295 030	13 201	308 231
Total for 2019	3 280 000	57 552	5 430 606	8 710 606	257 774	8 968 380

** For all Board members except the Chairman and the CEO, the above table shows the annual compensation paid semi-annually in April and October during the respective year covering the twelve-month period starting with the Annual General Meeting.

- (a) The cash amount includes the expense allowance of CHF 15 000. The Chairman receives no expense allowance.
- (b) Nestlé S.A. shares received are valued at the closing price of the share on the SIX Swiss Exchange on the ex-dividend date.
- (c) Since Company contributions to social security are based on full earnings, whereas benefits are capped, only contributions that lead to future benefits are included. The additional cost to the Company taking into account full social security employer contributions is CHF 130 745 in 2019. For details of additional fees, see page 37.
- (d) The CEO's compensation is disclosed in its entirety under compensation of the Executive Board.

(*) Sections highlighted with a blue bar are audited by KPMG. They include all elements the Company needs to disclose pursuant to art. 14 to 16 of the Ordinance against excessive compensation in listed companies.

Summary of compensation 2018 **

	Cash in CHF ^(a)	Number of shares	Market value of shares in CHF ^(b)	Total Cash & Shares	Social security & addit. Fees ^(c)	Total Compensation
Paul Bulcke, Chairman	510 000	47 148	3 520 070	4 030 070	28 200	4 058 270
Ulf Mark Schneider, Chief Executive Officer ^(d)	–	–	–	–	–	–
Henri de Castries, Lead Independent Director	380 000	4 889	365 013	745 013	28 200	773 213
Beat W. Hess	330 000	4 220	315 065	645 065	28 200	673 265
Renato Fassbind	330 000	4 220	315 065	645 065	28 200	673 265
Jean-Pierre Roth	190 000	2 344	175 003	365 003	15 639	380 642
Ann M. Veneman	190 000	2 344	175 003	365 003	25 000	390 003
Eva Cheng	240 000	3 014	225 025	465 025	20 354	485 379
Ruth K. Oniang'o	155 000	1 876	140 062	295 062	37 341	332 403
Patrick Aebischer	190 000	2 344	175 003	365 003	27 012	392 015
Ursula M. Burns	190 000	2 344	175 003	365 003	16 500	381 503
Kasper B. Rorsted	155 000	1 876	140 062	295 062	13 202	308 264
Pablo Isla	155 000	1 876	140 062	295 062	13 202	308 264
Kimberly A. Ross	205 000	2 545	190 009	395 009	–	395 009
Total for 2018	3 220 000	81 040	6 050 445	9 270 445	281 050	9 551 495

** For all Board members except the Chairman and the CEO, the above table shows the annual compensation paid semi-annually in April and October during the respective year covering the twelve-month period starting with the Annual General Meeting.

(a) The cash amount includes the expense allowance of CHF 15 000. The Chairman receives no expense allowance.

(b) Nestlé S.A. shares received are valued at the closing price of the share on the SIX Swiss Exchange on the ex-dividend date. The 2018 amounts have been restated from the discounted value (16.038% discount) to market value.

(c) Since Company contributions to social security are based on full earnings, whereas benefits are capped, only contributions that lead to future benefits are included. The additional cost to the Company taking into account full social security employer contributions is CHF 155 161 in 2018. For details of additional fees, see page 37.

(d) The CEO's compensation is disclosed in its entirety under compensation of the Executive Board.

(*) Sections highlighted with a blue bar are audited by KPMG. They include all elements the Company needs to disclose pursuant to art. 14 to 16 of the Ordinance against excessive compensation in listed companies.

Paul Bulcke in his capacity as active Chairman, received a cash compensation as well as Nestlé S.A. shares, which are blocked for three years. This in particular reflects certain responsibilities for the direction and control of the Group including the support to the CEO, the chairmanship of the Nestlé Science & Technology Advisory Council, the support of Nestlé Health Science through its Strategic Advisory Council, and the direct leadership of Nestlé's interests in L'Oréal. Paul Bulcke also chairs the 2030 Water Resources Group (WRG) and represents Nestlé as member of the European Roundtable of Industrialists (ERT) and as member of the WEF Community of Chairpersons. The remuneration includes all compensation received in relation to these activities. His total compensation decreased as previously agreed.

