

Compensation Report 2018

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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.

As in previous years, this Compensation Report shall be submitted to the advisory vote of the shareholders at the Annual General Meeting 2019.

At the 2018 Annual General Meeting, shareholders approved the total compensation budgets for the Board of Directors and the Executive Board with large majorities.

As explained at that time, to ensure complete accountability, the shareholders will this year be able to retrospectively vote on the Compensation Report and payouts in a consultative vote.

In light of the significant changes to Nestlé's Long-Term Incentive plan in 2018, no additional structural changes will be introduced for 2019 to maintain consistency.

Governance

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

As of December 31, 2018, the governance for setting the compensation of the members of the Board of Directors and the Executive Board is defined as follows:

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

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

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

Compensation Committee (CC)

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

The members of the CC have been elected by the shareholders for one year. The Chairperson was appointed by the Board of Directors. On December 31, 2018, the composition of the CC is as follows:

Chairman	Members
Beat W. Hess	Jean-Pierre Roth
	Patrick Aebischer
	Ursula M. Burns

The tasks and areas of responsibility of the CC are described on page 13 of the Corporate Governance Report 2018.

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

Board of Directors

Principles of compensation for the members of the Board of Directors

Governance

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

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

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

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

Principles

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

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

Compensation 2018 for the members of the Board of Directors

Board membership fees and allowances

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

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

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

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

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

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

Committee membership on December 31, 2018

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

The above fees and allowances cover the period between the Annual General Meeting 2018 and the Annual General Meeting 2019. They are paid in two instalments. Board membership and Committee fees are paid 50% in cash and 50% in Nestlé S.A. shares, which are subject to a three-year blocking period. The blocking period remains applicable upon termination of the mandate.

The number of Nestlé S.A. shares is determined by taking the closing price of the share on the SIX Swiss Exchange on the ex-dividend date of the respective financial year. For valuation purposes, the shares are discounted by 16.038% to account for the blocking period of three years. In 2018, the value was CHF 62.69.

Compensation Payout 2018

At the Annual General Meeting of April 12, 2018, the shareholders approved a maximum compensation for the Board of Directors of CHF 10.0 million for the period from the Annual General Meeting 2018 to the Annual General Meeting 2019. The total actual compensation pay-out for this period including social security contributions is CHF 8 707 990.

Audited (*) **Summary of compensation 2018 ****

	Cash in CHF ^(a)	Number of shares	Discount value of shares in CHF ^(b)	Total Cash & Shares	Social security & addit. Fees ^(c)	Total Compensation
Paul Bulcke, Chairman	510 000	47 148	2 955 708	3 465 708	28 200	3 493 908
Ulf Mark Schneider, Chief Executive Officer ^(d)	–	–	–	–	–	–
Henri de Castries, Vice Chairman, Lead Independent Director	380 000	4 889	306 491	686 491	28 200	714 691
Beat W. Hess	330 000	4 220	264 552	594 552	28 200	622 752
Renato Fassbind	330 000	4 220	264 552	594 552	28 200	622 752
Jean-Pierre Roth	190 000	2 344	146 945	336 945	15 639	352 584
Ann M. Veneman	190 000	2 344	146 945	336 945	25 000	361 945
Eva Cheng	240 000	3 014	188 948	428 948	20 354	449 302
Ruth K. Oniang' o	155 000	1 876	117 606	272 606	37 341	309 947
Patrick Aebischer	190 000	2 344	146 945	336 945	27 012	363 957
Ursula M. Burns	190 000	2 344	146 945	336 945	16 500	353 445
Kasper B. Rorsted	155 000	1 876	117 606	272 606	13 202	285 808
Pablo Isla	155 000	1 876	117 606	272 606	13 202	285 808
Kimberly A. Ross	205 000	2 545	159 546	364 546	–	364 546
Total for 2018	3 220 000	81 040	5 080 395	8 300 395	281 050	8 581 445

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

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

(b) Nestlé S.A. shares received as part of Board membership and Committee fees are valued at the closing price of the share on the SIX Swiss Exchange on the ex-dividend date, discounted by 16.038% to account for the blocking period of three years.

