

# Compensation Report 2020

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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 2021.

At the 2020 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 2020 the following changes have been implemented:

- The Board of Directors will be paid in arrears (25% of total remuneration in October and 75% of total remuneration at the end of the Board year in April).
- Performance Share Units are valued at market price instead of Fair Value.

For 2021 the following change will be implemented:

- Environmental, Social, Governance (ESG) related KPIs will be included in the Short-Term Bonus framework of the Executive Board.

## Governance

The Board of Directors has the overall responsibility for defining the compensation principles used in the Group. Pursuant to art. 21<sup>bis</sup> of Nestlé's Articles of Association <sup>(\*)</sup>, 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, 2020, 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
Chair of the Board, CEO	Compensation Committee	Board of Directors <sup>(a)</sup>
Non-executive members of the Board of Directors	Compensation Committee	Board of Directors <sup>(b)</sup>
Members of the Executive Board	CEO together with Chair	Compensation Committee <sup>(c)</sup>

(a) Chair 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 Chair 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 Chair was appointed by the Board of Directors. On December 31, 2020, the composition of the CC is as follows:

Chair	Members
Pablo Isla	Patrick Aebischer
	Ursula M. Burns
	Dick Boer

The tasks and areas of responsibility of the CC are described on page 13 of the Corporate Governance Report 2020.

(\*) Nestlé S.A.'s Articles of Association can be found on page 53 and on [www.nestle.com/investors/corporate-governance/articles](http://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<sup>bis</sup> 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 <sup>(a)</sup>.

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<sup>bis</sup> 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 <sup>(b)</sup>, adjusted for the size of Nestlé. These figures are periodically reviewed against this benchmark.

### Compensation 2020 for the members of the Board of Directors

#### Board membership fees and allowances

With the exception of the Chair 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 <sup>(a)</sup>:

	Chair	Members
Chair'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 Chair and the CEO Committee fees are included in their total remuneration.

### Committee membership on December 31, 2020

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

The above fees and allowances cover the period between the Annual General Meeting 2020 and the Annual General Meeting 2021. They are paid in two instalments in arrears. 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.

Beat W. Hess did not stand for re-election at the Annual General Meeting on April 23, 2020 and left the Board of Directors.

## Compensation payout 2020

At the Annual General Meeting of April 23, 2020, the shareholders approved a maximum compensation for the Board of Directors of CHF 10.0 million for the period from the Annual General Meeting 2020 to the Annual General Meeting 2021. The total actual compensation pay-out for this period including social security contributions is CHF 9 250 983.

### Audited (\*) Summary of compensation 2020 \*\*

	Cash in CHF <sup>(a)</sup>	Market value of shares in CHF <sup>(b)</sup>	Total Cash & Shares	Social security & addit. Fees <sup>(c)</sup>	Total Compensation
Paul Bulcke, Chairman	600 000	2 900 000	3 500 000	28 440	3 528 440
Ulf Mark Schneider, Chief Executive Officer <sup>(d)</sup>	—	—	—	—	—
Henri de Castries, Vice Chairman, Lead Independent Director	380 000	365 000	745 000	28 440	773 440
Renato Fassbind	330 000	315 000	645 000	28 440	673 440
Ann M. Veneman	190 000	175 000	365 000	25 000	390 000
Eva Cheng	240 000	225 000	465 000	21 186	486 186
Patrick Aebischer	190 000	175 000	365 000	42 613	407 613
Ursula M. Burns	190 000	175 000	365 000	19 674	384 674
Kasper B. Rorsted	155 000	140 000	295 000	15 763	310 763
Pablo Isla	330 000	315 000	645 000	28 440	673 440
Kimberly A. Ross	205 000	190 000	395 000	—	395 000
Dick Boer	190 000	175 000	365 000	19 674	384 674
Dinesh Paliwal	190 000	175 000	365 000	19 674	384 674
Hanne Jimenez de Mora	155 000	140 000	295 000	15 847	310 847
<b>Total for 2020</b>	<b>3 345 000</b>	<b>5 465 000</b>	<b>8 810 000</b>	<b>293 191</b>	<b>9 103 191</b>

\*\* The above table shows the annual compensation due 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) As from 2020, the Board is paid in arrears (25% in October 2020 and 75% in April 2021). The Nestlé S.A. shares equivalent to 50% of the annual remuneration will be delivered at the end of the Board year in April 2021. They will be valued at the closing price of the share on the SIX Swiss Exchange on the ex-dividend date 2021. The actual number of shares delivered will be published in the Compensation Report 2021.