	2019		2018	
	Number	Value in CHF	Number	Value in CHF
Cash compensation		570 000		510 000
Blocked shares (market value) ^(a)	30 734	2 900 060	47 148	3 520 070
Total Cash & Shares		3 470 060		4 030 070
Company contribution to compulsory Swiss social security ^(b)		28 200		28 200
Total compensation		3 498 260		4 058 270

(a) The 2018 amounts have been restated from the discounted value (16.038% discount) to market value.

(b) Since Company contributions to social security are based on full earnings, whereas benefits are capped, only contributions that lead to future benefits are included. The additional cost to the Company taking into account full social security employer contributions is CHF 122 673 in 2019 and CHF 146 804 in 2018.

Shares and stock options ownership of the non-executive members of the Board of Directors and closely related parties on December 31, 2019

	Number of shares held ^(a)
Paul Bulcke, Chairman	1 421 941
Henri de Castries, Vice Chairman, Lead Independent Director	27 698
Beat W. Hess	48 988
Renato Fassbind	30 480
Ann M. Veneman	21 160
Eva Cheng	18 168
Patrick Aebischer	6 514
Ursula M. Burns	6 214
Kasper B. Rorsted	3 360
Pablo Isla	3 731
Kimberly A. Ross	4 559
Dick Boer	2 984
Dinesh Paliwal	1 484
Total as at December 31, 2019	1 597 281
Total as at December 31, 2018	1 559 560

(a) Including shares subject to a three-year blocking period.

There are no stock options held by any non-executive member of the Board of Directors and closely related parties.

Other audited information regarding the Board of Directors

Loans

There are no loans to members of the Board of Directors. Loans to a member of the Board of Directors may only be granted at market conditions and may, at the time of grant, not exceed the respective member's most recent total annual compensation (art. 21^{septies} of the Articles of Association).

Additional fees and remuneration of the Board of Directors

There are no additional fees or remuneration paid by Nestlé S.A. or any of its Group companies, directly or indirectly, to members of the Board of Directors, except for CHF 25 000 paid to Ann M. Veneman who serves as a member of the Creating Shared Value (CSV) Council, and CHF 10 000 paid to Patrick Aebischer who served on the Steering Committee of the Nestlé Institute of Health Sciences.

Compensation and loans for former members of the Board of Directors

There is no compensation conferred during 2019 on former members of the Board of Directors who gave up their function during the year preceding the year under review or earlier. Similarly, there are no loans outstanding to former members of the Board of Directors.

Compensation or loans to related parties of members of the Board of Directors

In 2019, no compensation was paid to related parties of members of the Board of Directors and there were no loans outstanding to related parties.

Executive Board

Principles of compensation for members of the Executive Board

Governance

Pursuant to art. 21^{bis} par. 1 of Nestlé's Articles of Association (*), the General Meeting shall approve annually the proposal of the Board of Directors in relation to the maximum aggregate amount of the compensation of the Executive Board for the following financial year (**).

In the event the General Meeting has not approved a proposal of the Board of Directors, the Board of Directors shall determine the respective maximum aggregate amount or maximum partial amounts of compensation, provided that:

- a) the Board of Directors takes into account: (i) the proposed maximum aggregate amount of compensation; (ii) the decision of the General Meeting and, to the extent known to the Board of Directors, the main reasons for the negative vote; and (iii) Nestlé's compensation principles; and
- b) the Board of Directors submits the amount(s) so determined for approval by the same General Meeting, a subsequent Extraordinary General Meeting or the next Annual General Meeting (art. 21^{bis} par. 2 of the Articles of Association).

If the maximum aggregate amount of compensation already approved by the General Meeting is not sufficient to also cover compensation of one or more members who become members of or are being promoted within the Executive Board during a compensation period for which the General Meeting has already approved the compensation of the Executive Board, Nestlé or companies controlled by it shall be authorized to pay such member(s) a supplementary amount during the compensation period(s) already approved. The total supplementary amount shall not exceed 40% of the aggregate amount of compensation of the Executive Board last approved by the General Meeting per compensation period (art. 21^{ter} of the Articles of Association).

