

Report of the Board of Directors on the Revision of the Articles of Association



Nestlé

Good Food, Good Life



Table of Contents

A. Overview	4
1. Preliminary Remarks	4
2. Powers of the General Meeting (Article 6)	4
3. Voting Rights; Proxies / Independent Representative (Articles 11 paras. 4 through 6)	4
4. The Board of Directors (Articles 15, 16, 18(f), 19 para. 1)	4
5. Compensation Committee (Articles 19 ^{bis} and 19 ^{ter})	5
6. Compensation of the Board of Directors and of the Executive Board (Articles 21 ^{bis} through 21 ^{quater})	5
a) Approval by the General Meeting (Article 21 ^{bis})	5
b) Supplementary Amount for Changes on the Executive Board (Article 21 ^{ter})	6
c) Basic Principles of Directors' and Executive Board Members' Compensation (Article 21 ^{quater})	6
7. Agreements with Directors and Executive Board Members (Article 21 ^{quinquies})	7
8. Mandates Outside Nestlé (Article 21 ^{sexies})	7
9. Loans (Article 21 ^{septies})	7
10. Further Minor Amendments	8
B. Revision of Articles in Detail	9
I. General	9
II. Share Capital	9
III. Organisation of Nestlé	12
A. General Meeting	12
B. Board of Directors	15
C. Compensation Committee	17
D. Auditors	18
III^{bis}. Compensation of the Board of Directors and of the Executive Board	18
III^{ter}. Contracts with Members of the Board of Directors and of the Executive Board	21
III^{quater}. Mandates Outside Nestlé; Loans	21
IV. Business report and appropriation of profit resulting from the balance sheet	22
V. Announcements, Communications	22

A. Overview

This Report informs the shareholders of Nestlé S.A. on the proposed revision of the Articles of Association submitted to the shareholders at the Annual General Meeting of 10 April 2014. All references to functions and individuals shall refer to both genders throughout this document.

1. Preliminary Remarks

On 3 March 2013, the Swiss people have approved a popular initiative resulting in an amendment of Article 95 para. 3 of the Swiss Federal Constitution. Implementing this provision the Swiss Federal Council has enacted the Ordinance Against Excessive Compensation in Public Corporations (“Ordinance”). It came into effect as of 1 January 2014, subject to transitional provisions.

The Ordinance provides for a comprehensive regulation of new powers of the General Meeting in relation to elections and the approval of compensation of the Board of Directors and the Executive Board. Further, it requires the Articles of Association, among other things, to include provisions regarding the approval of the compensation of the Board of Directors and the Executive Board and the principles of the powers and duties of the Compensation Committee, the basic principles of the compensation of the members of the Board of Directors and the Executive Board, mandates of members of the Board of Directors and the Executive Board outside the Nestlé Group and agreements with members of the Board of Directors and the Executive Board relating to their compensation, as well as to reflect the new powers of the General Meeting.

Therefore, the Board of Directors proposes to the Annual General Meeting a revision of the Articles of Association which meets the requirements of both the Ordinance and current best corporate governance and compensation practices.

This Overview highlights the most important changes in the Articles of Association and describes the background and consequences of the proposals. The Overview is followed by a presentation of the proposed amendments of the Articles of Association compared to the existing provisions.

2. Powers of the General Meeting (Article 6)

The amendments reflect the new powers of the General Meeting provided for in the Ordinance. As of the 2014 Annual General Meeting, the General Meeting is empowered to elect annually the members of the Board of Directors and its Chairman, the members of the Compensation Committee and the Independent Representative. Further, as of the 2015 Annual General Meeting, it has the power to approve the maximum compensation amounts for each of the Board of Directors and the Executive Board in a binding vote.

3. Voting Rights; Proxies / Independent Representative (Articles 11 paras. 4 through 6)

These amendments reflect that, pursuant to the Ordinance, representation by the company proxy and by depository institutions is not permitted anymore. Shareholders may continue to be represented by the Independent Representative, who must, as of the 2014 Annual General Meeting, be annually elected, for a one-year term. By law, shareholders may grant proxies to the Independent Representative in writing and, as of the 2015 Annual General Meeting, also by electronic means. In addition, shareholders may continue to grant an individual written proxy to another person or entity.

4. The Board of Directors (Articles 15, 16, 18(f), 19 para. 1)

These amendments mainly reflect that the members of the Board of Directors and its Chairman will be individually elected by the General Meeting for a one-year term.

Further, the Board of Directors is obliged to provide for comprehensive disclosure regarding compensation of the Board of Directors and the Executive Board in the compensation report. The compensation report discloses the actual compensation paid out and loans granted to members of Nestlé’s Board of Directors and Executive Board, as currently disclosed in the Notes to Nestlé’s statutory financial statements. This report will be audited. Under the current Directive on Informa-

tion relating to Corporate Governance of the SIX Swiss Exchange, the Board of Directors already discloses in Nestlé's Compensation Report, included in the Corporate Governance Report, the basic principles and elements of Nestlé's compensation for its Board of Directors and the Executive Board, together with a description of the competent bodies and procedure for determining compensation.