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

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

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

Summary of compensation 2017 **

	Cash in CHF ^(a)	Number of shares	Discount value of shares in CHF ^(b)	Total Cash & Shares	Social security & addit. Fees ^(c)	Total Compensation
Paul Bulcke, Chairman April-Dec.	450 000	51 588	3 274 806	3 724 806	21 150	3 745 956
Peter Brabeck-Letmathe, Chairman Jan.-March	400 000	–	–	400 000	7 050	407 050
Ulf Mark Schneider, Chief Executive Officer ^(d)	–	–	–	–	–	–
Andreas Koopmann, Vice Chairman	270 000	3 903	247 762	517 762	24 902	542 664
Henri de Castries, Lead Independent Director	355 000	4 498	285 533	640 533	28 200	668 733
Beat W. Hess	330 000	4 167	264 521	594 521	28 200	622 721
Renato Fassbind	330 000	4 167	264 521	594 521	28 200	622 721
Steven G. Hoch	175 000	2 117	134 387	309 387	–	309 387
Naïna Lal Kidwai	205 000	2 514	159 589	364 589	17 913	382 502
Jean-Pierre Roth	190 000	2 315	146 956	336 956	15 638	352 594
Ann M. Veneman	175 000	2 117	134 387	309 387	25 000	334 387
Eva Cheng	205 000	2 514	159 589	364 589	17 052	381 641
Ruth K. Oniang' o	155 000	1 852	117 565	272 565	37 338	309 903
Patrick Aebischer	190 000	2 315	146 956	336 956	27 012	363 968
Ursula M. Burns	155 000	1 852	117 565	272 565	13 199	285 764
Total for 2017	3 585 000	85 919	5 454 137	9 039 137	290 854	9 329 991

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

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

(b) Nestlé S.A. shares received as part of Board membership and Committee fees are valued at the closing price of the share on the SIX Swiss Exchange on the ex-dividend date, discounted by 16.038% to account for the blocking period of three years.

(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 181 282 in 2017. For details of additional fees, see page 37.

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

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

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

	2018		2017	
	Number	Value in CHF	Number	Value in CHF
Cash compensation		510 000		450 000 ^(b)
Blocked shares (discounted value)	47 148	2 955 708	51 588	3 274 806
Total Cash & Shares		3 465 708		3 724 806
Company contribution to compulsory Swiss social security ^(a)		28 200		21 150
Total compensation		3 493 908		3 745 956

(a) 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 146 804 in 2018 and CHF 163 981 in 2017.

(b) Pro-rated remuneration for the period April-December.

Shares and stock options ownership of the non-executive members of the Board of Directors and closely related parties on December 31, 2018

	Number of shares held ^(a)	Number of options held ^(b)
Paul Bulcke, Chairman	1 391 207	—
Henri de Castries, Vice Chairman, Lead Independent Director	23 829	—
Beat W. Hess	45 649	—
Renato Fassbind	27 141	—
Jean-Pierre Roth	13 875	—
Ann M. Veneman	19 305	—
Eva Cheng	15 783	—
Ruth K. Oniang'o	7 619	—
Patrick Aebischer	4 659	—
Ursula M. Burns	4 196	—
Kasper B. Rorsted	1 876	—
Pablo Isla	1 876	—
Kimberly A. Ross	2 545	—
Total as at December 31, 2018	1 559 560	—
Total as at December 31, 2017	1 686 408	420 000

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

(b) The ratio is one option for one Nestlé S.A. share.

Other audited information regarding the Board of Directors

Loans

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

Additional fees and remuneration of the Board of Directors

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

Compensation and loans for former members of the Board of Directors

There is no compensation conferred during 2018 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 2018, no compensation was paid to related parties of members of the Board of Directors and there were no loans outstanding to related parties.

Executive Board

Principles of compensation for members of the Executive Board

Governance

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

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

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

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

Principles

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

Pay for performance

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

Alignment with long-term company strategy and shareholder interests

Compensation for members of the Executive Board is aligned with company strategy and shareholders' interests. The Short-Term Bonus payout is determined by the degree of achievement of a number of objectives aligned to annual business plans. Long-Term Incentives are provided in the form of share-based instruments, therefore ensuring alignment with shareholders' interests. In 2018, 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 appropriately for the added responsibilities of positions held. This is reflected in the relative remuneration levels of the Executive Board.