Principles

The principles of compensation for members of the Executive Board are the following:

Pay for performance

The Total Direct Compensation for the members of the Executive Board includes a fixed portion (Annual Base Salary) and a variable portion (Short-Term Bonus and Long-Term Incentives). The fixed compensation takes into account individual performance. Variable compensation is determined based on collective and individual performance. These are intended to ensure a major part of executive rewards are contingent on achieving demanding performance goals.

Alignment with long-term company strategy and shareholder interests

Compensation for members of the Executive Board is aligned with company strategy and shareholders' interests. The Short-Term Bonus payout is determined by the degree of achievement of a number of objectives aligned to annual business plans. Long-Term Incentives are provided in the form of share-based instruments, therefore ensuring alignment with shareholders' interests. In 2019, the main Long-Term Incentive instrument was the Performance Share Unit Plan (PSUP). PSUs have a vesting period of three years, with a further holding period of two years for Executive Board members, leading to a total restriction period of five years. Their alignment with shareholder interests is reinforced through pay-outs being tied to underlying Earnings per Share (EPS) growth, relative Total Shareholder Return (TSR) performance and Return on Invested Capital (ROIC).

Coherence in remuneration plans and levels throughout the Company

The Company aims to align remuneration plans across the Group and to ensure that compensation rewards are appropriate for the added responsibilities of positions held. This is reflected in the relative remuneration levels of the Executive Board.

(*) Nestlé S.A.'s Articles of Association can be found on page 51 and on www.nestle.com/investors/corporate-governance/articles

(**) The Board of Directors may submit for approval by the General Meeting deviating or additional proposals relating to the same or different periods.

Compensation to be internationally competitive by using selected benchmarks

The compensation packages for the members of the Executive Board need to be competitive in a dynamic international environment. Nestlé targets its overall remuneration policy to be between the median and the 75th percentile of the selected external benchmarks (please refer to page 43). Whenever appropriate, the benchmark values are adjusted for the size of Nestlé. The market competitiveness of the compensation of the Executive Board is therefore periodically assessed using the services of Willis Towers Watson, a reputed international human capital and benefits consultancy.

The total compensation package consists of the following elements:

1. Base Salary

The Base Salary is the foundation of the total compensation. It reflects the experience, expertise and sustained performance of the Executive Board member as well as taking into account external market competitiveness. It also serves as the basis for determining the Short-Term Bonus target levels, and the allocation of Long-Term Incentives. The Base Salary is reviewed annually by the Compensation Committee. Criteria for adjustments are individual contribution and the level of competitiveness against the benchmarks.

2. Short-Term Bonus

The Short-Term Bonus is intended to reward results achieved against annual collective and individual objectives related to Nestlé's overall business strategy. The Short-Term Bonus is paid in cash and/or in Nestlé S.A. shares, which are subject to a three-year blocking period.

Governance

Pursuant to art. 21^{quater} of Nestlé's Articles of Association (*), variable compensation may comprise short-term compensation elements, and shall be subject to caps expressed as predetermined multipliers of the respective target levels.

Short-term compensation elements are governed by performance metrics that take into account the performance of Nestlé and/or parts thereof, targets in relation to the market, to other companies or to comparable benchmarks and/or individual targets, and achievement of which is generally measured based on a one-year period. The annual target level of the short-term compensation elements is determined as a percentage of the Base Salary; depending on achieved performance, the compensation may amount up to a pre-determined multiplier of target level.

The Board of Directors or, to the extent delegated to it, the Compensation Committee determines performance metrics and target levels, and their achievement.

(*) Nestlé S.A.'s Articles of Association can be found on page 51 and on www.nestle.com/investors/corporate-governance/articles

Objectives 2019

The Short-Term Bonus (Annual Bonus) is based on a bonus target expressed in % of the Annual Base Salary.

In 2019, the following target levels were applicable

- CEO: 150%;
- Executive Vice President: 100%;
- Deputy Executive Vice President: 80%.