5. Compensation Committee (Articles 19^{bis} and 19^{ter})

These provisions govern the Compensation Committee, whose members are to be individually elected by the General Meeting for a one-year term. Only independent members of the Board of Directors may be elected. Further, in accordance with the Ordinance, the proposed provisions determine the powers and duties of the Compensation Committee. Its primary task is to support and advise the Board of Directors in compensation matters. Moreover, the Board of Directors may empower the Compensation Committee to determine performance criteria and the compensation of individual members of the Board of Directors and the Executive Board.

Currently, the members of the Compensation Committee are appointed by the Board of Directors. The Committee's duties and powers under the amended Articles of Association, the Board Regulations and the Compensation Committee Charter are largely identical to those under the current Board Regulations and the Compensation Committee Charter.

6. Compensation of the Board of Directors and of the Executive Board (Articles 21^{bis} through 21^{quater})

The Ordinance requires that the Articles of Association determine how the General Meeting approves, in a binding vote, the maximum compensation amount for both the Board of Directors and the Executive Board, and set out the basic principles of their performance and equity based compensation.

Currently, the Articles of Association do not contain any specific provisions regarding compensation, except that the Directors are entitled to a directors' fee the aggregate amount of which is fixed by the Board of Directors. This provision in Article 16 para. 3 is proposed to be deleted. However, in line with the recommendation of the Swiss Code of Best Practice for Corporate Governance, Nestlé has, on a voluntary basis, submitted the compensation report already since 2009 to an advisory vote of the shareholders. Nestlé will continue holding such advisory shareholder vote also in the future.

a) Approval by the General Meeting (Article 21^{bis})

The Board of Directors proposes that the Annual General Meeting approves two maximum compensation amounts for the Board of Directors and the Executive Board, out of which the Board of Directors may, subject to the limitations set forth in Article 21^{quater} and in Nestlé's compensation plans, pay its compensation and the compensation of the Executive Board.

With regard to the Board of Directors, it is proposed that the approval relates to the maximum compensation for the upcoming term of office (i.e. from Annual General Meeting to Annual General Meeting). Thus, shareholders know in advance the level of compensation the Board of Directors will receive during its next term of office. Non-executive Directors' compensation is limited to fixed compensation.

With regard to the Executive Board, it is proposed that the approval relates to the maximum compensation for the following financial year. The Board of Directors believes it is crucial that Nestlé may signal to its executives in advance that it has the ability to pay out, according to their employment agreements, their fixed compensation and that it may, provided that the respective performance criteria are met, reward its executives by means of variable compensation. This approach further ensures that Nestlé would have an appropriate time frame to react in the event of a negative shareholder vote before being no longer in a position to pay out any salary to its Executive Board members.

The maximum compensation amount submitted for approval will generally be higher than the actual payout, since it must cover not only the actual payout, but also the potential maximum payout in the event the highly ambitious predetermined maximum targets of all performance criteria under the respective compensation plans and policies were met. When determining the actual payout, the Board of Directors and the Compensation Committee are bound by compensation principles in the Articles of Association and the respective compensation and incentive plans and policies.

The proposed provision gives the shareholders the right to prospectively approve the maximum compensation amounts for the Board of Directors and the Executive Board. By choosing a prospective approach to the approval of the compensation of the Board of Directors and the Executive Board, Nestlé wants to provide maximum transparency and fairness to its shareholders, while it preserves the stability needed to run the Company efficiently and competitively. Further, the proposal takes into account the aspect of planning certainty, which is paramount for Nestlé. To the extent deemed appropriate, the Board of Directors may submit deviating or additional proposals relating to the same or different periods for approval.

In the event the shareholders do not approve a proposed compensation amount, the Board of Directors shall, taking into account all relevant factors, reconsider its proposal, and submit a new proposal either at (i) the same Annual General Meeting, (ii) an extraordinary General Meeting or (iii) the next Annual General Meeting. Instead of one new proposal, the Board of Directors may also submit several proposals relating to different compensation elements.

In addition to this prospective approval by the General Meeting, the Board of Directors will account to the shareholders in the annual Compensation Report for the compensation paid out within the limitations set by the maximum compensation amounts approved by the General Meeting and by the Articles of Association. This Compensation Report will be audited. Nestlé issues since 2002 Compensation Reports, included in the Corporate Governance Report, in line with the Directive on the Information relating to Corporate Governance and the recommendations of the Swiss Code of Best Practice for Corporate Governance. In the Compensation Report Nestlé's compensation principles and system are described in detail. In order to continue ensuring complete transparency, Nestlé will commit in its Articles of Association to maintain its established practice of submitting the Compensation Report annually to a separate, consultative vote of shareholders on a retrospective basis. This will give shareholders a complete picture of the Company's compensation system and will allow them to compare the compensation payout with the maximum compensation approved in the prior year.

b) Supplementary Amount for Changes on the Executive Board (Article 21^{ter})

The approval of the maximum compensation amount for the Executive Board will take place at each Annual General Meeting. However, for various reasons, the composition or size of the Executive Board may change afterwards. For these situations, the Ordinance allows companies to determine a supplementary amount in their Articles of Association. Out of this supplementary amount, Nestlé may pay out compensation, in a total amount up to 40% of the maximum compensation amount last approved for the Executive Board, to one or several newly appointed Executive Board members.

c) Basic Principles of Directors' and Executive Board Members' Compensation (Article 21^{quater})

Nestlé proposes that non-executive Directors' compensation shall be limited to fixed compensation elements.

