

# **REMUNERATION POLICY FOR THE BOARD OF MANAGEMENT OF ASML HOLDING N.V. (VERSION 2021)**

# Board of Management Remuneration Policy 2021

This remuneration policy for the Board of Management of ASML Holding N.V. (“BoM”) applies as from January 1, 2021 onwards.

The remuneration policy was approved by the Supervisory Board (“SB”) of ASML, upon recommendation of its Remuneration Committee (“RC”) and adopted by the General Meeting (“GM”) on 29 April 2021. The Works Council exercised its right to cast its advisory vote prior to adoption.

## Remuneration as a strategic instrument

The remuneration policy supports the long-term development and strategy of the Company in a highly dynamic environment, while aiming to fulfill all stakeholders’ requirements and keeping an acceptable risk profile. More than ever, the challenge for us is to drive technology, to serve our customers and to satisfy our stakeholders. These drivers are embedded in the identity, mission and values of ASML and its affiliated enterprises and are the backbone of the remuneration policy. The SB ensures that the policy and its implementation are linked to the Company’s objectives.

The objective of the remuneration policy is to enable ASML to attract, motivate and retain qualified industry professionals for the BoM in order to define and achieve our strategic goals. The policy acknowledges the internal and external context as well as our business needs and long-term strategy. The policy is designed to encourage behavior that is focused on long-term value creation and the long-term interests and sustainability of the Company, while adopting the highest standards of good corporate governance. The policy is aimed at motivating for outstanding achievements, using a combination of non-financial and financial performance measures. Technology leadership and customer value creation are the key drivers of sustainable returns to our shareholders.

## Remuneration principles

The remuneration philosophy that ASML applies for all its employees includes the principle that ASML wants to pay what is fair in the relevant labor market. The SB applies the same principle for the BoM of ASML and in doing so takes the pay and employment conditions for the ASML employees into account when formulating the remuneration policy. The level of support in society for the remuneration policy that ASML applies is important to us and is taken into account when formulating the various elements of this remuneration policy. The Supervisory Board has considered the external environment in which the Company operates, the relevant statutory provisions and provisions of the Dutch corporate governance code, competitive market practice as well as the guidance issued by organizations representing institutional shareholders and input from ASML’s major shareholders. Furthermore, advice has been obtained from an external remuneration expert as well as from the Works Council.

The policy is built on the following principles:

- Transparent – the policy and its execution are clear and practical
- Alignment – the remuneration policy is aligned with the Short-term Incentive and/or Long-Term Incentive policy for ASML senior management and other ASML employees

- Long term – the incentives focus on long-term value creation
- Compliant – ASML adopts the highest standards of good corporate governance
- Simple – the policy and its execution are as simple as possible and easily understandable to all stakeholders

## Reference group and market positioning

Similar to the remuneration philosophy for all ASML employees, ASML offers the BoM a remuneration package that is competitive compared to a relevant labor market. To define this market, a reference group is created, consisting of companies that are comparable to ASML in terms of size and complexity, data transparency and geographical area. For as long as ASML is positioned around the median of the group of companies with respect to size (measured by enterprise value, revenue and number of employees) and thus complexity, the median market level may serve as a reference in determining the level of pay for the BoM.

In principle, the benchmark is conducted every two years. In the year without a market assessment, the SB considers the appropriateness of any change of base salary on the market environment as well as the salary adjustments for other ASML employees. To ensure an appropriate composition of the relevant labor market, the SB reviews the composition of the reference group at the time a benchmark is conducted. Substantial changes applied to the composition of the reference group will be proposed to the shareholders.

The reference group consists of the following companies:

<b>Reference Group composition</b>	
AkzoNobel	Legrand
Alstom	Leonardo-Finmeccanica
Continental	Nokia
Covestro	NXP Semiconductors
DSM	Philips
Ericsson	SAP
Essilor	Schindler
Evonik	Solvay
Givaudan	Yara International
Infineon Technologies	

## Total Direct Compensation

The remuneration levels are determined using the Total Direct Compensation (“TDC”). TDC consists of base salary, a short-term incentive (“STI”) and a long-term incentive (“LTI”). Each component and corresponding performance measures are described in this chapter.