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

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

Compensation to be internationally competitive by using selected benchmarks

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

The total compensation package consists of the following elements:

1. Base Salary

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

2. Short-Term Bonus

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

Governance

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

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

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

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

Objectives 2018

The Short-Term Bonus (Annual Bonus) is based on a bonus target expressed in % of the Annual Base Salary. In 2018, the following target levels were applicable

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

For the CEO, 100% of the target was 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, 30% to functional objectives and 20% to their individual performance (quantitative and qualitative objectives); for Zone or Business Heads, 30% is tied to Group performance, 50% to business objectives they are directly responsible for, and 20% to individual performance (quantitative and qualitative objectives).

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 2019.

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 2018, their weighting was 40% Organic Growth, 40% Profitability (Underlying Trading Operating Profit & Trading Operating Profit margins), 10% Cash Flow and 10% Structural Costs Optimization.

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, working capital reduction, progress on digitalization, strengthening Nestlé's values and culture, or 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, Functional and Individual objectives

Business, functional and individual 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^{quarter} 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, and 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^{quarter} 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 2018

In 2018, 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 2018 was the following:

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

The fair value of Long-Term Incentives at grant is determined by using generally accepted pricing models.

Please refer to explanations on page 45.

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

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

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

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

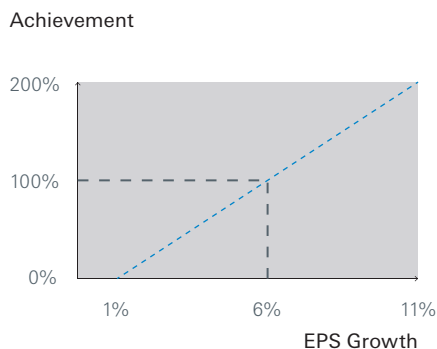
All three performance measures will be subject to Compensation Committee review in case of extraordinary events.

The PSUP will cover only Executive Board and Senior Vice Presidents. A Restricted Stock Unit Plan (RSUP) has been re-introduced for all other participants.

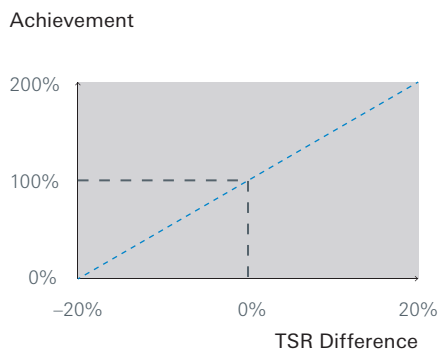
(*) Nestlé S.A.'s Articles of Association can be found on page 51 and on www.nestle.com/investors/corporate-governance/articles

The following charts show the different potential levels of achievement for each of the three measures for the 2018 PSUP grant.

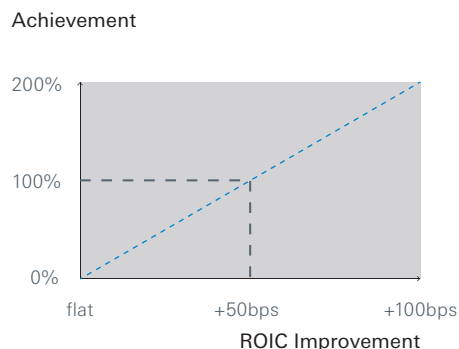
Average Underlying EPS Growth (constant currencies)



TSR Difference (Nestlé vs. Index)



ROIC Improvement

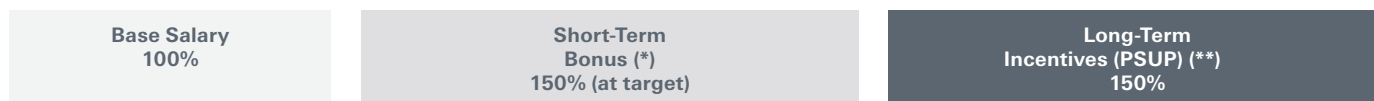


The total vesting level will be determined by applying, at the end of the vesting period, a weight of 50% for Underlying EPS, 30% for TSR and 20% for ROIC of the grant, and by adding up the three elements.

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.

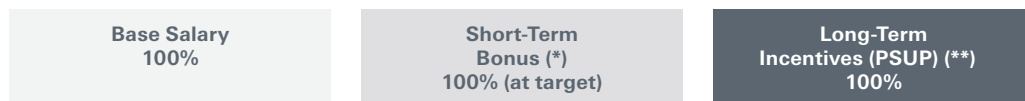
Overview of Executive Board compensation elements

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 during 2013. Beneficiaries of the Plan born in 1958 or before maintain their membership in the former plan. In July 2018, the Nestlé Pension Plan has been 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

The Company strongly encourages share ownership by the members of the Executive Board to ensure alignment with shareholder interests over time. As of the end of 2018,

excluding unvested Long-Term Incentive awards, the collective share ownership of the members of the Executive Board was approximately equal to their combined annual total compensation.