For the CEO and the CFO, 100% of the target is linked to performance against the Nestlé Group objectives (see below). For the other members of the Executive Board, at least 50% of the target is linked to business performance, to ensure accountability for Nestlé's results: for Function Heads, 50% is tied to Group performance and 50% to functional objectives; for Zone or Business Heads, 40% is tied to Group performance and 60% to business objectives they are directly responsible for.

In case an executive reaches all objectives in full, the bonus payout will correspond to the targeted level. If one or more objectives are not reached, the bonus is reduced. The bonus payout is capped at a maximum of 130% of the target. There is no guarantee for the payout of a minimum bonus.

Members of the Executive Board can elect to receive part or all of their Short-Term Bonus in Nestlé S.A. shares. The CEO has to take a minimum of 50% in shares.

The number of shares granted is determined using the average market closing price of the last ten trading days of January 2020.

Group objectives

Every year, the Board of Directors defines a set of key quantitative operational objectives, which comprise the main elements in determining the annual Group performance for the following year. These are linked to measurable financial objectives. In 2019, their weighting was 40% Organic Growth, 40% Profitability (Underlying Trading Operating Profit & Trading Operating Profit margins), 10% Working Capital and 10% Return on Invested Capital (ROIC).

Additional quantitative and qualitative objectives, set by the Board of Directors in line with Nestlé's strategy, are also used to determine the Nestlé Group performance. This set of additional objectives reflects Nestlé's Creating Shared Value framework and includes the proportion of products with Nutrition, Health & Wellness benefits, market shares, capital expenditure, structural cost optimization, progress on digitalization, strengthening Nestlé's values and culture, and further progress on quality, safety, sustainability and compliance.

The above objectives are kept under review by the Board of Directors so as to ensure they are aligned with Nestlé's business objectives and its strategic ambition.

Business and functional objectives

Business and functional objectives are determined by the CEO for each member of the Executive Board. They are related to the individual area of responsibility and are of a financial or non-financial nature.

3. Long-Term Incentives

Long-Term Incentives are intended to reward sustained business success and overall shareholder value creation as well as to retain key senior management members.

Governance

Pursuant to art. 21^{quater} of Nestlé's Articles of Association (*), variable compensation may comprise long-term compensation elements, and shall be subject to caps expressed as pre-determined multipliers of the respective target levels.

Long-term compensation elements are governed by performance metrics that take into account strategic objectives of Nestlé, achievement of which is generally measured based on a multi-annual period. The annual target level of the long-term compensation elements is determined as a percentage of the Base Salary; depending on the achieved performance, the compensation may amount up to a pre-determined multiplier of the target level. Vesting periods, as determined by the Board of Directors or, to the extent delegated to it, the Compensation Committee, shall be at least three years. See further art. 21^{quater} par. 6 to par. 8 of the Articles of Association.

The Board of Directors or, to the extent delegated to it, the Compensation Committee determines performance metrics and target levels, and their achievement.

Target levels 2019

In 2019, members of Nestlé's Executive Board were eligible to receive Long-Term Incentives in the form of Performance Share Units under the Performance Share Unit Plan (PSUP). The grant value for Long-Term Incentives in 2019 was the following:

- CEO: 150% of the Annual Base Salary
- Executive Vice President and Deputy Executive Vice President: 100% of the Annual Base Salary

The fair value of Long-Term Incentives at grant is determined by using generally accepted pricing models. Please refer to explanations on page 45.

The PSUP provides units which entitle participants to receive Nestlé S.A. shares at the end of the three-year vesting period. These shares remain blocked for a further period of two years for Executive Board members.

The level at which PSUs vest is determined by the degree by which the three performance measures of the PSUP are met over the full three-year vesting period. These three criteria are:

- the growth of underlying Earnings per Share (EPS) in constant currencies;
- the relative Total Shareholder Return (TSR) of the Nestlé S.A. share in relation to the STOXX Global 1800 Food & Beverage Gross Return Index; and
- the Return on Invested Capital (ROIC).

