



Nestlé Good food, Good life

Report of the Board of Directors on the proposals for the compensation of the Board of Directors and of the Executive Board

Annual General Meeting
of Nestlé S.A.
April 7, 2022



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Overview

This Report informs the shareholders of Nestlé S.A. on the proposed maximum amounts of compensation of the Board of Directors and of the Executive Board submitted to the shareholders for approval at the Annual General Meeting of April 7, 2022.

I. Governance Framework

Pursuant to the Articles of Association, the Board of Directors will submit at the forthcoming Annual General Meeting the proposed maximum compensation separately for the Board of Directors, for the period from the Annual General Meeting 2022 to the Annual General Meeting 2023 (Agenda item 5.1), and for the Executive Board for the business year 2023 (Agenda item 5.2). This Report explains the related proposals of the Board of Directors.

In addition to their vote on the maximally possible compensation amount for the Board of Directors and the Executive Board, shareholders can at subsequent Annual General Meetings retrospectively vote on the Compensation Report including the actual compensation pay-out (advisory vote).

II. Approvals of the Annual General Meeting 2021

At the Annual General Meeting of April 15, 2021 the shareholders approved with strong majorities a maximum compensation for the Board of Directors of CHF 10 million for the period from the Annual General Meeting 2021 to the Annual General Meeting 2022, and a maximum compensation of CHF 57.5 million for the Executive Board for the business year 2022.

For the period from the Annual General Meeting 2021 to the Annual General Meeting 2022, the actual compensation pay-out for the Board of Directors was CHF 9.7 million, below the approved maximum of CHF 10 million. The actual compensation pay-out for the Executive Board was CHF 50.6 million for the business year 2021, below the maximum of CHF 55 million approved by the shareholders on April 23, 2020.

In addition, the shareholders accepted the Compensation Report 2020 in a separate advisory vote, with a strong majority.

III. Proposals to the Annual General Meeting 2022

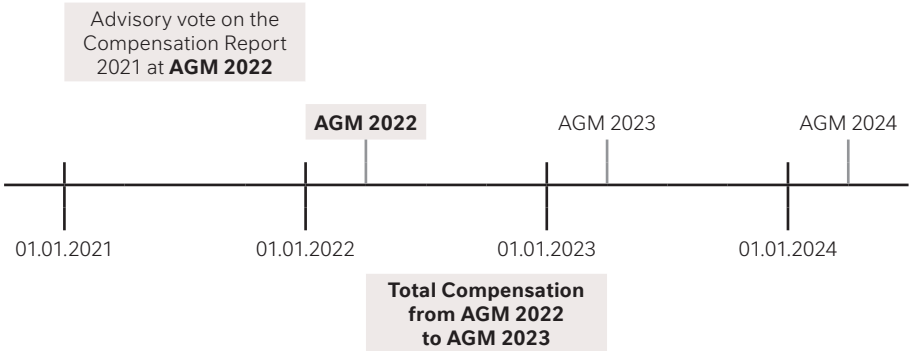
1. Compensation of the Board of Directors (Agenda item 5.1)

Proposal

Approval, prospectively, for the period from the Annual General Meeting 2022 to the Annual General Meeting 2023, of a **total compensation for the 13 non-executive members of the Board of Directors** (including the Chairman, but excluding the CEO) of **CHF 10 million**, including approximately CHF 3 million in cash remuneration, CHF 6.5 million in Nestlé S.A. shares (blocked for a 3-year period) and CHF 0.5 million for social security contributions and other fees

Explanation

Timeline:



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 Nestlé S.A. shares) is designed to ensure the Board's focus on the long-term performance and success of the Company.

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.

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

	Chair	Members
Chair's and Corporate Governance Committee	CHF 300 000	CHF 200 000
Compensation Committee	CHF 150 000	CHF 70 000
Nomination Committee	CHF 150 000	CHF 70 000
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.

The above fees and allowances cover the period between the Annual General Meeting 2022 and the Annual General Meeting 2023. Board membership and Committee fees are paid 50% in cash (in two half-yearly instalments) and 50% in Nestlé S.A. shares, which are subject to a three-year blocking period. The payments will be done in arrears.

Additional fees are paid to one member of the Board of Directors who serves as a member of the Creating Shared Value (CSV) Council (CHF 25 000), and to one member of the Board of Directors who serves on the Nestlé Science & Technology Advisory Council (CHF 25 000).

Paul Bulcke in his capacity as active, non-executive Chairman, receives his compensation in Nestlé S.A. shares, which are blocked for three years. In addition to his responsibilities for the governance and strategy of the Group, this reflects specific responsibilities for the direction and control of the Group including the support of Nestlé Health Science through its Strategic Advisory Council, the direct leadership of Nestlé's interests in L'Oréal and the chairmanship of the Nestlé Science & Technology Advisory Council. Paul Bulcke maintains close relationships with shareholders including through worldwide Chairman's Roundtables. He also engages with other stakeholders including through his Co-Chairmanship of the 2030 Water Resources Group (WRG) and as Chairman of the WEF Community of Chairpersons. The proposed remuneration includes all compensation received in relation to these activities.