For members of the Executive Board, Nestlé may continue to structure their compensation into a fixed and a variable portion. Variable compensation may be structured into short-term and long-term compensation elements. Short-term variable compensation elements shall be governed by performance metrics that take into account the performance of Nestlé and/or parts thereof (e.g. total shareholder return, earnings per share growth, cash flow), targets in relation to the market, to other companies or to comparable benchmarks (e.g. comparison with the peer group) and/or individual targets (e.g. quantitative and qualitative objectives). Target achievement is generally measured during a one-year period. Long-term variable compensation elements shall be governed by performance metrics that take into account strategic, long-term objectives of Nestlé. Target achievement is generally measured during a multiannual period. For both short-term and long-term variable compensation elements, the Board of Directors or the Compensation Committee shall determine the target values as well as the maximum values that may be reached in case of overachievement. Nestlé will set these target values in line with best compensation practices, taking into account the interests of Nestlé and its shareholders. Variable compensation shall be subject to caps expressed as pre-determined multipliers of the target levels.

In line with Nestlé's current compensation practice, the Articles of Association provide for compensation in the form of cash, shares, financial instruments or similar units, in kind or in the form of other benefits. Also in line with current practice, the Board of Directors or the Compensation

Committee shall determine appropriate grant, vesting, blocking, exercise and forfeiture conditions (e.g. vesting periods and/or sales restrictions). Minimum vesting periods shall be three years.

Nestlé believes that its current compensation principles are in the Company's best interest and have contributed to Nestlé's success over the past decades. Therefore, the Board proposes to its shareholders a provision in the Articles of Association which reflects these performance-tied and well-proven compensation principles.

7. Agreements with Directors and Executive Board Members (Article 21^{quinquies})

The Ordinance requires that the Articles of Association determine the maximum duration and notice period of agreements with members of the Board of Directors and the Executive Board relating to their compensation. For Directors, the duration and notice period may, in accordance with the Ordinance, not exceed one year. For Executive Board members, the Board of Directors proposes a maximum duration (for fixed term agreements) or a maximum notice period (for agreements for an indefinite term) of 12 months. This ensures that Nestlé may continue to protect itself from undesired and abrupt changes on the Executive Board due to short term resignations.

Further, the proposed provision allows Nestlé to continue to enter into post-employment non-compete agreements with members of the Executive Board if deemed appropriate (e.g. prohibition to work for a direct competitor). The duration of such a non-competition agreement may not exceed 2 years, and the annual consideration shall not exceed 50% of the total annual compensation last paid to the relevant person.

8. Mandates Outside Nestlé (Article 21^{sexies})

The Ordinance requires that the Articles of Association determine the maximum number of additional mandates in the «supreme governing bodies» (i.e. generally board memberships) a member of the Board of Directors or Executive Board may hold in companies and legal entities which are required to be registered in the Swiss Commercial Register or a corresponding foreign register. The proposed provision strikes a balance between effectively limiting, in compliance with best corporate governance standards, the number of mandates in work intensive boards and allowing Nestlé to suggest nominees for election who may have a broad background and various engagements in business, scientific, cultural and social institutions.

Irrespective of the maximum number, every Director and Executive Board member must not assume more mandates than he may reconcile with his duty towards Nestlé to dedicate sufficient resources and time for his office with Nestlé. Moreover, Nestlé has already enacted strict limitations regarding board memberships of Executive Board members in its Code of Business Conduct. Going forward, the new Articles will require that each mandate of a member of the Executive Board in a listed or non-listed company shall be subject to a specific approval of the Board of Directors.

Subject to these general limitations, a Director may not assume more than four additional mandates in listed and five additional mandates in non-listed companies. Executive Board members are limited to two additional mandates in listed companies and four additional mandates in non-listed companies; each of these mandates is subject to approval of the Board of Directors. Since Nestlé encourages the engagement of its Directors and Executive Board members in business, scientific, cultural and social institutions and interest groups, up to ten such mandates may be assumed. Further, Nestlé may have an interest in its Directors and Executive Board members joining the boards of companies which are not controlled by Nestlé, such as joint ventures or Nestlé's engagements with L'Oréal or Laboratoires innéov. Therefore, Directors and Executive Board members may assume up to ten such mandates by order of Nestlé. Mandates in group companies are not limited by law.

9. Loans (Article 21^{septies})

The Ordinance requires that the Articles of Association determine the amount of loans, if any, granted to members of the Board of Directors and the Executive Board. The Board of Directors proposes that a loan may only be granted to a member at market conditions and up to the respective member's most recent total annual compensation.