(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 147 792 in 2020. For details of additional fees, see page 39.

(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 the statutory auditor. They include all elements the Company needs to disclose pursuant to art. 14 to 16 of the Ordinance against excessive compensation in listed companies.

Audited (\*) **Summary of compensation 2019 \*\***

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

\*\* 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 delivered 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 39.
- (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 the statutory auditor. 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, non-executive Chairman, receives 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 maintains close relationships with important shareholders including through worldwide Chairman's Roundtables. He also chairs the 2030 Water Resources Group (WRG) and represents Nestlé as Chairman of the European Roundtable of Industrialists (ERT) and as Chairman of the WEF Community of Chairpersons. The remuneration includes all compensation received in relation to these activities.

	2020		2019
	Value in CHF	Number	Value in CHF
Cash compensation	600 000		570 000
Blocked shares (market value) <sup>(a)</sup>	2 900 000	30 734	2 900 060
<b>Total Cash &amp; Shares</b>	<b>3 500 000</b>		<b>3 470 060</b>
Company contribution to compulsory Swiss social security <sup>(b)</sup>	28 440		28 200
<b>Total compensation</b>	<b>3 528 440</b>		<b>3 498 260</b>

(a) As from 2020, the Board is paid in arrears (25% in October 2020 and 75% in April 2021). The Nestlé S.A. shares equivalent to 50% of the annual remuneration will be delivered at the end of the Board year in April 2021. They will be valued at the closing price of the share on the SIX Swiss Exchange on the ex-dividend date 2021. The actual number of shares delivered will be published in the Compensation Report 2021.

(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 129 375 in 2020 and CHF 122 673 in 2019.

### Share ownership of the non-executive members of the Board of Directors and closely related parties on December 31, 2020

	Number of shares held <sup>(a)</sup>
Paul Bulcke, Chairman	1 421 941
Henri de Castries, Vice Chairman, Lead Independent Director	27 698
Renato Fassbind	30 480
Ann M. Veneman	21 160
Eva Cheng	5 399
Patrick Aebischer	8 814
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
Hanne Jimenez de Mora	2 520
<b>Total as at December 31, 2020</b>	<b>1 540 344</b>
<b>Total as at December 31, 2019</b>	<b>1 597 281</b>

(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<sup>septies</sup> 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 25 000 paid to Patrick Aebischer who serves on the Nestlé Science & Technology Advisory Council.

### **Compensation and loans for former members of the Board of Directors**

There was no compensation conferred during 2020 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 2020, 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<sup>bis</sup> 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<sup>bis</sup> 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<sup>ter</sup> 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 2020, 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 53 and on [www.nestle.com/investors/corporate-governance/articles](http://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 45). 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<sup>quater</sup> 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 53 and on [www.nestle.com/investors/corporate-governance/articles](http://www.nestle.com/investors/corporate-governance/articles)

### Objectives 2020

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

In 2020, 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 2021.

### 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 2020, their weighting was 60% Organic Growth and 40% Profitability (Underlying Trading Operating Profit & Trading Operating Profit margins).

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<sup>quater</sup> 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<sup>quater</sup> 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 2020

In 2020, 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 2020 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 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.

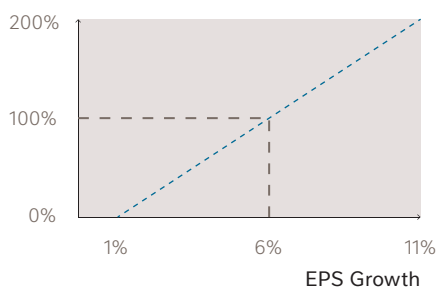
The PSUP covers only the Executive Board and Senior Vice Presidents. A Restricted Stock Unit Plan (RSUP) applies to all other participants.

(\*) Nestlé S.A.'s Articles of Association can be found on page 53 and on [www.nestle.com/investors/corporate-governance/articles](http://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 2020 PSUP grant.