Five-year history of Board of Directors compensation (including company contributions to social security)^(a):

From AGM 2017 to AGM 2018	CHF 9.2 million
From AGM 2018 to AGM 2019	CHF 8.7 million
From AGM 2019 to AGM 2020	CHF 9.1 million ^(b)
From AGM 2020 to AGM 2021	CHF 9.3 million ^(b)
From AGM 2021 to AGM 2022	CHF 9.7 million ^(b)

^(a) For details, please refer to the Compensation Report of the relevant business year.

^(b) As from 2019, shares are disclosed at market value.

While the evolution of the above figures is influenced by changes in the Committee structure and number of Board members, the development of costs reflects the relative stability of Board membership fees and expense allowances since 2006.

The 2021 budget of CHF 10 million (approved at the Annual General Meeting 2021) and the proposed 2022 budget of CHF 10 million are in line with the five-year compensation history.

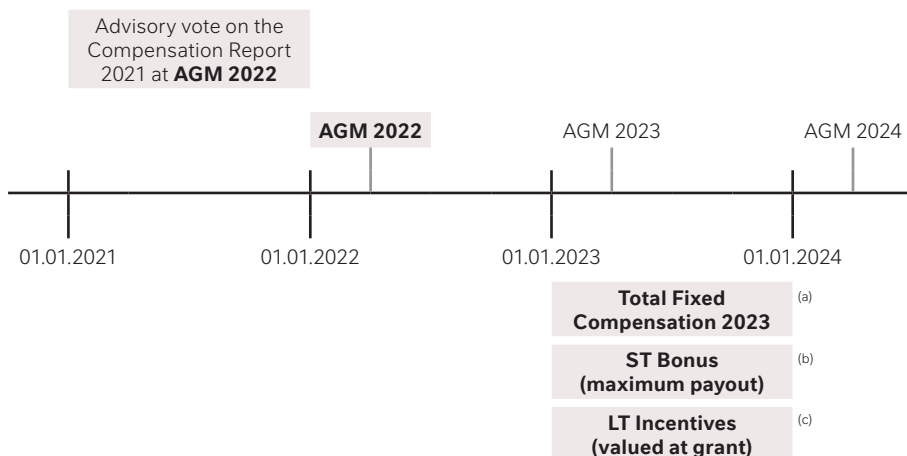
2. Compensation of the Executive Board (Agenda item 5.2)

Proposal

Approval, prospectively, for the period from January 1, 2023 to December 31, 2023, of a **total maximum amount of compensation for the 15 members of the Executive Board, including the CEO, of CHF 68 million**, including approximately CHF 17 million for base salary, CHF 22.5 million for short-term bonus (based on maximum target achievement), CHF 18.5 million for long-term incentive plans (based on market value at grant), CHF 4.5 million for contributions for future pension benefits and CHF 5.5 million for social security contributions, other benefits and unforeseen expenses

Explanation

Timeline:



- (a) Annual Base Salary, pension and other benefits
- (b) Short-Term Bonus based on 2023 performance
- (c) Long-Term Incentives granted in 2023

The total 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). Both fixed and variable compensation are determined in line with collective and individual performance.

Compensation for members of the Executive Board is aligned with long-term company strategy and shareholders' interests. The Short-Term Bonus pay-out is determined by the degree of achievement of a number of annual operating objectives. Long-Term Incentives are provided in the form of share-based instruments, therefore ensuring alignment with shareholders' interests.

The Board values compensation proposals according to the valuation principles applied to and indicated in the Compensation Report. Conditional benefits are valued at the date of grant, using where applicable generally accepted valuation models to determine the fair value at grant.

Group Incentive Plans

Short-Term Bonus

The Short-Term Bonus is expressed in % of the Annual Base Salary.

The target levels are:

– CEO	150%
– Executive Vice Presidents	100%
– Deputy Executive Vice Presidents	80%

For the CEO and the CFO, 85% of the target is linked to Nestlé Group performance and 15% to Environmental, Social, Governance (ESG) objectives. For the other members of the Executive Board the targets are set as follows: for Function Heads, 50% is tied to functional objectives, 35% to Group performance and 15% to ESG objectives; for Zone or Business Heads, 60% is tied to business objectives they are directly responsible for, 25% to Group performance and 15% to ESG objectives. In case an Executive Board member reaches all their objectives in full, the bonus pay-out will correspond to the above-mentioned targeted level. If one or more objectives are not reached, the bonus is reduced. There is no guarantee for a minimum pay-out of the bonus. On the other hand, the bonus pay-out is capped at a maximum of 130% of the target. Over-performance of members of the Executive Board can thus be rewarded with a pay-out exceeding the target but will in no event exceed the 130% maximum level.

All objectives are set at the beginning of each year by the Board of Directors in line with the Company's strategy. The Nestlé Group performance is determined by the Board of Directors, based on measurable operational objectives, most importantly growth, profit and efficient use of capital. Additional quantitative and qualitative objectives used to evaluate the Nestlé Group performance are related to the Nestlé strategy. The overall Group achievement level is fixed by the Board of Directors.