Since 2015, 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.

Loans

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

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

Contracts of employment and severance payments

As of December 31, 2018, 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 (except vested Stock Options which remain exercisable for a period of thirty days upon termination for cause); Long-Term Incentives (except Stock Options) 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.

Benchmarks

See above elements of compensation for members of the Executive Board.

(*) Companies include: ABB, Air Liquide, Airbus, Anheuser-Busch Inbev, ASML, AstraZeneca, BASF, Bayer, BP, BAT, Daimler, Deutsche Telekom, Diageo, Eni, GlaxoSmithKline, Glencore, L'Oréal, LVMH, National Grid, Novartis, Novo Nordisk, Reckitt Benckiser, Rio Tinto, Roche, Royal Dutch Shell, Safran, Sanofi, SAP, Schneider Electric, Siemens, Telefonica, Total, Unilever, Vinci, Vodafone.

Compensation 2018 for members of the Executive Board

At the Annual General Meeting of April 6, 2017, the shareholders approved a maximum compensation for members of the Executive Board of CHF 60 million for 2018. The total compensation paid to members of the Executive Board in 2018, including contributions towards future pension benefits and total social security contributions, was CHF 47 650 636.

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

	2018	2017
Annual Base Salary	13 211 669	14 102 798
Short-Term Bonus (cash)	8 529 175	8 469 438
Short-Term Bonus (discounted value of Nestlé S.A. share)	5 983 054	3 744 001
Performance Share Units (fair value at grant)	11 001 761	10 985 508
Other benefits	1 850 211	603 360
Total	40 575 870	37 905 105
% Fixed/Variable	37.1 – 62.9	38.8 – 61.2
Company contributions towards future pension benefits (in line with Nestlé's Pension Benefit Policy described above)	4 444 147	2 639 785
Company contributions to compulsory Swiss social security ^(a)	354 850	394 800
Additional remuneration and fees paid to members of the Executive Board	551 106	522 074
Total including the elements above	45 925 973	41 461 764

The above compensation table includes the following:

	2018	2017
Number of Nestlé S.A. shares granted	83 855	54 641
Number of Performance Share Units granted under the PSUP	183 485	196 310

(a) Since the Company contributions to social security are based on full earnings, whereas benefits are capped, only contributions that lead to future benefits are included. The additional cost to the Company taking into account full social security employer contributions is CHF 1 724 663 in 2018 and CHF 1 547 837 in 2017.

Explanations

- On December 31, 2018, the Executive Board consisted of 12 members.
- Mr. Peter Vogt retired on August 1, 2018.
- Other benefits include a car allowance, contribution towards health insurance premiums, long-term service awards and expatriate benefits.
- Nestlé S.A. shares received as part of the Short-Term Bonus are valued at the average closing price of the last ten trading days of January 2019, discounted by 16.038% to account for the three-year blocking period.
- Performance Share Units granted in 2018 are disclosed at fair value at grant, which corresponds to CHF 59.96. The fair value is determined using a valuation model which reflects the probability of overachievement or underachievement on the Total Shareholder Return measure, which is a market condition, and based on five-year historical data. The other inputs incorporated into the valuation model comprise the market price of Nestlé S.A. shares at grant date, discounted at a risk-free interest rate and adjusted for the dividends that participants are not entitled to receive during the vesting period of three years.
- The values in the table above differ in some respect from the compensation disclosure in Note 18.1 of the Consolidated Financial Statements of the Nestlé Group 2018, which have been prepared in accordance with International Financial Reporting Standards (IFRS). The differences relate to the timing of valuation of Performance Share Units, whose values are spread over three years under IFRS but reported fully at the grant date in this report, and to the valuation of blocked shares, which are not subject to a discount for the blocking period under IFRS.

Payout levels

- The Short-Term Bonus payout for the Executive Board was 113.7% in 2018, based on the achievement of the relevant Group and individual quantitative and qualitative objectives (2017: 89%).
- The Performance Share Units granted in 2016 vest in March 2019 with a payout of 127% of the initial PSU award (PSUs granted in 2015 vested in 2018 with a payout of 85%).