Currently, there are no loans outstanding to any member of the Board of Directors or the Executive Board.

10. Further Minor Amendments

Auditors (Articles 20 and 21): The term of office has been aligned with the terms of office of the other corporate bodies. Further, the tasks, rights and duties have been extended to any duties set by applicable Swiss laws in order to include the Ordinance.

B. Revision of Articles in Detail

Existing Articles of Association

Proposed modifications of Articles of Association

I. General

Article 1 Corporate name; Registered offices; Duration

¹ Nestlé S.A. (Nestlé AG) (Nestlé Ltd.) (hereinafter “Nestlé”) is a company limited by shares incorporated and organised in accordance with the Swiss Code of Obligations.

² The registered offices of Nestlé are in Cham and Vevey, Switzerland.

³ The duration of Nestlé is unlimited.

Article 2 Purpose

¹ The purpose of Nestlé is to participate in industrial, service, commercial and financial enterprises in Switzerland and abroad, in particular in the food, nutrition, health, wellness and related industries.

² Nestlé may itself establish such undertakings or participate in, finance and promote the development of undertakings already in existence.

³ Nestlé may enter into any transaction which the business purpose may entail. Nestlé shall, in pursuing its business purpose, aim for long-term, sustainable value creation.

II. Share Capital

Article 3 Share capital

The share capital of Nestlé is CHF 322480000 (three hundred and twenty-two million four hundred and eighty thousand Swiss francs) divided into 3224800000 fully paid up registered shares with a nominal value of CHF 0.10 each.

Article 3^{bis} Conditional share capital

¹ The share capital of Nestlé may be increased in an amount not to exceed CHF 10000000 (ten million Swiss francs) by issuing up to 100000000 registered shares with a nominal value of CHF 0.10 each, which shall be fully paid up, through the exercise of conversion rights and/or option rights granted in connection with the issuance by Nestlé or one of its subsidiaries of newly or already issued convertible debentures, debentures with option rights or other financial market instruments.

² The shareholders have no preferential rights to subscribe for these new shares. The current owners of conversion rights and/or

option rights shall be entitled to subscribe for the new shares.

³ The new shares shall be subject, as soon as they are issued following the exercise of conversion and/or option rights, to the restrictions set forth in art. 5.

⁴ The Board of Directors may limit or withdraw the right of the shareholders to subscribe in priority to convertible debentures, debentures with option rights or similar financial market instruments when they are issued, if:

- a) an issue by firm underwriting by a consortium with subsequent offering to the public without preferential subscription rights seems to be the most appropriate form of issue at the time, particularly in terms of the conditions for issue; or
- b) the financial market instruments with conversion or option rights are issued in connection with the financing or refinancing of the acquisition of an enterprise or parts of an enterprise or participations or new investments.

⁵ Any financial market instruments with conversion or option rights which the Board of Directors decides not to offer directly or indirectly for prior subscription to the shareholders shall be subject to the following conditions:

- a) Conversion rights may be exercised only for up to 15 years, and option rights only during 7 years from the date of issue of the relevant financial market instruments.
- b) The new shares shall be issued according to the applicable conversion or option conditions. The respective financial instruments must be issued at the relevant market conditions.
- c) The issue of new shares upon exercise of option or conversion rights shall be made at conditions taking into account the market price of the shares and/or comparable instruments with a market price at the time of issuance of the relevant convertible debenture, debenture with option rights or similar financial market instrument.

Article 4 Share certificates; Intermediated securities

¹ Nestlé may issue its registered shares in the form of single certificates, global certificates or uncertificated securities. Under the conditions set forth by statutory law, Nestlé may convert its registered shares from one form into another form at any time and without the approval of the shareholders. Nestlé shall bear the cost of any such conversion.

² If registered shares are issued in the form of single certificates or global certificates, they shall be signed by two members of the Board

of Directors. Both signatures may be affixed in facsimile.

³ The shareholder has no right to demand a conversion of the form of the registered shares. Each shareholder may, however, at any time request a written confirmation from Nestlé of the registered shares held by such shareholder, as reflected in the share register.

⁴ Intermediated securities based on registered shares of Nestlé cannot be transferred by way of assignment. A security interest in any such intermediated securities cannot be granted by way of assignment.

Article 5 Share register

¹ Nestlé shall maintain a share register showing the name and address of the holders or usufructuaries. Any change of address must be reported to Nestlé.

² Only persons entered in the share register as shareholders with voting rights may exercise the voting rights or the other rights related thereto.

³ After the acquisition of shares, upon request of the shareholder to be recognised as such, any acquiring party shall be considered as a shareholder without voting rights, until it is recognised by Nestlé as a shareholder with voting rights. If Nestlé does not refuse the request to recognise the acquiring party within twenty days, the latter shall be deemed to be a shareholder with voting rights.

⁴ An acquirer of shares shall be recorded in the share register as a shareholder with voting rights provided he expressly declares to have acquired the shares in his own name and for his own account.