Growth of underlying Earnings per Share, Total Shareholder Return performance in relation to peers and Return on Invested Capital are commonly used measures to determine senior management long-term performance in the industry. Growth of underlying Earnings per Share will be weighted at 50%, Total Shareholder Return Performance at 30% and Return on Invested Capital at 20% to determine the vesting level of the initial PSU award.

All three performance measures will be subject to Compensation Committee review in case of extraordinary events.

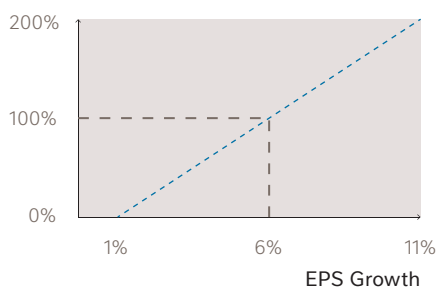
The PSUP covers only the Executive Board and Senior Vice Presidents. A Restricted Stock Unit Plan (RSUP) applies to all other participants.

(*) Nestlé S.A.'s Articles of Association can be found on page 51 and on www.nestle.com/investors/corporate-governance/articles

The following charts show the different potential levels of achievement for each of the three measures for the 2019 PSUP grant.

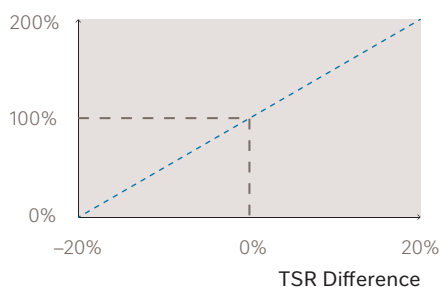
Average Underlying EPS Growth (constant currencies)

Achievement



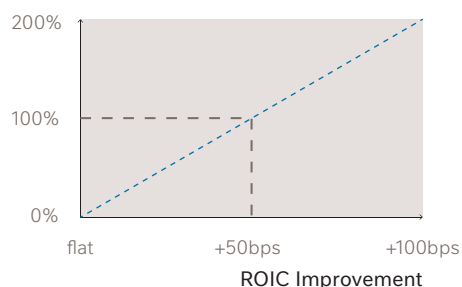
TSR Difference (Nestlé vs. Index)

Achievement



ROIC Improvement

Achievement

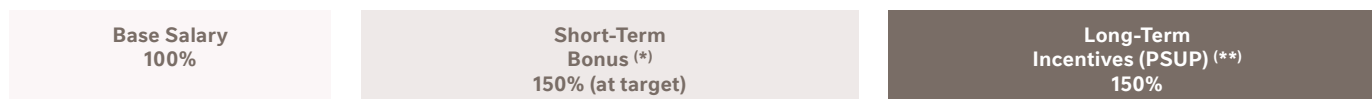


The total vesting level will be determined by applying, at the end of the vesting period, a weight of 50% for Underlying EPS, 30% for TSR and 20% for ROIC of the grant, and by adding up the three elements.

The vesting range of the PSU starts at 0% and is capped at 200% of the initial PSU award, thus providing alignment with strategy and shareholders' interests, as well as ensuring competitiveness versus external market comparisons.

Overview of Executive Board compensation elements

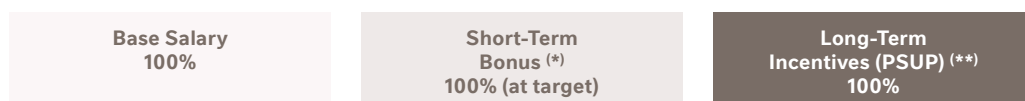
CEO



(*) Payable between 50% and 100% in Nestlé S.A. shares with a three-year blocking period.

(**) Subject to a two-year holding period after the three-year vesting period.

Executive Vice Presidents



(*) Payable between 0% and 100% in Nestlé S.A. shares with a three-year blocking period.

(**) Subject to a two-year holding period after the three-year vesting period.

Maximum payout:

- Short-Term Bonus: capped at 130% of the target;
- PSUP: vesting ranges from 0% to 200% of the initial PSU award.