Events after the balance sheet date (all effective on January 1, 2019)

- Mrs. Wan Ling Martello retired, succeeded by Mr. Chris Johnson, as CEO of Zone AOA.
- Mrs. Béatrice Guillaume-Grabisch was appointed member of the Executive Board in charge of Group Human Resources and Business Services, succeeding Mr. Chris Johnson.

Highest total compensation for a member of the Executive Board

In 2018, 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.

	2018		2017	
	Number	Value in CHF	Number	Value in CHF
Annual Base Salary		2 400 000		2 400 000
Short-Term Bonus (cash)		2 037 635		1 260 023
Short-Term Bonus (discounted value of Nestlé S.A. share)	23 977	1 710 759	15 439	1 057 880
Performance Share Units (fair value at grant)	47 640	2 856 494	48 660	2 723 014
Other benefits		3 250		6 750
Total		9 008 138		7 447 667
% Fixed/Variable		26.7 – 73.3		32.3 – 67.7
Company contribution towards future pension benefits		432 220		386 996
Company contribution to compulsory Swiss social security ^(a)		28 200		28 200
Total including the elements above		9 468 558		7 862 863

(a) 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 433 467 in 2018 and CHF 353 493 in 2017.

Explanations

- Nestlé S.A. shares received as part of the Short-Term Bonus are valued at the average closing price of the last ten trading days of January 2019, discounted by 16.038% to account for the three-year blocking period.
- Performance Share Units granted in 2018 are disclosed at fair value at grant, which corresponds to CHF 59.96.
- Please also refer to the explanations provided on page 45.

Payout levels

- The Short-Term Bonus payout for the CEO was 113.2% in 2018, based on the achievement of Group quantitative and qualitative objectives (2017: 70%).
- The Performance Share Units granted in 2016 vest in March 2019 with a payout of 127% of the initial PSU award (PSUs granted in 2015 vested in 2018 with a payout of 85%).

Shares and stock options held by members of the Executive Board
Total number of management stock options held on December 31, 2018
by members of the Executive Board

Grant date	Vesting date	Expiry date	Exercise price in CHF	Stock options outstanding
01.03.2012	01.03.2015	28.02.2019	55.57	80 800
Total				80 800

Shares and stock options ownership of the members of the Executive Board and closely related parties on December 31, 2018

	Number of shares held ^(a)	Number of options held ^(b)
Ulf Mark Schneider, Chief Executive Officer	23 234	—
Laurent Freixe	36 191	—
Chris Johnson	78 362	—
Patrice Bula	181 894	—
Wan Ling Martello	115 048	80 800
Marco Settembri	40 620	—
François-Xavier Roger	29 393	—
Magdi Batato	13 288	—
Stefan Palzer	2 616	—
Maurizio Patarnello	16 533	—
Grégory Behar	3 611	—
David P. Frick	52 731	—
Total as at December 31, 2018	593 521	80 800
Total as at December 31, 2017	531 656	327 000

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

(b) The ratio is one option for one Nestlé S.A. share.

Other audited information regarding the Executive Board

Loans to members of the Executive Board

On December 31, 2018, 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 2018 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 5420 Units in 2018, with a fair value at grant of CHF 101.68 per Unit (vesting period of three years: value capped at two times the Unit price at grant).

Compensation and loans for former members of the Executive Board

In 2018, one former member of the Executive Board received a compensation of CHF 2 252 786 (including company contributions for pension and social security), as per the terms of his contract of employment.

Another former member of the Executive Board received a fee of CHF 25 000. On December 31, 2018, 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 2018, no compensation was paid to related parties of members of the Executive Board, and there were no loans outstanding to related parties.

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



Report of the Statutory Auditor

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

We have audited the accompanying compensation report of Nestlé S.A. for the year ended December 31, 2018. The audit was limited to the information according to articles 14 to 16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies contained in the sections highlighted with a blue bar at left on pages 34 to 48 of the compensation report.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the compensation system and defining individual remuneration packages.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14 to 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the compensation report for the year ended December 31, 2018 of Nestlé S.A. complies with Swiss law and articles 14 to 16 of the Ordinance.

KPMG SA

Scott Cormack
Licensed Audit Expert
Auditor in Charge

Lukas Marty
Licensed Audit Expert

Geneva, February 13, 2019

KPMG SA, 111 Rue de Lyon, P.O. Box 347, CH-1211 Geneva 13

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