### Base salary

The policy prescribes a benchmark that will only be conducted for the TDC level. The base salary of BoM members is derived from this level.

## Variable compensation

The performance parameters are set by the SB and consist of financial and qualitative measures in such a way that an optimal balance is achieved between the various Company objectives, both in the short term and the long term. By doing so, it is ensured that the variable compensation (the STI and LTI) contributes to the strategy, long-term interests and sustainability of the Company. The SB may adjust the performance measures and their relative weighting of the variable income based on the rules and principles as outlined in this policy, if required by changed strategic priorities in any given year. The SB assesses the extent to which performance standards are met at the end of a performance period.

<b>Variable compensation (on-target)</b>	<b>Presidents</b>	<b>Other Board members</b>
STI	80%	80%
LTI	120%	120%
<b>Total Variable Compensation as % of base salary</b>	<b>200%</b>	<b>200%</b>

The SB has the discretionary power to adjust the incentive pay-out up- or downward if it feels that the outcome is unreasonable due to exceptional circumstances during the performance period ('ultimum remedium'). Scenario analyses of the possible outcomes of the variable remuneration components and their effect on the remuneration of the Board of Management are conducted.

## Short-Term Incentive

The STI refers to the annual performance-related cash incentive that is applicable to all members of the BoM. The target level of the STI is set at 80% of base salary for all members. In case of excellent performance the maximum opportunity amounts to 150% of target.

In order to achieve alignment in the remuneration structure of the BoM and other ASML employees, the STI performance measures, target setting and pay-out scheme as set out in this remuneration policy are in principle the same as for the STI that is applicable to all employees world-wide in ASML (except employees in the Netherlands that fall under the local collective labor agreement and that so far have an own profit sharing plan).

For the STI the following criteria are set:

<b>Performance Measure</b>	<b>Weight</b>
Qualitative	
1. <b>Technology Leadership Index</b>	20%
2. <b>Market position</b>	20%
<b>Financial</b>	60%
3. Every year, prior to the performance period, the SB chooses several financial measures, depending on business challenges and circumstances, with a total weight of 60%.	
<b>Total</b>	<b>100%</b>

The financial measures are in principle chosen from the following list. The SB may deviate from this list when necessary, given any specific challenges in a given year, but will as much as possible choose measures from the below list.

<b>Measure</b>	<b>Description</b>
<b>Sales</b>	Revenues as included in the US GAAP financial statements
<b>Gross Margin %</b>	Gross Profit as a percentage of revenues
<b>R&amp;D opex</b>	R&D expenses as included in the US GAAP financial statements
<b>SG&amp;A opex</b>	SG&A expenses as included in the US GAAP financial statements
<b>EBITDA Margin %</b>	Income from operations (plus depreciation and amortization) as percentage of revenues
<b>EBIT Margin %</b>	Income from operations as percentage of revenues
<b>Net Margin %</b>	Net income as a percentage of revenue
<b>Free Cash Flow</b>	Cash flow from operations minus purchases of Property, Plant and Equipment and intangible fixed assets
<b>Cash Conversion Cycle<sup>1</sup></b>	DIO+DSO-/-DPO
<b>Capital Expenditures</b>	Investment in property, plant and equipment

The performance measures form a balanced mix of financial (60%) and other business measures (40%), which together ensure a balanced focus on both the (financial) performance of the Company in the short term, as well on the sustained Company future in terms of technological advancement and customer satisfaction. Although the targets are set and assessed on an annual basis, in their character they fuel long-term success.

For each of the performance criteria the SB sets challenging, but realistic target levels. The target setting and performance review occur on an annual basis, except for circumstances where the SB considers semi-annual target setting more appropriate. All performance measures are set in advance and will not change during the performance period.

The pay-out levels are prorated upon the level of achievement of the aforementioned performance criteria. Below threshold performance, there is no pay-out. Meeting threshold performance will result in a pay-out of 50% of target pay-out. In case of excellent performance, the maximum pay-out is capped at 150% of the target pay-out. The STI is paid on an annual basis.