4. Other benefits

The Company limits other benefits to a minimum. Typical elements are a car allowance, a contribution towards health insurance premiums (below CHF 4000 per annum) as well as long-term service awards related to 25 and 40 years of service to the Company, in line with the Company policy, as offered to other employees. Those Executive Board members who have been transferred to Switzerland from other Nestlé locations can receive benefits in line with the Nestlé Corporate Expatriation Policy.

5. Pension benefits

Executive Board members domiciled in Switzerland are affiliated to the Nestlé Pension Plan in Switzerland like all other employees. The Plan was changed from a defined contribution plan with a retirement pension objective to a Swiss-type defined contribution plan in 2013. Beneficiaries of the Plan born in 1958 or before maintain their membership in the former plan. In July 2018, the Nestlé Pension Plan was adapted to reflect the lower interest rate environment and the increase in life expectancy.

Pensionable earnings include the Annual Base Salary, but not the variable compensation (Short-Term Bonus or Long-Term Incentives). Any part of the Annual Base Salary which exceeds the ceiling prescribed by Swiss Pension Law is covered directly by the Company.

Benchmarks of Executive Board compensation

Any benchmark needs to take into account Nestlé's overall size, its sector and geographic location. The Compensation Committee has therefore decided that the most appropriate way to assess the competitiveness of the compensation for the Executive Board is by comparing it against the STOXX Europe 50 index (excluding financial services) as the primary benchmark (*), while taking account of trends in executive remuneration in the European Fast Moving Consumer Goods and pharma companies. Reflecting the Company's size (revenue and headcount), Nestlé's competitive position has been evaluated with reference to the 75th percentile of the benchmark.

Share ownership policy

As of December 31, 2019, subject to an appropriate phase-in period, each Executive Board Member is required to hold shares at least equal to twice his/her annual base salary, absent specific circumstances. The CEO is required to hold shares at least equal to five times his annual base salary.

An additional two-year blocking period is imposed on Nestlé S.A. shares delivered to Executive Board members upon vesting of PSUs, bringing the total restriction period to five years. The blocking period remains applicable upon termination of employment.

Loans

The Company does not, as a rule, grant loans, except that it may provide advances, generally repayable over a three-year period to members of the Executive Board who have been transferred to Switzerland from other Nestlé locations in line with the Nestlé Corporate Expatriation Policy.

Loans to Executive Board members may only be granted at market conditions and may, at the time of grant, not exceed the respective member's most recent total annual compensation (art. 21^{septies} of the Articles of Association).

Contracts of employment and severance payments

Members of the Executive Board are subject to a notice period of twelve months. During this time, unless there was termination for cause, entitlement to the Annual Base Salary and prorated Short-Term Bonus continues. Long-Term Incentives are forfeited upon voluntary resignation or termination for cause; Long-Term Incentives immediately vest in all other cases of termination of employment. There are no severance payments or change of control provisions ("golden parachutes"). Non-compete provisions are in line with the Articles of Association and are activated by the Company only as necessary on a case-by-case basis.

The compensation of the members of the Executive Board is subject to forfeiture or claw back if the compensation paid or granted is rejected by the General Meeting of Nestlé S.A. in a final vote.

(*) Companies include: Adidas, Ahold Delhaize, Airbus, Air Liquide, Amadeus IT Group, Anheuser-Busch Inbev, ASML, BASF, Bayer, BMW, CRH, Daimler, Danone, Deutsche Post, Deutsche Telekom, Enel, Engie, Eni, Essilorluxottica, Fresenius, Iberdrola, Industria de diseño textil, Kering, L'Oréal, Linde, LVMH, Nokia, Orange, Philips, Safran, Sanofi, SAP, Schneider Electric, Siemens, Telefónica, Total, Unibail-Rodamco-Westfield SE, Unilever, Vinci, Vivendi, Volkswagen.

Compensation 2019 for members of the Executive Board

At the Annual General Meeting of April 12, 2018, the shareholders approved a maximum compensation for members of the Executive Board of CHF 60 million for 2019. The total compensation paid to members of the Executive Board in 2019, including contributions towards future pension benefits and total social security contributions, was CHF 47 602 538.