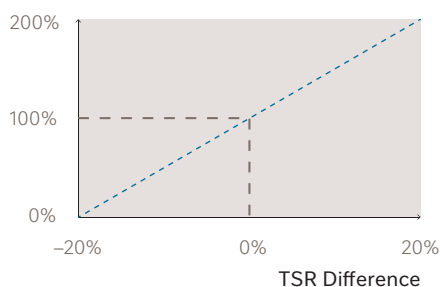
### Average Underlying EPS Growth (constant currencies)

Achievement



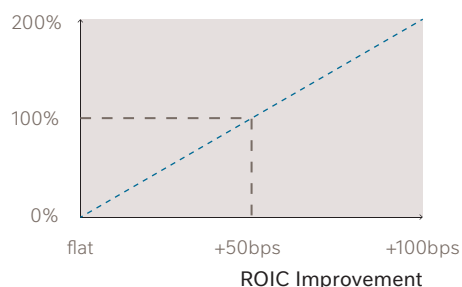
### TSR Difference (Nestlé vs. Index)

Achievement



### ROIC Improvement

Achievement

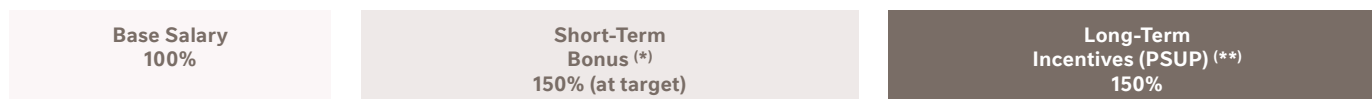


The total vesting level will be determined by applying, at the end of the vesting period, a weight of 50% for Underlying EPS, 30% for TSR and 20% for ROIC of the grant, and by adding up the three elements.

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

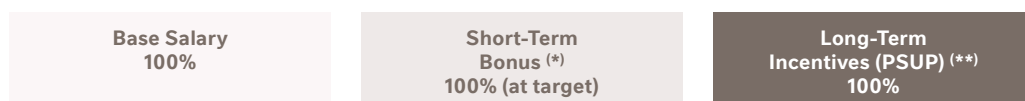
### CEO



(\*) 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**

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<sup>septies</sup> 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 2020 for members of the Executive Board**

At the Annual General Meeting of April 11, 2019, the shareholders approved a maximum compensation for members of the Executive Board of CHF 55 million for 2020. The total compensation paid to members of the Executive Board in 2020, including contributions towards future pension benefits and total social security contributions, was CHF 49 411 372.

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

	2020	2019
Annual Base Salary	13 050 000	12 696 667
Short-Term Bonus (cash)	10 725 107	8 497 251
Short-Term Bonus (market value of Nestlé S.A. share) <sup>(a)</sup>	5 122 578	7 184 942
Performance Share Units (market value) <sup>(b)</sup>	13 664 139	14 485 291
Other benefits	479 763	578 268
<b>Total</b>	<b>43 041 587</b>	<b>43 442 419</b>
% Fixed/Variable	31.4 – 68.6	30.6 – 69.4
Company contributions towards future pension benefits (in line with Nestlé's Pension Benefit Policy described above)	3 387 234	2 916 453
Company contributions to compulsory Swiss social security <sup>(c)</sup>	341 280	338 400
Additional remuneration and fees paid to members of the Executive Board	586 264	560 031
<b>Total including the elements above</b>	<b>47 356 365</b>	<b>47 257 303</b>

The above compensation table includes the following:

	2020	2019
Number of Nestlé S.A. shares granted	50 429	66 478
Number of Performance Share Units granted under the PSUP	127 583	157 960

- (a) Nestlé S.A. shares delivered as part of the Short-Term Bonus are valued at the average closing price of the last ten trading days of January 2021.
- (b) The Performance Shares are valued at the average closing price of the first ten trading days, after the publication of the 2020 annual results. The 2019 amounts have been restated from the fair value to market value.
- (c) 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 2 055 007 in 2020 and CHF 1 783 948 in 2019.



#### Explanations

- On December 31, 2020, the Executive Board consisted of 12 members.
- Sanjay Bahadur was appointed member of the Executive Board effective January 1, 2020.
- Other benefits include a car allowance, contribution towards health insurance premiums, long-term service awards and expatriate benefits.
- Performance Share Units granted in 2020 are disclosed at market value, which corresponds to CHF 107.10.
- 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 2020, 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.

#### Payout levels

- The Short-Term Bonus payout for the Executive Board was 113.7% in 2020, based on the achievement of the relevant Group and individual quantitative and qualitative objectives (2019: 116.7%).
- The Performance Share Units granted in 2018 vest in February 2021 with a payout of 177% of the initial PSU award (PSUs granted in 2017 vested in 2020 with a payout of 189%).

#### Events after the balance sheet date

- Patrice Bula will leave the Executive Board on February 28, 2021.
- Bernard Meunier was appointed member of the Executive Board effective March 1, 2021.
- David Rennie was appointed member of the Executive Board effective March 1, 2021.

**Highest total compensation for a member of the Executive Board**

In 2020, 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.