<sup>1</sup> SB could also decide to focus on certain elements of Cash Conversion Cycle in any year, i.e. DIO, DSO and/or DPO, instead of Cash Conversion Cycle only

- DIO = Days Inventory Outstanding = Average (last 4 quarters) annual inventory divided by last 4 quarters Sales
- DSO = Days Sales Outstanding = Average (last 4 quarters) accounts receivables divided by last 4 quarters Cost of Sales
- DPO = Days Payable Outstanding = Average (last 4 quarters) accounts payables divided by last 4 quarters Cost of Sales

## Long-Term Incentive

To further enhance a long-term focus and alignment with the long-term strategy of the Company, ASML also grants a long-term incentive (LTI) to its BoM, with a five-year horizon (a three-year performance period plus a two-year holding period).

The LTI refers to the share-based incentive. The target level of the LTI is set at 120% of base salary for all members of the BoM. In case of excellent performance the maximum opportunity amounts to 200% of target.

The performance shares are conditionally granted on an annual basis to the members of the BoM. The shares will become unconditional depending on the achievement of predetermined performance targets during a three-year period. Each performance cycle starts on the first day of the year of grant. The number of performance shares to be conditionally awarded is calculated at the beginning of this period using the volume-weighted average share price during the last quarter of the year preceding the conditional award.

## Performance measures

The LTI performance measures applied for the BoM are identical to the LTI performance measures applied for the senior and executive management population of ASML, to ensure optimal alignment with the employees of ASML that receive performance shares. The performance measures are chosen in such a way that an optimal balance is achieved between the direct interest of ASML's investors, the long-term financial success of the Company, the long-term continuation of technological advancement, as well as the environmental and social dimensions of sustainability. By doing so, the LTI contributes to the strategy, long-term interests and sustainability of the Company.

The above is reflected in the following LTI performance measures:

- ASML's Total Shareholder Return ("TSR") compared to a reference index
- ASML's Return on Average Invested Capital ("ROAIC") compared to a pre-defined target to be set by the SB prior to the performance period
- Long-term strategic qualitative targets to ensure ASML's ability to keep performing at high standards. Depending on the strategic requirements the definition may change upon the discretion of the SB
  - Technology Leadership Index
  - Sustainability

The definition of the TSR target and calculation is as follows:

- ASML's relative change in share price, plus dividends paid over the relevant performance period. The TSR is calculated as the difference between (i) the average (closing) share price during the last quarter of the performance period and (ii) the average (closing) share price during the quarter preceding the performance period; in the calculation, dividends are re-invested at the ex-

dividend date. The TSR of ASML (calculated with the ASML New York share) is compared to the PHLX Semiconductor Sector Index. This NASDAQ index is designed to track the performance of a set of companies engaged in the design, distribution, manufacture, and sale of semiconductors. There are two versions of this index, a price return index and a total return index, the latter of which is chosen (NASDAQ: X.SOX), since this index reinvests cash dividends, equivalent to the TSR definition described above).

The definition of the ROAIC target and calculation is as follows:

- ASML's rate of return on capital it has put to work, regardless of the capital structure of the Company. It is used as a fundamental metric to measure value creation of the Company. The ROAIC is calculated by dividing the Net Operating Profit After Tax ("NOPAT") by the Average Invested Capital ("AIC").

The aforementioned performance measures receive the following weights:

<b>LTI performance measures</b>	
ROAIC	40%
TSR	30%
Technology Leadership Index	20%
Sustainability	10%
Total	100%

### **Performance incentive zone**

The vesting of performance shares depends on the relative TSR as compared to the aforementioned index, the ROAIC performance as compared to the pre-defined target and the evaluation of the qualitative targets by the SB. The vesting will be calculated at the end of the three-year performance period for all performance measures, based on a predefined pay-out matrix.

<b>Performance ASML vs PHLX Index (TSR ASML -/ - TSR X.SOX)</b>	<b>Pay-out as a % of target</b>
≥ 20%	200%
Between 0% and 20%	Linear between 100% and 200%
Between -20% and 0%	Linear between 50% and 100%
< -20%	0%

For ROAIC, the Technology Leadership Index and Sustainability targets, the same principle of threshold, target and maximum levels applies as for the STI, with the maximum pay-out equal to 200% of target. The SB, in cooperation with the relevant subcommittees (Technology Committee, Audit Committee and RC) will assess the performance achieved against ROAIC and the qualitative targets. Both the STI and LTI make use of the Technology Leadership Index as a qualitative performance measure. The objective is equal, but the applicable measures, targets and performance periods are different and aligned with specific short- and long-term strategic priorities.