Compensation for members of the Executive Board in CHF (including the CEO)

	2019	2018
Annual Base Salary	12 696 667	13 211 669
Short-Term Bonus (cash)	8 497 251	8 529 175
Short-Term Bonus (market value of Nestlé S.A. share) ^(a)	7 184 942	7 125 998
Performance Share Units (fair value at grant)	13 046 578	11 001 761
Other benefits	578 268	1 850 211
Total	42 003 706	41 718 814
% Fixed/Variable	31.6 – 68.4	36.1 – 63.9
Company contributions towards future pension benefits (in line with Nestlé's Pension Benefit Policy described above)	2 916 453	4 444 147
Company contributions to compulsory Swiss social security ^(b)	338 400	354 850
Additional remuneration and fees paid to members of the Executive Board	560 031	551 106
Total including the elements above	45 818 590	47 068 917

The above compensation table includes the following:

	2019	2018
Number of Nestlé S.A. shares granted	66 478	83 855
Number of Performance Share Units granted under the PSUP	157 960	183 485

(a) Nestlé S.A. shares received as part of the short term bonus are valued at the average closing price of the last ten trading days of January 2020. The 2018 amounts have been restated from the discounted value (16.038% discount) to market value.

(b) Since the Company contributions to social security are based on full earnings, whereas benefits are capped, only contributions that lead to future benefits are included. The additional cost to the Company taking into account full social security employer contributions is CHF 1 783 948 in 2019 and CHF 1 724 663 in 2018.

Explanations

- On December 31, 2019, the Executive Board consisted of 12 members.
- Mrs. Wan Ling Martello left the Executive Board on January 1, 2019.
- Mr. David Frick left the Executive Board on August 1, 2019; he continues to serve as Head of Corporate Governance, Compliance and Corporate Services as well as Secretary to the Board of Directors.
- Mr. Maurizio Patarnello left the Executive Board on December 31, 2019.
- Mrs. Leanne Geale was appointed member of the Executive Board on August 1, 2019.
- Other benefits include a car allowance, contribution towards health insurance premiums, long-term service awards and expatriate benefits.
- Performance Share Units granted in 2019 are disclosed at fair value at grant, which corresponds to CHF 81.14 (grant in March 2019) and CHF 98.03 (grant in October 2019). The fair value is determined using a valuation model which reflects the probability of overachievement or underachievement on the Total Shareholder Return measure, which is a market condition, and based on five-year historical data. The other inputs incorporated into the valuation model comprise the market price of Nestlé S.A. shares at grant date, discounted at a risk-free interest rate and adjusted for the dividends that participants are not entitled to receive during the vesting period of three years.
- The values in the table above differ in some respect from the compensation disclosure in Note 18.1 of the Consolidated Financial Statements of the Nestlé Group 2019, which have been prepared in accordance with International Financial Reporting Standards (IFRS). The differences relate to the timing of valuation of Performance Share Units, whose values are spread over three years under IFRS but reported fully at the grant date in this report, and to the valuation of blocked shares, which are not subject to a discount for the blocking period under IFRS.

Payout levels

- The Short-Term Bonus payout for the Executive Board was 116.7% in 2019, based on the achievement of the relevant Group and individual quantitative and qualitative objectives (2018: 113.7%).
- The Performance Share Units granted in 2017 vest in February 2020 with a payout of 189% of the initial PSU award (PSUs granted in 2016 vested in 2019 with a payout of 127%).

Events after the balance sheet date

- Mr. Sanjay Bahadur was appointed member of the Executive Board effective January 1, 2020.

Highest total compensation for a member of the Executive Board

In 2019, the highest total compensation for a member of the Executive Board was conferred to Ulf Mark Schneider, the CEO. The amounts below are included in the Executive Board compensation disclosed above.

