

**REMUNERATION POLICY FOR THE BOARD OF  
MANAGEMENT OF ASML HOLDING N.V.  
(VERSION ~~2017~~2019)**

# Remuneration Policy ~~2017-2019~~

This remuneration policy applies as from January 1, ~~2017-2019~~ onwards.

The remuneration policy was approved by the Supervisory Board (“SB”) of ASML Holding N.V. (“ASML” or the “Company”), upon recommendation of its Remuneration Committee (“RC”) and adopted by the Annual General Meeting of Shareholders (“AGM”) on 26 April 2017 and (with some small adjustments) on 24 April 2019.

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 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

The selection of companies for the reference group is driven by criteria of comparability 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), the median market level may serve as a reference in determining the level of pay for the Board of Management (“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 in conjunction with the frequency of the benchmark. Substantial changes applied to the composition of the reference group will be proposed to the shareholders.

The reference group consists of the following companies:

| Reference Group composition |                       |
|-----------------------------|-----------------------|
| AkzoNobel                   | Leonardo-Finmeccanica |
| Alstom                      | Linde                 |
| Continental                 | Nokia                 |
| Covestro                    | Philips               |
| DSM                         | <del>SAP</del>        |
| Essilor                     | Schindler             |
| Evonik                      | Shire                 |
| <del>Gemalto</del>          | Smith & Nephew        |
| Givaudan                    | Solvay                |
| Infineon Technologies       | <del>UCB</del>        |
| Legrand                     | Yara International    |

## 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.

Other remuneration elements are pension and expense reimbursements. The latter may include company car costs, travel expenses, representation allowances, housing costs (gross amount before taxes), social security costs, and health and disability insurance costs.

### 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 Income

The performance parameters are set by the SB and consist of financial and qualitative measures. 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.

| Variable compensation (on-target)                      | Presidents           | Other Board members  |
|--|----------------------|----------------------|
| STI  | <del>65%</del> 80%   | <del>65%</del> 80%   |
| LTI  | <del>100%</del> 110% | <del>85%</del> 100%  |
| <b>Total Variable Compensation as % of base salary</b> | <del>165%</del> 190% | <del>150%</del> 180% |

In order to comply with the highest standards of Corporate Governance the appropriate claw-back and change-in-control provisions are incorporated in the employment contracts and management services contracts of all members of the BoM.

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 ~~65%~~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 policy includes a modifier on the STI pay-out that is connected to the profit-sharing program for employees in the Netherlands. In applying the modifier, the SB will take into account the pay-out under the profit-sharing scheme for ASML employees. The modifier enables the SB to discretionary adjust the STI pay-out of the BoM upward with 10% or downward with 20% of base salary.

For the STI the following criteria are set:

| Performance Measure  | Weight      |
|--|-------------|
| <b>Qualitative</b>   |             |
| 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 choses several financial measures from below list, depending on business challenges and circumstances, with a total weight of 60% |             |
| <b>Total</b>   | <b>100%</b> |

The financial measures are chosen from the following list:

| Measure                                  | Description  |
|--|--|
| <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  |

<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 (*in the version of this Policy that was provided to the AGM on 26 April 2017, an erroneous reference to "Cost of Sales" was included in the definition of DSO, whilst this definition actually includes a reference to "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

The performance measures form a balanced mix of financial (60%) and other business measures (40%).

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.

### Long-Term Incentive

The LTI refers to the share-based incentive. The target level of the LTI is set at ~~100%~~110% of base salary for the Presidents and ~~85%~~100% for the other 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

Three types of performance measures relate to the LTI:

- 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 and relative weight 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%         |
| <b>Total</b>                    | <b>100%</b> |

### **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<br/>(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 and Strategy Committee, Audit Committee and Remuneration Committee) 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**

Members of the BoM are required to hold at least two times base salary in the form of shares; for the two Presidents this is three times base salary. This ensures an alignment of the interests of members of the BoM with long-term value creation throughout their employment with/services for the Company. The RC of the SB will (i) after each financial year, determine the value of ASML shares then held by the individual members of the BoM, based on the shareholding data of the members of the BoM (to be) published in the annual report over that year, (ii) include vested ASML shares that are still in the holding period when determining the value of the ASML shares held by the individual members of the BoM, (iii) not define penalties upfront should the value of ASML shares held by a member of the BoM be lower than agreed, but determine potential penalties by using its discretionary judgment, thereby taking into consideration all relevant circumstances, and (iv) allow new members of the BoM time to meet the share ownership requirements (3 years, depending on the actual situation).

### **Other remuneration**

#### **Benefits**

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.

### **Severance payment**

All employment agreements respectively 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.

### **Loans**

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

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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.