⁵ No person or entity shall be registered with voting rights for more than 5% of the share capital as recorded in the commercial register. This limitation on registration also applies to persons who hold some or all of their shares through nominees pursuant to this article. All of the foregoing does not apply in the case of the acquisition of an enterprise, or parts of an enterprise or participations through exchange of shares or in the cases provided in art. 685d par. 3 of the Swiss Code of Obligations.

⁶ The Board of Directors shall promulgate regulations relating to the registration of fiduciaries or nominees to ensure compliance with these Articles of Association.

⁷ Legal entities that are linked to one another through capital, voting rights, management or in any other manner, as well as all natural persons or legal entities achieving an understanding or forming a syndicate or otherwise acting in concert to circumvent the regulations concerning the limitation on

registration or the nominees, shall be counted as one person or nominee within the meaning of paragraphs 4 and 5 of this article.

⁸ After hearing the registered shareholder or nominee, the Board of Directors may cancel, with retroactive effect as of the date of registration, the registration of such shareholder or nominee if the registration was effected based on false information. The respective shareholder or nominee shall be informed immediately of the cancellation of the registration.

⁹ The Board of Directors shall specify the details and promulgate the necessary regulations concerning the application of this art. 5. Such regulations shall specify the cases in which the Board or a corporate body designated by the Board may allow exemptions from the limitation on registration or the regulation concerning nominees.

¹⁰ The limitation on registration provided for in this article shall also apply to shares acquired or subscribed by the exercise of subscription, option or conversion rights.

III. Organisation of Nestlé

A. General Meeting

Article 6 Powers of the General Meeting

¹ The General Meeting of shareholders is the supreme authority of Nestlé.

² The following powers shall be vested in the General Meeting:

- a) to adopt and amend the Articles of Association;
- b) to elect and remove the members of the Board of Directors and the Auditors of Nestlé;
- c) to approve the annual report and the consolidated financial statements;
- d) to approve the annual financial statements as well as the resolution on the use of the balance sheet profit, in particular, the declaration of dividends;
- e) to grant release to the members of the Board of Directors and the persons entrusted with management; and
- f) to take all decisions which by law or under these Articles of Association are within the powers of the General Meeting.

The following nontransferable powers shall be vested in the General Meeting:

- a) to adopt and amend the Articles of Association;
- b) to elect and remove the members of the Board of Directors, the Chairman of the Board of Directors and the members of the Compensation Committee;
- c) to elect and remove the Auditors;
- d) to elect and remove the Independent Representative;
- e) to approve the annual report and the consolidated financial statements;
- f) to approve the annual financial statements as well as to resolve on the use of the balance sheet profit, in particular, the declaration of dividends;
- g) to approve the compensation of the Board of Directors and of the Executive Board pursuant to art. 21^{bis};
- h) to grant discharge to the members of the Board of Directors and the persons entrusted with management; and
- i) to take all decisions which by law or under these Articles of Association are within the powers of the General Meeting.

Article 7 Annual General Meeting

The Annual General Meeting shall be held each year within six months of the close of the financial year of Nestlé. The meeting shall be convened by the Board of Directors.

Article 8 Extraordinary General Meeting

¹ Extraordinary General Meetings shall be convened by the Board of Directors or, if necessary, by the Auditors, as well as in the other cases foreseen by law.

² The Board of Directors shall, if so requested by a General Meeting or at the request in writing, specifying the items and proposals to appear on the agenda, of one or more shareholders with voting rights whose combined holdings represent at least one tenth of the share capital as recorded in the commercial register, convene an Extraordinary General Meeting. The Extraordinary General Meeting shall be held as promptly as practicable following such request.

Article 9 Notice of General Meetings; Agenda

¹ Annual or Extraordinary General Meetings shall be convened by notice in the "Swiss Official Gazette of Commerce" not less than twenty days before the date fixed for the meeting. Shareholders may in addition be informed by ordinary mail.

² The notice of a meeting shall state the items on the agenda and the proposals of the Board of Directors and of the shareholders who requested that a General Meeting be convened (art. 8 par. 2) or that items be included in the agenda (art. 9 par. 3).

³ One or more shareholders with voting rights whose combined holdings represent at least 0.15% of the share capital of Nestlé as recorded in the commercial register may request that an item be included in the agenda of a General Meeting. Such a request must be made in writing to the Board of Directors at the latest 45 days before the meeting and shall specify the agenda items and the proposals made.

⁴ No resolution shall be passed at a General Meeting on matters which do not appear on the agenda except for:

- a) a resolution convening an Extraordinary General Meeting; or
- b) the setting up of a special audit.

Article 10 Presiding officer; Minutes

¹ The Chairman or any member of the Board of Directors shall preside at General Meetings and carry all procedural powers.

² Minutes of General Meetings shall be kept by the Secretary of the Board of Directors.

Article 11 Voting rights; Representation of shareholders

¹ Each share recorded in the share register as share with voting rights confers one vote on its holder.