### **Grant date**

Performance shares will be granted two days after the publication of ASML's annual results in January, of the year in which the three-year performance period starts.

### **Holding period**

The minimum holding period is two years after the vesting date. Upon termination of the employment contracts/management services contracts the transfer restrictions will remain in place during the holding period except in case of passing away.

In case a tax payment is due by the members of the BoM over the retrieved variable income, performance shares may be partially sold at vesting ('sell to cover') in accordance with the law and internal regulations.

### **Share ownership guidelines**

In order to ensure alignment between the interests of the members of the BoM and the Company's long-term value creation, minimum share ownership guidelines apply. Presidents are required to hold at least three times their annual base salary in the form of shares. The minimum shareholding requirement for all other members of the BoM is the equivalent of at least two times their respective annual base salaries. New members of the BoM are granted a three-year period to comply. The SB may use its discretionary judgement to allow for a temporary deviation of this guideline in extraordinary circumstances. In case of a shortfall, this will be remediated through the next vesting of shares.

### **Other remuneration**

The pension arrangement for the BoM is based on the 'excedent' (supplementary) arrangement for ASML employees in the Netherlands. The plan is a defined contribution opportunity as defined in Dutch fiscal regulations. The total defined contribution is a percentage of the pensionable salary, which is equal to the base salary minus the Witteveen threshold<sup>1</sup>, and depends on the participants' age at the beginning of the year. The total net contribution is according to the maximum level as allowed by Dutch fiscal legislation, of which the participant contributes 3.9% of his pension base.

Dependents pension and disability pension are insured on a risk basis, the premium of which is paid by ASML. As a guiding principle, the value of the pension arrangement is set at the median of executive pensions in the Netherlands using a general industry sample of companies.

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<sup>1</sup> Dutch pension arrangements have a threshold in the buildup of pension entitlements. This threshold exists because all participants are assumed to be entitled to the Dutch state pension (AOW) and therefore do not need an additional pension over the first part of their pensionable income.

The minimum level in the fiscal legislation for this threshold is related to the AOW allowance and is known as the Witteveen-threshold. This threshold is calculated as the annual AOW allowance (including holiday allowance) for a married person times 10/7.

An additional remuneration element is expense reimbursements, such as company car costs, travel expenses, representation allowances, housing costs (gross amount before taxes), social security costs, and health and disability insurance costs.

## **Contract terms**

### **Management services agreements with BoM members**

The Company will enter into a management services agreement with each BoM member for the duration of their respective appointments as BoM member. BoM members are appointed for a maximum period of 4 years, after which reappointment is possible. The management services agreements can be terminated by each party by observing a notice period (6 months for ASML and 3 months for the BoM member).

### **Severance payment**

All (management services) agreements with members of the BoM contain specific provisions regarding benefits upon termination of those agreements. If the Company gives notice of termination of the agreement for reasons which are not exclusively or mainly found in acts or omissions on the side of the BoM member, a severance amount equal to one year base salary will be made available upon the effective date of termination.

This severance payment will also be made available in case of a termination of the agreement of a BoM member with mutual consent between such BoM member and the Company.

### **Change of control over the Company**

BoM members are also entitled to the aforementioned severance payment in the event ASML or its legal successor gives notice of termination due to a change of control or if the BoM gives notice of termination, which is directly related to such change of control and such notice is given within twelve months from the date on which the change of control occurs.

The change of control provision includes a mitigation of the pay-out under the LTI. This entails that the share price will be fixed on the average of i) the average closing share price over a period of 15 trading days prior to the first public announcement of change in control negotiations and ii) the average share price over a period of 30 trading days prior to the closing of the transaction.

### **Claw-back**

In order to comply with the highest standards of Corporate Governance the claw-back provisions as laid down in the Dutch Civil Code are incorporated in the (management services) agreements of all members of the BoM.

### **Loans**

ASML does not grant any loans or guarantees to any of the members of the BoM.

