Key observations on 2022 remuneration reports published by 3 March 2023

Increased target setting disclosure, modest CEO salary increases, below target STI pay-outs and above target LTI vesting

We see the trend of increased transparency continuing, with a notable increase in disclosure of non-financial metrics and its performance assessment. We also see an increase of companies disclosing backward-looking target setting (ca. 75%). Forward-looking disclosure of target setting (on all metrics) is still very uncommon.

While we know setting targets and measuring performance in a volatile environment is challenging, only 2 companies have made a discretionary (upward) adjustment to the STI pay-out. 1 company waived the STI pay-out and LTI vesting for its current EB members.

CEO Base salary increased with ca. 2.5% on average in 2022. 25% of companies disclosed a base salary change for 2023, with an average increase of ca. 3% (range between 0% and 8.3%). The CEO base salary increase is generally below the (average) wider workforce increase.

Compared with last year, we see a decrease in CEO Pay Ratio (ca. -6% on average), mainly the result of base salary increases for the wider workforce being above the CEO base salary increases and CEO STI pay-outs dropping versus last year.

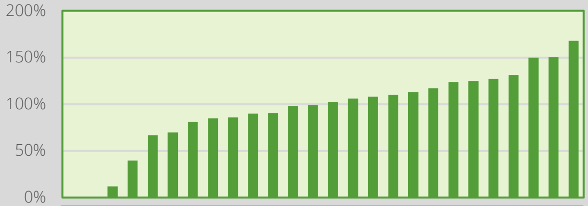
Many companies have introduced ESG-related metrics in recent years. We now see this area maturing, with companies increasing the weights of ESG metrics and changing the metrics to link them stronger to the most material aspects of the ESG strategy. Two companies have introduced an ESG metric for the first time.

While over the last couple of years we have seen a notable increase in time commitment and skillset required, as well as the level of external scrutiny and reputation risk, Supervisory Board fees again remain flat. Also, we see no evidence of fees being linked to Executive Board / wider workforce increases or adjusted for inflation.

STI pay-out and LTI vesting levels

STI pay-out levels are on average (just) below target levels (2021: 116% of target), evidencing that 2022 was financially more challenging than 2021 for most companies. LTI vesting levels are on average above target levels (2021: 87% of target), partly reflecting that companies have potentially taken a somewhat looser approach when setting targets for the 2020-2022 awards very close to the 'trough' of the pandemic.

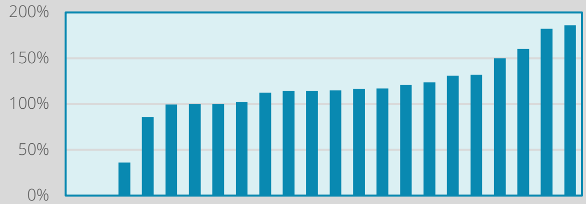
CEO STI pay-out (as % of target)



Average: 94% | Median: 101%

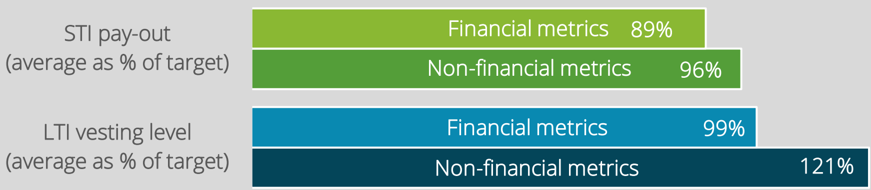
CEO LTI vesting level (as % of target)

(Perfomance Share Plans only)



Average: 109% | Median: 115%

Pay-out of financial vs non-financial metrics



Pay-out/vesting levels for non-financial metrics are on average (substantially) above those for financial metrics. This may have various reasons, but could also indicate that target setting for non-financial metrics is generally less stretching than for financial metrics. This divergence is increasingly attracting attention from investors/proxy advisors.

 | **Analysis based on 11 AEX, 8 AMX and 9 AScX companies with their legal entity and/or HQ in NL that have published their remuneration report over 2022**

Outlook 2023 AGM season

Deloitte.

Economic pressures and high inflation levels create a challenging external environment and RemCos have an increasingly difficult job in rewarding their management teams fairly and appropriately in this environment.

We expect the 2023 AGM season to be a challenging one. We have already seen some of the media (increasingly) scrutinizing large companies and the way companies are acting around employee purchase power challenges, and executive remuneration is likely to be a focal point for some of that concern. Going into the 2023 AGM season, investors will be looking for more detailed information to understand why they should support companies when it comes to voting on executive remuneration (reporting). It is important that RemCos think about, and articulate, how executive pay decisions have been made in the context of the lowest paid employees, vulnerable customers and suppliers, and how the company is reacting to, and supporting, those different stakeholders.

Key considerations ahead of the 2023 AGM season in The Netherlands

Quiet policy season

Ca. 20% of the companies in the current sample is putting the Executive Board remuneration policy to vote at the 2023 AGM. Most companies are making smaller changes (e.g., change of KPI type/weighting), but we also see some more substantial changes (e.g., significant increase in target variable compensation, introduction of new policy). While 2023 will be a quiet policy season, many companies are preparing for submitting an updated remuneration policy to their 2024 AGMs.

Addressing shareholder feedback

Companies are expected to address how shareholder feedback has been taken into account for 2022 executive remuneration decisions.

Eumedion has expressed the intention to recommend to vote against re-appointment (or discharge) of the RemCo Chair if failing to do so.

Wider workforce considerations

Salary increases have been a real focus of investor guidance this year. Also because of the leverage effect of variable compensation on total quantum (as variable compensation is typically expressed as percentage of base salary).

Most companies are setting executive salary increases below the (average) wider workforce increase.

Executive remuneration decisions will be heavily scrutinized on the fairness of proposals in relationship to wider workforce remuneration.

Continued focus on ESG

Having an ESG metric is no longer enough as investors will increasingly challenge the quality of KPIs, measurability, rigor of target setting and alignment of KPIs with the most material aspects of the company's ESG strategy – likely putting (even) more emphasis on sustainability.

Bonus pay-out levels

Last year was a record year for bonus pay-outs. Shareholders were generally supportive, recognizing pay-outs had been low during the pandemic. Over 2022, bonus outcomes are more in line with normal trends and high pay-outs may be heavier scrutinized..

Investor pressure on transparency

Pressure from shareholders, proxy advisors and wider corporate governance community on transparency persists.

As 75% of companies is now disclosing (backward looking) target setting, we expect increased investor pressure on companies that are not yet transparent around target setting.