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 can be of financial or non-financial nature depending on the respective function. The corresponding pay-out level is approved by the Compensation Committee.

Members of the Executive Board can elect to receive part or all of their Short-Term Bonus in Nestlé S.A. shares, which are blocked for a period of three years. The CEO has to take a minimum of 50% in shares.

Long-Term Incentives

Members of Nestlé's Executive Board are eligible to receive Long-Term Incentives (LTI), in the form of Performance Share Units (PSUs) under the Performance Share Unit Plan (PSUP). The target grant values, expressed in % of the Annual Base Salary, are:

- CEO 150%
- Executive Vice Presidents and Deputy Executive Vice Presidents 100%

The PSUP provides units which entitle participants to receive Nestlé S.A. shares at the end of a three-year vesting period following their grant. The level at which PSUs vest is determined by the degree by which the three performance measures of the PSUP have been met. These three criteria are:

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

The vesting range of the PSUP starts at 0% and is capped at 200% of the initial PSU award, thus providing alignment with long-term strategy and shareholders' interests.

For members of the Executive Board, the Nestlé S.A. shares earned are submitted, in addition to the three-year vesting period, to an additional two-year holding period, during which they cannot dispose of their shares.

Other Incentive Plans

For the Head of Nestlé Health Science, the LTI target grant values are the same as mentioned above, but are split between PSUP (30% of grant value) and the specific Long-Term Incentive Plan of Nestlé Health Science (70% of grant value). Nestlé Health Science has a Phantom Share Unit Plan based on the long-term development of that business, with a vesting period of three years, and a value capped at two times the Unit price at grant.

The Head of Zone North America participates also in the Nestlé US Short-Term and Long-Term Incentive Plans for 75% of his total grant value. The Nestlé US Short-Term Incentive Plan is capped at 150% of target based on performance. The Nestlé US Long-Term Incentive Plan, which has a target value of 250%, is a Phantom Performance Share Unit Plan based on the long-term results of Nestlé S.A. The vesting range of these US Performance Share Units (US PSUs) starts at 0% and is capped at 200% based on Nestlé's results against Earnings Per Share and Total Shareholder Return performance measures. US PSUs have a three-year vesting period and are cash settled following the third anniversary of the grant date. These terms reflect the dynamics in our largest market and are comparable to the terms applicable for employees in similar positions in the US.

Pension benefits

Executive Board members are affiliated to the Nestlé Pension Plan in Switzerland like all other employees based in Switzerland. The Heads of Zone North America and of Zone Greater China are also affiliated to the local pension plans. The employer's contributions for future pension benefits are included in the compensation amount. In addition, any part of the annual base salary which exceeds the ceiling prescribed by Swiss Pension law is covered directly by the Company.

Other benefits

Typical elements are a car allowance, a contribution towards health insurance premiums as well as long-term service awards in line with Company policy as offered to other employees. Those Executive Board members who have been transferred to Switzerland from other Nestlé locations are eligible to receive benefits in line and within the limits of the Nestlé Corporate Expatriation Policy. The Heads of Zone North America and Zone Greater China receive a housing and financial planning allowance, the Head of Zone North America also receives certain additional benefits including contributions to life insurance and other benefits available to US employees.

Maximum pay-out

The compensation proposal made by the Board of Directors to the shareholders reflects the maximum possible bonus pay-out. The maximum amount of CHF 68 million proposed to the Annual General Meeting 2022 increases vs. the maximum amount approved for 2022 by the shareholders at the Annual General Meeting 2021, to reflect the increased size of the Executive Board.

The detailed plans for 2023 are not yet available at this point in time. The maximum possible pay-out would require highly exceptional performance.

Five-year history of Executive Board compensation (including company contributions for future pension benefits and for social security):

			Nestlé Group results achievement ^(a)
2017	CHF	43.0 million	70%
2018	CHF	47.7 million	113.2%
2019	CHF	47.6 million ^(b)	117.0%
2020	CHF	49.4 million ^(b)	113.0%
2021	CHF	50.6 million ^(b)	111.0%

^(a) For 2017 and 2018 used to determine 100% of the CEO's bonus, and between 30% and 50% of the bonus of other Executive Board members. For 2019 and 2020 used to determine 100% of the CEO's and CFO's bonus and between 40% and 50% of the bonus of other Executive Board members. As from 2021 used to determine 85% of the CEO's and CFO's bonus and between 25% and 35% of the bonus of other Executive Board members.

^(b) As from 2019 shares received as part of the Short-Term Bonus are disclosed at market value.

As per above, the total compensation of Nestlé's Executive Board has been relatively stable over the past years.

The 2022 budget of CHF 57.5 million (approved at the Annual General Meeting 2021) and the proposed 2023 budget of CHF 68 million allow for potential uncertainties such as the achievement of a maximum possible bonus pay-out.