	2020		2019	
	Number	Value in CHF	Number	Value in CHF
Annual Base Salary		2 400 000		2 400 000
Short-Term Bonus (cash)		2 033 962		2 105 953
Short-Term Bonus (market value of Nestlé S.A. share) <sup>(a)</sup>	20 024	2 034 038	19 486	2 106 047
Performance Share Units (market value) <sup>(b)</sup>	33 614	3 600 059	39 899	3 600 087
Other benefits		3 900		3 900
<b>Total</b>		<b>10 071 959</b>		<b>10 215 987</b>
% Fixed/Variable		23.9 -76.1		23.5 - 76.5
Company contribution towards future pension benefits		603 555		470 788
Company contribution to compulsory Swiss social security <sup>(c)</sup>		28 440		28 200
<b>Total including the elements above</b>		<b>10 703 954</b>		<b>10 714 975</b>

(a) Nestlé S.A. shares delivered as part of the Short-Term Bonus are valued at the average closing price of the last ten trading days of January 2021.

(b) The Performance Shares are valued at the average closing price of the first ten trading days, after the publication of the 2020 annual results. The 2019 amounts have been restated from the fair value to market value.

(c) 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 518 006 in 2020 and CHF 459 475 in 2019.

## Explanations

- Performance Share Units granted in 2020 are disclosed at market value, which corresponds to CHF 107.10.
- Please also refer to the explanations provided on page 47.

## Payout levels

- The Short-Term Bonus payout for the CEO was 113% in 2020, based on the achievement of Group quantitative and qualitative objectives (2019: 117%).
- The Performance Share Units granted in 2018 vest in February 2021 with a payout of 177% of the initial PSU award (PSUs granted in 2017 vested in 2020 with a payout of 189%).

**Shares held by members of the Executive Board**  
**Share ownership of the members of the Executive Board**  
**and closely related parties on December 31, 2020**

	Number of shares held <sup>(a)</sup>
Ulf Mark Schneider, Chief Executive Officer	404 616
Laurent Freixe	73 438
Chris Johnson	136 798
Patrice Bula	253 428
Marco Settembri	94 750
François-Xavier Roger	72 138
Magdi Batato	41 508
Stefan Palzer	9 883
Béatrice Guillaume-Grabisch	23 211
Leanne Geale	—
Grégory Behar	21 247
Sanjay Bahadur	51 846
<b>Total as at December 31, 2020</b>	<b>1 182 863</b>
<b>Total as at December 31, 2019</b>	<b>876 482</b>

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

There are no stock options held by any member of the Executive Board and closely related parties.

**Other audited information regarding the Executive Board**

**Loans to members of the Executive Board**

On December 31, 2020, 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 2020 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 5266 Units in 2020, with a share price of CHF 111.33 per Unit (vesting period of three years, value capped at two times the Unit price at grant).

For the sake of full transparency, three members of the Executive Board served on the board of directors of Froneri Ltd. ("Froneri"), in which Nestlé holds a minority equity interest of 44%. Nestlé does not exercise control over Froneri. In 2020, these members of the Executive Board did not receive any compensation from Froneri, but Froneri granted them, in line with guidelines applicable to other board or executive members of Froneri, the opportunity to personally invest in Froneri's equity.

**Compensation and loans for former members of the Executive Board**

In 2020, one former member of the Executive Board received a compensation of CHF 2 454 997 (including company contributions for pension and social security), as per the terms of his contract of employment. Two other former members of the Executive Board received fees of CHF 500 000 and CHF 20 000, respectively.

On December 31, 2020, 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 2020, 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 the statutory auditor. They include all elements the Company needs to disclose pursuant to art. 14 to 16 of the Ordinance against excessive compensation in listed companies.*

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

Lausanne, 17 February 2021

## Report of the statutory auditor on the compensation report

We have audited the compensation report of Nestlé S.A. for the year ended 31 December 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” and highlighted with a blue bar on pages 36 to 50 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 remuneration system and defining individual remuneration 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 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.

**Other matter**

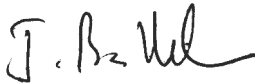
The compensation report of Nestlé S.A. for the year ended 31 December 2019 was audited by another statutory auditor who expressed an unmodified opinion on that report on 12 February 2020.



**Opinion**

In our opinion, the compensation report for the year ended 31 December 2020 of Nestlé S.A. complies with Swiss law and articles 14–16 of the Ordinance.

Ernst & Young Ltd



Jeanne Boillet  
Licensed audit expert  
(Auditor in charge)



André Schaub  
Licensed audit expert