	2019		2018	
	Number	Value in CHF	Number	Value in CHF
Annual Base Salary		2 400 000		2 400 000
Short-Term Bonus (cash)		2 105 953		2 037 635
Short-Term Bonus (market value of Nestlé S.A. share) ^(a)	19 486	2 106 047	23 977	2 037 565
Performance Share Units (fair value at grant)	39 899	3 237 405	47 640	2 856 494
Other benefits		3 900		3 250
Total		9 853 305		9 334 944
% Fixed/Variable		24.4 – 75.6		26.7 – 73.3
Company contribution towards future pension benefits		470 788		432 220
Company contribution to compulsory Swiss social security ^(b)		28 200		28 200
Total including the elements above		10 352 293		9 795 364

(a) Nestlé S.A. shares received as part of the short term bonus are valued at the average closing price of the last ten trading days of January 2020. The 2018 amounts have been restated from the discounted value (16.038% discount) to market value.

(b) Since the Company contributions to social security are based on full earnings, whereas benefits are capped, only contributions that lead to future benefits are included. The additional cost to the Company taking into account full social security employer contributions is CHF 459 475 in 2019 and CHF 433 467 in 2018.

Explanations

- Performance Share Units granted in 2019 are disclosed at fair value at grant, which corresponds to CHF 81.14.
- Please also refer to the explanations provided on page 45.

Payout levels

- The Short-Term Bonus payout for the CEO was 117% in 2019, based on the achievement of Group quantitative and qualitative objectives (2018: 113.2%).
- The Performance Share Units granted in 2017 vest in February 2020 with a payout of 189% of the initial PSU award (PSUs granted in 2016 vested in 2019 with a payout of 127%).

Shares and stock options held by members of the Executive Board
Shares and stock options ownership of the members of the Executive Board
and closely related parties on December 31, 2019

	Number of shares held ^(a)	Number of options held
Ulf Mark Schneider, Chief Executive Officer	300 957	—
Laurent Freixe	50 333	—
Chris Johnson	110 806	—
Patrice Bula	214 842	—
Marco Settembri	59 700	—
François-Xavier Roger	62 080	—
Magdi Batato	23 791	—
Stefan Palzer	6 186	—
Béatrice Guillaume-Grabisch	11 902	—
Leanne Geale	—	—
Maurizio Patarnello	23 961	—
Grégory Behar	11 924	—
Total as at December 31, 2019	876 482	—
Total as at December 31, 2018	593 521	80 800

(a) Including shares subject to a three-year blocking period, and further two-year holding period.

Other audited information regarding the Executive Board

Loans to members of the Executive Board

On December 31, 2019, there were no loans outstanding to any member of the Executive Board.

Additional fees and remuneration of the Executive Board

One member of the Executive Board, in his role of CEO of Nestlé Health Science, also participated in 2019 in the Nestlé Health Science Long-Term Incentive plan, a Phantom Share Unit plan based on the long-term development of that business. He was attributed 5476 Units in 2019, with a share price of CHF 102.27 per Unit (vesting period of three years, value capped at two times the Unit price at grant).

Compensation and loans for former members of the Executive Board

In 2019, three former members of the Executive Board received fees of CHF 500 000, CHF 25 000 and CHF 20 000, respectively.

On December 31, 2019, there were no loans outstanding to former members of the Executive Board.

Compensation or loans to related parties of members of the Executive Board

In 2019, no compensation was paid to related parties of members of the Executive Board, and there were no loans outstanding to related parties.

Sections highlighted with a blue bar are audited by KPMG. They include all elements the Company needs to disclose pursuant to art. 14 to 16 of the Ordinance against excessive compensation in listed companies.



Report of the Statutory Auditor

To the General Meeting of Nestlé S.A., Cham & Vevey.

We have audited the accompanying compensation report of Nestlé S.A. for the year ended December 31, 2019. The audit was limited to the information according to articles 14 to 16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies contained in the sections highlighted with a blue bar at left on pages 34 to 48 of the compensation report.

Responsibility of the Board of Directors

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 against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the compensation system and defining individual remuneration packages.

Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14 to 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 to 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 remuneration, 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 year ended December 31, 2019 of Nestlé S.A. complies with Swiss law and articles 14 to 16 of the Ordinance.

KPMG SA

Scott Cormack
Licensed Audit Expert
Auditor in Charge

Lukas Marty
Licensed Audit Expert

Geneva, February 12, 2020

KPMG SA, Esplanade de Pont-Rouge 6, P.O. Box 1571, CH-1211 Geneva 26

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