



Nestlé Good food, Good life



## Report of the Board of Directors on the Proposals for the Compensation of the Board of Directors and of the Executive Board

Annual General Meeting of Nestlé S.A.  
April 18, 2024

# Table of contents

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Overview	<b>3</b>
I. Governance	<b>4</b>
II. Approvals of the Annual General Meeting 2023	<b>4</b>
III. Proposals to the Annual General Meeting 2024	<b>5</b>
1. Compensation of the Board of Directors (Agenda item 5.1)	<b>5</b>
2. Compensation of the Executive Board (Agenda item 5.2)	<b>8</b>

## Overview

This Report informs the shareholders of Nestlé S.A. on the proposed maximum amounts of compensation of the Board of Directors and of the Executive Board submitted to the shareholders for approval at the Annual General Meeting of April 18, 2024.

## **I. Governance**

Pursuant to the Articles of Association, the Board of Directors will submit at the forthcoming Annual General Meeting the proposed maximum compensation amounts separately for the Board of Directors, for the period from the Annual General Meeting 2024 to the Annual General Meeting 2025 (Agenda item 5.1), and for the Executive Board for the business year 2025 (Agenda item 5.2). This Report explains the related proposals of the Board of Directors.

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

## **II. Approvals of the Annual General Meeting 2023**

At the Annual General Meeting of April 20, 2023, the shareholders approved with strong majorities a maximum compensation for the Board of Directors of CHF 10.5 million for the period from the Annual General Meeting 2023 to the Annual General Meeting 2024, and a maximum compensation of CHF 72 million for the Executive Board for the business year 2024.

For the period from the Annual General Meeting 2023 to the Annual General Meeting 2024, the actual compensation pay-out for the Board of Directors was CHF 10.1 million, below the approved maximum of CHF 10.5 million. The actual compensation pay-out for the Executive Board was CHF 66.8 million for the business year 2023, below the approved maximum of CHF 68 million.

In addition, the shareholders accepted the Compensation Report 2022 in a separate advisory vote, with a strong majority.

### III. Proposals to the Annual General Meeting 2024

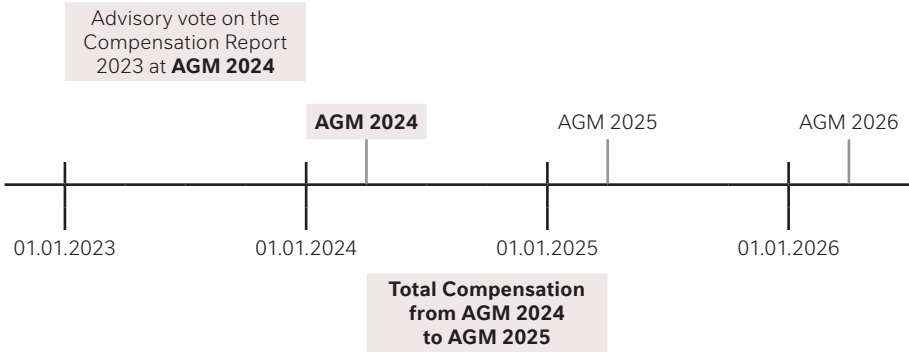
#### 1. Compensation of the Board of Directors (Agenda item 5.1)

*Proposal*

Approval, prospectively, for the period from the Annual General Meeting 2024 to the Annual General Meeting 2025, of a **total compensation for the 13 non-executive members of the Board of Directors** (including the Chairman, but excluding the CEO) of **CHF 10.0 million**, including approximately CHF 3.0 million in cash remuneration, CHF 6.5 million in Nestlé S.A. shares (blocked for a 3-year period) and CHF 0.5 million for social security contributions and other fees

*Explanation*

Timeline:



The remuneration of the members of the Board of Directors is set to attract and retain highly qualified individuals to serve on the Board of Directors. The level of remuneration reflects the time and effort required from the members in fulfilling their Board and Committee responsibilities. The pay structure (cash and blocked Nestlé S.A. shares) is designed to ensure the Board's focus on the long-term performance and success of the Company.

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

Members of a Board Committee receive the following additional fees<sup>(a)</sup>:

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

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

The above fees and allowances cover the period between the Annual General Meeting 2024 and the Annual General Meeting 2025. Board membership and Committee fees are paid 50% in cash (in two half-yearly instalments) and 50% in Nestlé S.A. shares, which are subject to a three-year blocking period. The payments will be done in arrears.

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

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

Five-year history of Board of Directors compensation (including company contributions to social security)<sup>(a)</sup>:

From AGM 2019 to AGM 2020	CHF 9.1 million
From AGM 2020 to AGM 2021	CHF 9.3 million
From AGM 2021 to AGM 2022	CHF 9.7 million
From AGM 2022 to AGM 2023	CHF 9.7 million
From AGM 2023 to AGM 2024	CHF 10.1 million

<sup>(a)</sup> For details, please refer to the Compensation Report of the relevant business year.

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

The 2023 budget of CHF 10.5 million (approved at the Annual General Meeting 2023) and the proposed 2024 budget of CHF 10.0 million are in line with the five-year compensation budgets submitted for approval and the company's compensation history.