² At General Meetings no person may exercise, directly or indirectly, voting rights, with respect to own shares or shares represented by proxy, in excess of 5% of the share capital as recorded in the commercial register. Legal entities that are linked to one another through capital, voting rights, management or in any other manner, as well as all natural persons or legal entities achieving an understanding or forming a syndicate or otherwise acting in concert to circumvent such a limit, shall be counted as one shareholder.

³ The foregoing limit does not apply to shares received and held by a shareholder pursuant to an acquisition of an enterprise, or parts of an enterprise or participations as referred in art. 5 par. 5.

⁴ In order to permit the exercise of voting rights in respect of shares deposited with banks, the Board of Directors may by means of regulations or agreements with banks depart from the limit foreseen in this article. It may also depart from such a limit within the framework of the regulations referred to in art. 5 par. 6 and par. 9. In addition, this limit shall not apply to the exercise of voting rights pursuant to the statutory rules on institutional shareholder representatives.

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In order to permit the exercise of voting rights in respect of shares held by nominees, the Board of Directors may by means of regulations or agreements with nominees depart from the limit foreseen in this article. It may also depart from such a limit within the framework of the regulations referred to in art. 5 par. 6 and par. 9. In addition, this limit shall not apply to the exercise of voting rights by the Independent Representative.

Each shareholder recorded in the share register with voting rights may be represented at the General Meeting by the Independent Representative or a third party. The Board of Directors shall determine the requirements regarding participation and representation in the General Meeting.

The Independent Representative shall be elected by the General Meeting for a term of office until completion of the next Annual General Meeting. Re-election is possible. If the office of the Independent Representative is vacant, the Board of Directors shall appoint the Independent Representative for the next General Meeting.

Article 12 Quorum and decisions

¹ General Meetings shall be duly constituted irrespective of the number of shareholders present or of shares represented.

² Unless provided otherwise by law or the Articles of Association, shareholders'

resolutions and elections shall be decided by an absolute majority of the shares represented.

³ Votes shall be taken either on a show of hands or by electronic voting unless a vote by written ballot is ordered by the Presiding officer of the meeting. The Presiding officer may at any time order to repeat an election or resolution, if he doubts the results of the vote. In this case, the preceding election or resolution is deemed not having taken place.

⁴ If the first ballot fails to result in an election and more than one candidate is standing for election, the Presiding officer shall order a second ballot in which a relative majority shall be decisive.

Article 13 Special quorum

The approval of at least two thirds of the shares represented and the absolute majority of the nominal value represented at a General Meeting shall be required for resolutions with respect to:

- a) a modification of the purpose of Nestlé;
- b) the creation of shares with increased voting powers;
- c) restrictions on the transfer of registered shares and the change or removal of such restrictions;
- d) an authorized or conditional increase in share capital;
- e) an increase in share capital through the conversion of capital surplus, through a contribution in kind or for the purpose of an acquisition of assets, or a grant of special benefits upon a capital increase;
- f) the restriction or withdrawal of the right to subscribe;
- g) a change of the registered offices of Nestlé;
- h) the dissolution of Nestlé;
- i) restrictions on the exercise of voting rights and the change or removal of such restrictions;
- j) the limitation on registration (art. 5 par. 4 to 7) and the limitation on voting rights (art. 11 par. 2, 3 and 4) and the change or removal of such limitations;
- k) the change of the corporate name of Nestlé; and
- l) other matters as provided by statutory law.

B. Board of Directors

Article 14 Number of Directors

The Board of Directors shall consist of at least seven members.

Article 15 Term of office

¹ The members of the Board of Directors shall be elected for a term of office of three years by the General Meeting. Each year the Board shall

The Chairman of the Board of Directors and the members of the Board of Directors shall be elected individually by the General Meeting

be renewed by rotation, to the extent possible in equal numbers and in such manner that, after a period of three years, all members will have been subject to re-election. Directors shall be elected individually.

² In the event of an increase or a decrease in the number of Directors, the Board of Directors shall establish a new order of rotation. It follows that the term of office of some members may be less than three years.

³ Members of the Board of Directors whose term of office has expired shall be immediately eligible for re-election.

⁴ A year shall mean the period running between one Annual General Meeting and the next.

Article 16 Organisation of the Board

¹ The Board of Directors shall elect its Chairman and one or two Vice-Chairmen. It shall appoint a Secretary and his substitutes, neither of whom need be members of the Board of Directors.

² The Board of Directors shall define in the Board regulations pursuant to art. 19 par. 2 its organisation and the assignment of responsibilities.

³ The members of the Board of Directors are entitled to a directors' fee for their activities the amount of which is fixed by the Board of Directors.

Article 17 Powers of the Board in general

The Board of Directors shall conduct all the business of Nestlé to the extent that it is not within the powers of the General Meeting or not delegated pursuant to the Board regulations as set forth in art. 19 par. 2.

Article 18 Specific powers of the Board

The Board of Directors has the following non-transferable and inalienable duties:

- a) the ultimate direction of the business of Nestlé, in particular the conduct, management and supervision of the business of Nestlé, and the provision of necessary directions;
- b) the determination of the organisation in the Board regulations pursuant to art. 19 par. 2;
- c) the determination of accounting and financial control principles;
- d) the appointment and removal of the persons entrusted with the management and the granting of signatory powers to persons representing Nestlé;
- e) the ultimate supervision of the persons entrusted with the management of Nestlé,

for a term of office until completion of the next Annual General Meeting.