## Decision-making process

At least every four years, the Company will submit the remuneration policy to a vote by the GM, upon a proposal of the SB following the recommendation of the RC and advice of the Works Council. In case of a revision of the remuneration policy, a description and explanation is presented of all significant changes, including the rationale for those revisions and other aspects as required by law or the Corporate Governance Code. It is the Company's policy to seek input from organizations representing institutional shareholders as well as from ASML's major shareholders in case significant changes to remuneration arrangements are proposed. The SB is responsible for the execution of the remuneration policy.

## Derogation

In the event of exceptional circumstances, the SB may at its own discretion, upon recommendation of the RC, decide to temporarily derogate from the remuneration policy. A derogation for exceptional circumstances only covers situations in which the derogation from this remuneration policy is necessary to serve the long-term interests and sustainability of the Company as a whole or to assure its viability. Such exceptional circumstances include, but are not limited to, situations such as the urgently required appointment of a BoM member or the buy-out of remuneration forfeited on joining the Company to facilitate recruitment of new BoM members, comprising cash or equity incentives. Derogation may relate to the following aspects of this remuneration policy (including the subsections thereof): Total Direct Compensation, Other Remuneration and Contract Terms.

## **Annex 1 Rationale Remuneration Policy**

# Rationale for the Remuneration Policy (version 2021) for the Board of Management of ASML Holding N.V.

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The 2021 remuneration policy for the Board of Management ("BoM") of ASML Holding N.V. ("ASML" or the "Company") builds on the remuneration policy that was developed since 2017, when a major revision took place. ASML is facing constant change and is proactively proposing revisions to the policy, where necessary, to support the development and strategy of the Company in a highly dynamic environment, while aiming to fulfill all stakeholders' requirements and keeping an acceptable risk profile.

In 2019, some minor adjustments were proposed to keep BoM remuneration levels competitive in relation to the increased company size and complexity. In 2020 the policy was revised to comply with the new requirements resulting from the revised EU Shareholder Rights Directive. No substantive changes were made to the remuneration structure, elements and levels at that time. The proposed 2021 revision is a minor adjustment of the 2020 policy to maintain competitive remuneration levels in relation to a labor market in which ASML has considerably grown again in size and complexity since the policy review in 2019.

## Objective and principles

The objective of the remuneration policy is to enable ASML to attract, motivate and retain qualified industry professionals for the BoM in order to define and achieve our strategic goals.

The remuneration philosophy that ASML applies for all its employees includes the principle that ASML wants to be competitive in its relevant labor markets and pay what is fair in such markets, while maintaining internal consistency in reflecting differences in size and complexity of individual jobs. The Supervisory Board ("SB") applies the same principle for the BoM of ASML and in doing so takes the pay and employment conditions for the ASML employees into account when formulating the remuneration policy.

The level of stakeholder support, including the support in society, for the remuneration policy that ASML applies is important to us and is taken into account when formulating the various elements of this remuneration policy. The SB has carefully considered the external environment in which the Company operates, the relevant statutory provisions and provisions of the Dutch corporate governance code, competitive market practice as well as the guidance issued by organizations representing institutional shareholders. The SB has discussed its proposals with the Works Council of ASML Netherlands B.V. and received their understanding and feedback. The SB also received input from ASML's major shareholders. Furthermore, advice has been obtained from an external remuneration expert.

Diligent consideration has been given in the light of the COVID-19 pandemic. ASML is well aware of how the pandemic has impacted the economy and the whole world for that matter. We have contemplated whether this should lead to postponing or canceling policy adjustments despite the outcome of the bi-annual reference group review and benchmark. However, as it turned out, ASML has hardly been impacted by the pandemic in terms of business and financial performance. Expressed in revenue, profit and share price, 2020 was a record year for the Company. ASML did not need or apply for any financial government support related to the pandemic. We continued to return capital to our shareholders by means of growing dividends and execution of our share buyback program, which was paused in Q1 2020 following the COVID-19 outbreak, but resumed in Q4, as part of our unchanged capital return policy. Finally, we also did not see companies in our industry lower their remuneration levels in response to, or as a result of, the COVID-19 pandemic.

Altogether, ASML therefore thinks it is justified to continue as planned and propose some minor adjustments to the remuneration policy following the bi-annual review of the reference group and corresponding remuneration benchmark.