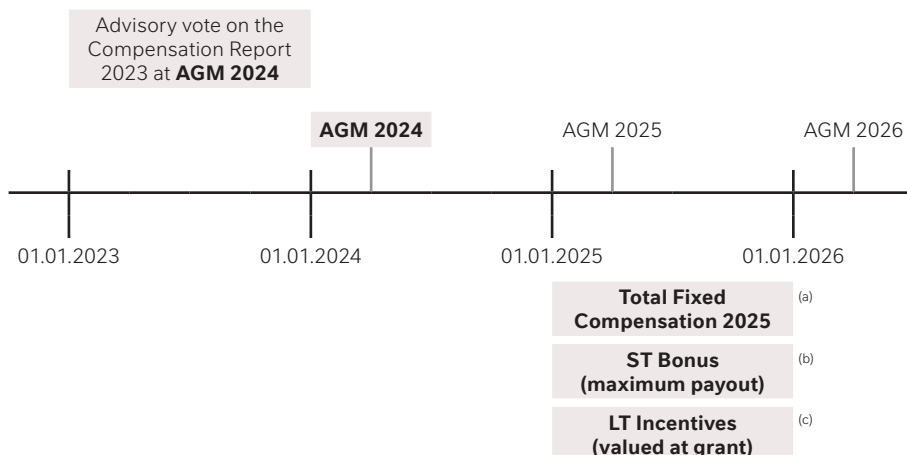
## 2. Compensation of the Executive Board (Agenda item 5.2)

### Proposal

Approval, prospectively, for the period from January 1, 2025 to December 31, 2025, of a **total maximum amount of compensation for the 16 members of the Executive Board, including the CEO, of CHF 80 million**, including approximately CHF 18.5 million for base salary, CHF 28 million for short-term bonus (based on maximum target achievement), CHF 21 million for long-term incentive plans (based on market value at grant), CHF 6.5 million for contributions for future pension benefits and CHF 6.0 million for social security contributions, other benefits and unforeseen expenses

### Explanation

Timeline:



- (a) Annual Base Salary, pension and other benefits
- (b) Short-Term Bonus based on 2025 performance
- (c) Long-Term Incentives granted in 2025



The total compensation for the members of the Executive Board includes a fixed portion (Annual Base Salary) and a variable portion (Short-Term Bonus and Long-Term Incentives). Both fixed and variable compensation are determined in line with collective and individual performance.

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

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

## **Group Incentive Plans**

### *Short-Term Bonus*

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

The target levels are:

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

For the CEO and the CFO, 85% of the target is linked to Nestlé Group performance and 15% to Environmental, Social, Governance (ESG) objectives. For the other members of the Executive Board the targets are set as follows: for Function Heads, 50% is tied to functional objectives, 35% to Group performance and 15% to ESG objectives; for Zone or Business Heads, 60% is tied to business objectives they are directly responsible for, 25% to Group performance and 15% to ESG objectives. In case an Executive Board member reaches all objectives in full, the bonus pay-out will correspond to the above-mentioned targeted level. If one or more objectives are not reached, the bonus is reduced. There is no guarantee for a minimum pay-out of the bonus. On the other hand, the bonus pay-out is capped at a maximum of 150% of the target. Over-performance of members of the Executive Board can thus be rewarded with a pay-out exceeding the target but will in no event exceed the 150% maximum level.

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

Business and functional objectives are determined by the CEO for each member of the Executive Board. They are related to the individual area of responsibility and can be of financial or non-financial nature depending on the respective function. The corresponding pay-out level is approved by the Compensation Committee.

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

### *Long-Term Incentives*

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

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

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

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

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

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

### **Other Incentive Plans**

For the Head of Nestlé Health Science, the LTI target grant values are the same as mentioned above, but are split between PSUP (30% of grant value) and the specific Long-Term Incentive Plan of Nestlé Health Science (70% of grant value). Nestlé Health Science

(\*) or American Depositary Receipts

has a Phantom Share Unit Plan based on the long-term development of that business, with a vesting period of three years, and a value capped at two times the Unit price at grant.

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

### **Pension benefits**

Executive Board members are generally affiliated to the Nestlé Pension Plan like all other employees in Switzerland, with some exceptions. Some members are also affiliated to local pension plans outside Switzerland. The employer's contributions for future pension benefits are included in the compensation amount. In addition, any part of the annual base salary which exceeds the ceiling prescribed by Swiss Pension law is covered directly by the Company.

### **Other benefits**

Typical elements are a car allowance, long-term service awards and certain payments for health insurance premiums, periodical health checks as well as personal security services. Some members receive a housing allowance and a financial planning allowance, or other additional local benefits available to employees in similar positions in such countries, such as contributions to life insurance in the US. Executive Board members transferred to Switzerland receive the benefits provided by the Nestlé Corporate Expatriation Policy.

## Maximum pay-out

The compensation proposal made by the Board of Directors to the shareholders reflects the maximum possible bonus pay-out. The maximum amount of CHF 80 million proposed to the Annual General Meeting 2024 increases vs. the maximum amount approved for 2024 by the shareholders at the Annual General Meeting 2023, to reflect new hires, promotions and the change in the Short Term Bonus structure.

The detailed plans for 2025 are not yet available at this point in time. The maximum possible pay-out would require highly exceptional performance.

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

			Nestlé Group results achievement <sup>(a)</sup>
2019	CHF	47.6 million	117.0%
2020	CHF	49.4 million	113.0%
2021	CHF	50.6 million	111.0%
2022	CHF	60.2 million	102.7%
2023	CHF	66.8 million	124.5%

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

The 2024 budget of CHF 72 million (approved at the Annual General Meeting 2023) and the proposed 2025 budget of CHF 80 million allow for potential uncertainties such as the achievement of a maximum possible bonus pay-out.