Members of the Board of Directors whose term of office has expired shall be immediately eligible for re-election.

If the office of the Chairman of the Board of Directors is vacant, the Board of Directors shall appoint a new Chairman from amongst its members for the remaining term of office.

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The Board of Directors shall elect one or two Vice-Chairmen. It shall appoint a Secretary and his substitutes, neither of whom need be members of the Board of Directors.

The Board of Directors shall, within the limits of the law and the Articles of Association, define its organisation and the assignment of responsibilities in the Board regulations pursuant to art. 19 par. 2.

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The Board of Directors has the following non-transferable and inalienable duties:

- a) the ultimate direction of the business of Nestlé, in particular the conduct, management and supervision of the business of Nestlé, and the provision of necessary directions;
- b) the determination of the organisation in the Board regulations pursuant to art. 19 par. 2;
- c) the determination of accounting and financial control principles;
- d) the appointment and removal of the persons entrusted with the management and the granting of signatory powers to persons representing Nestlé;
- e) the ultimate supervision of the persons entrusted with the management of Nestlé,

ensuring in particular their compliance with the law, the Articles of Association, regulations and instructions given;

- f) the preparation of the business report in accordance with the provisions of the law;
- g) the preparation of General Meetings and the carrying out of its resolutions;
- h) the determination of the manner in which the dividend shall be paid;
- i) the opening and closing of branch offices; and
- j) the notification of the court in case of overindebtedness.

Article 19 Delegation of powers

¹ The Board of Directors may appoint from amongst its members standing or ad hoc committees entrusted with the preparation and execution of its decisions or the supervision of specific parts of the business. The Board of Directors shall ensure that it is kept properly informed.

² Unless otherwise provided by law, the Board of Directors may in accordance with the Board regulations delegate all or part of the management to one or more of its members, to one or more board committees, or to third parties.

C. Compensation Committee

Article 19^{bis} Number of Members; Term of Office; Organisation

¹ –

² –

³ –

⁴ –

ensuring in particular their compliance with the law, the Articles of Association, regulations and instructions given;

- f) the preparation of the business report and the compensation report in accordance with the provisions of the law;
- g) the preparation of General Meetings and the carrying out of its resolutions;
- h) the determination of the manner in which the dividend shall be paid;
- i) the opening and closing of branch offices; and
- j) the notification of the court in case of overindebtedness.

The Board of Directors may, within the limits of the law and the Articles of Association, appoint from amongst its members standing or ad hoc committees entrusted with the preparation and execution of its decisions or the supervision of specific parts of the business. The Board of Directors shall ensure that it is kept properly informed.

The Compensation Committee consists of at least three independent members of the Board of Directors.

The members of the Compensation Committee shall be elected individually by the General Meeting for a term of office until completion of the next Annual General Meeting. Members of the Compensation Committee whose term of office has expired shall be immediately eligible for re-election.

If there are vacancies on the Compensation Committee, the Board of Directors shall appoint substitutes from amongst its members for the remaining term of office.

The Board of Directors shall elect a Chairman of the Compensation Committee. It shall, within the limits of the law and the Articles of Association, define the organisation of the Compensation Committee in regulations.

Article 19^{ter} Powers of the Compensation Committee

¹ –

The Compensation Committee supports the Board of Directors in establishing and

2 –

periodically reviewing Nestlé's compensation strategy and guidelines and performance criteria as well as in preparing the proposals to the General Meeting regarding the compensation of the members of the Board of Directors and of the Executive Board. It may submit proposals and recommendations to the Board of Directors in other compensation-related issues.

The Board of Directors promulgates regulations to determine for which positions of the Board of Directors and of the Executive Board the Compensation Committee, together with the Chairman of the Board of Directors or on its own, shall submit proposals for the compensation, and for which positions it shall determine the compensation in accordance with the Articles of Association and the compensation guidelines established by the Board of Directors.

3 –

The Board of Directors may delegate further tasks and powers to the Compensation Committee.

D. Auditors

Article 20 Number of Auditors; Term of office

The General Meeting shall appoint, for a term of one year, one or more Auditors of the annual financial statements of Nestlé and the consolidated financial statements of the Group, which shall be independent from Nestlé and meet the special professional standards required by law. The Auditors of Nestlé may be re-elected.

The General Meeting shall appoint, for a term of office until completion of the next Annual General Meeting, one or more Auditors of the annual financial statements of Nestlé and the consolidated financial statements of the Group, which shall be independent from Nestlé and meet the special professional standards required by law. The Auditors of Nestlé may be re-elected.

Article 21 Rights and duties of Auditors

The Auditors shall verify the annual financial statements of Nestlé and the consolidated financial statements of the Group. The Auditors shall submit their reports to the General Meeting. Their rights and duties shall be as set out in the Swiss Code of Obligations.