## Changes to the 2019/2020 policy

### Reference Group

Similar to the remuneration philosophy for all ASML employees, ASML offers the BoM a remuneration package that is competitive compared to a relevant labor market. For the BoM, this market is defined by creating a reference group of companies comparable to ASML in terms of size and complexity, data transparency and geographical area. For example, US- or Asian-headquartered companies are excluded (despite the fact that many of our industry peers are in those markets), as their pay policies and practices are considered very different from European companies. The median market pay level of the chosen reference group serves as reference point for determining the level of pay for the BoM for as long as ASML is positioned around the median of the reference group in terms of company size (measured by enterprise value, revenue and number of employees) and thus complexity.

In principle, the benchmark is conducted every two years. To ensure an appropriate composition of the relevant labor market, the SB reviews the composition of the reference group at the time a benchmark is conducted. Substantial changes applied to the composition of the reference group will be proposed to the shareholders. In the year without a market assessment, the SB considers the appropriateness of any change of base salary in light of the market environment as well as the salary adjustments for other ASML employees.

The last review of the reference group and a corresponding benchmark took place in 2018 (based on 2017 data) and was the basis for the adjustments in the remuneration policy of 2019. Since then, the reference group (consisting of twenty companies) has not changed, whereas ASML has grown considerably.

In 2020 we again reviewed the reference group. As a result of the growth of ASML, one company in the reference group, Smith & Nephew PLC, became too small compared to ASML and will therefore be removed. Two other companies will be removed (Shire PLC and Linde AG) because they were acquired by or merged with companies outside Europe and therefore no longer qualify as reference companies due to geography.

To keep the size of the reference group more or less equal, two new companies were added to the reference group: NXP Semiconductors, which is an industry peer of ASML, and Ericsson, which is on average larger than ASML and therefore brings ASML closer to the median of the reference group in terms of size. In the new reference group, ASML ends up slightly above the median (55<sup>th</sup> percentile) in terms of size.

Altogether, three companies were removed and two added, so that the new reference group consists of 19 companies. We do not consider this a significant change to our reference group.

### Pay Mix

As a guiding principle, the ASML Total Direct Compensation (TDC) at the target level is benchmarked against the median TDC level of the reference group. TDC consists of base salary, a short-term incentive (STI) and a long-term incentive (LTI).

A benchmark against the revised reference group was carried out in 2020 (based on 2019 remuneration data), two years after the previous benchmark. The benchmark showed that

the TDC level for the BoM (which, apart from a 2% base salary increase in 2020, has not been increased since the policy review in 2019) was lower than the median of the TDC level of the reference group. Base salary was slightly higher than the median, but LTI was lower. The SB would like to bring the pay mix more in line with the market by increasing the at-target level LTI to 120% of base salary for all BoM members (from 110% for the Presidents and 100% for the other BoM members). This will bring the TDC level (at target) closer towards the median level of the revised reference group. There is no change proposed in the design of the plan. Although ASML is positioned higher than the median of the reference group in terms of *size*, it was decided to keep the median *pay* level of the reference group still as reference point, not any higher position.

As an extra check, ASML also carried out an internal pay analysis, comparing the remuneration levels of the BoM with those of the senior management population in ASML the Netherlands. The conclusion is that the new proposed BoM remuneration levels are well aligned internally as well, besides the external market alignment as described above.

It should further be noted that the proposed 2021 policy levels are based on market and company data of 2019, whereas ASML has grown further since and pay increases have taken place in the market. This proposal does *not* contain a provision for an 'upward estimate', so-called 'aging', to take this two-year gap into account. This has been a conscious choice that ASML has consistently applied for years now, and which is driven by the desire to be transparent and only base decisions on known (publicly available) remuneration data. ASML is aware that this could be perceived as a conservative approach.

## In summary

With the adjustments in the remuneration policy as set out above, ASML abides by its five remuneration principles of transparency, alignment, long-term orientation, compliance and simplicity. The changes can be summarized as follows:

1. The reference group has been adjusted to fit the growth of ASML, so that ASML is positioned again around the median in terms of size (55<sup>th</sup> percentile).
2. The Total Direct Compensation (TDC) at target has been adjusted so that it is closer to the median TDC levels of the revised reference group. This is done by an increase in the at-target level of LTI. Shareholder approval is required for the change in LTI at-target levels.