The Auditors shall verify the annual financial statements of Nestlé and the consolidated financial statements of the Group and perform such other tasks as defined by law. The Auditors shall submit their reports to the General Meeting. Their rights and duties shall be as set out in the applicable Swiss laws.

III^{bis}. Compensation of the Board of Directors and of the Executive Board

Article 21^{bis} Approval of Compensation by General Meeting

1 –

The General Meeting shall approve annually and separately the proposals of the Board of Directors in relation to the maximum aggregate amount of:

a) compensation of the Board of Directors for the period until the next Annual General Meeting;

b) compensation of the Executive Board for the following financial year.

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

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 to approval by the same General Meeting, a subsequent Extraordinary General Meeting or the next Annual General Meeting.

Notwithstanding the preceding paragraphs, Nestlé or companies controlled by it may pay out compensation prior to approval by the General Meeting subject to subsequent approval by a General Meeting.

The Board of Directors shall submit the annual compensation report to an advisory vote of the General Meeting.

2 _

3 _

4 _

Article 21^{ter} Supplementary Amount for changes on the Executive Board

1 _

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 to 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.

Article 21^{quater} General Compensation Principles

1 _

Compensation of the non-executive members of the Board of Directors comprises fixed compensation elements only.

2 –

Compensation of the members of the Executive Board comprises fixed and variable compensation elements. Fixed compensation comprises the base salary and may comprise other compensation elements and benefits. Variable compensation may comprise short-term and long-term compensation elements, and shall be subject to caps expressed as pre-determined multipliers of the respective target levels.

3 –

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.

4 –

Long-term compensation elements are governed by performance metrics that take into account strategic objectives of Nestlé, and achievement of which is generally measured based on a multiannual period. The annual target level of the long-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. 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.

5 –

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

6 –

Compensation may be paid or granted in the form of cash, shares, other benefits or in kind; compensation to members of the Executive Board may also be paid or granted in the form of financial instruments or similar units. The Board of Directors or, to the extent delegated to it, the Compensation Committee determines grant, vesting, blocking, exercise and forfeiture conditions; they may provide for continuation, acceleration or removal of vesting and exercise conditions, for payment or grant of compensation assuming target achievement or for forfeiture in the event of pre-determined events such as a termination of an employment or mandate agreement.

7 –

Compensation may be paid by Nestlé or companies controlled by it.

The Board of Directors values compensation according to the principles that apply to the compensation report.

III^{ter}. Contracts with Members of the Board of Directors and of the Executive Board

Article 21^{quinquies} Basic Principles

1 –

Nestlé or companies controlled by it may enter into agreements with members of the Board of Directors relating to their compensation for a fixed term or for an indefinite term; term and notice period may not exceed one year.

2 –

Nestlé or companies controlled by it may enter into contracts of employment with members of the Executive Board for a definite period of time not to exceed one year or for an indefinite period of time with a notice period not to exceed 12 months.

3 –

Contracts of employment with members of the Executive Board may contain a prohibition of competition for the time after the end of employment for a duration of up to 2 years. The annual consideration for such prohibition shall not exceed 50% of the total annual compensation last paid to such member of the Executive Board.

III^{quater}. Mandates Outside Nestlé; Loans

Article 21^{sexies} Mandates outside Nestlé

1 –

No member of the Board of Directors may hold more than 4 additional mandates in listed companies and 5 additional mandates in non-listed companies.

2 –

No member of the Executive Board may hold more than 2 additional mandates in listed companies and 4 additional mandates in non-listed companies. Each of these mandates shall be subject to approval by the Board of Directors.

3 –

The following mandates are not subject to these limitations:

- a) mandates in companies which are controlled by Nestlé;
- b) mandates which a member of the Board of Directors or of the Executive Board holds at the request of Nestlé or companies controlled by it. No member of the Board of Directors or of the Executive Board shall hold more than 10 such mandates; and
- c) mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations. No member of the Board of Directors or of the Executive Board shall hold more than 10 such mandates.

4 –

Mandates shall mean mandates in the supreme governing body of a legal entity which is

required to be registered in the commercial register or a comparable foreign register. Mandates in different legal entities which are under joint control are deemed one mandate. The Board of Directors shall promulgate regulations that, taking into account the position of the respective member, determine additional restrictions.

Article 21^{septies} Loans

–

Loans to a member of the Board of Directors or the Executive Board 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.

IV. Business report and appropriation of profit resulting from the balance sheet

Article 22 Financial year

The financial year shall commence on 1 January and shall end on 31 December.

Article 23 Business report

For every financial year the Board of Directors shall prepare a business report consisting of the annual financial statements of Nestlé, of the annual report and the consolidated financial statements.

Article 24 Appropriation of profit resulting from the balance sheet

The profit shall be allocated by the General Meeting within the limits set by applicable law. The Board of Directors shall submit its proposals to the General Meeting.

V. Announcements, Communications

Article 25 Notices

All notices and communications to be made by Nestlé shall be considered duly made if published in the "Swiss Official Gazette of Commerce", unless the law provides otherwise.



Nestlé

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