REMUNERATION POLICY FOR THE BOARD OF MANAGEMENT OF ASML HOLDING N.V. (VERSION 2022)

Board of Management Remuneration Policy 2022

This remuneration policy for the Board of Management of ASML Holding N.V. ("ASML" or "the Company") applies as from January 1, 2022 onwards.

The remuneration policy was approved by the Supervisory Board of ASML, upon recommendation of its Remuneration Committee and adopted by the General Meeting on April 29, 2022. The Works Council of ASML Netherlands B.V. exercised its right to cast its advisory vote prior to adoption.

Remuneration as a strategic instrument

The remuneration policy supports the strategy, long-term interests, and sustainability 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 Supervisory Board ensures that the policy and its implementation are linked to the Company's objectives. A direct way in which this is achieved is by determining performance measures and setting targets with respect to variable compensation that are linked to our short-term and long-term ambitions. More indirectly, we want to ensure that our remuneration policy enables ASML to attract, motivate and retain qualified industry professionals for the Board of Management in order to define and achieve our strategic goals. This is reflected by determining a remuneration structure and remuneration levels that intend to be competitive in the relevant labor market, while at the same time being aware of societal trends and perception. Therefore, 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, as well an appropriate ratio between base salary and variable compensation. Technology leadership, customer value creation and employee engagement 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 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 responsibilities. The Supervisory Board applies the same principle for the Board of Management 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 as well 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. The Supervisory Board's Remuneration Committee engaged extensively with various stakeholders to obtain their perspectives. These stakeholders included ASML's shareholders, shareholder interest organizations, proxy advisors and the Works Council of ASML Netherlands B.V. The feedback of our stakeholders is summarized in the document "Stakeholder feedback on the proposal to amend the

Remuneration Policy of the Board of Management of ASML Holding N.V." which is available on ASML's website (www.asml.com/agm2022).

In line with the Dutch corporate governance code, the members of the Board of Management have been asked to share their views on the proposed amendments of their own remuneration. Furthermore, advice has been obtained from an external remuneration expert.

The remuneration policy is built on the following principles:

- Competitiveness – the remuneration structure and levels intend to be competitive in the relevant labor market, while at the same time taking into account societal trends and perceptions
- Alignment – the remuneration policy is aligned with the short-term and long-term incentive policy for ASML senior management and other ASML employees and takes into account internal relativities
- Long term orientation – the policy and incentives focus on sustainable and long-term value creation
- Compliance – ASML adopts the highest standards of good corporate governance
- Simplicity and transparency – 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 intends to offer the members of the Board of Management 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, industry or business profile, data transparency and geographical area. The reference group may include Dutch and international companies where members of the Board of Management might be recruited to and from.

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 remuneration for the Board of Management.

Since ASML is a Dutch headquartered company, the Supervisory Board also takes into account the external environment in which the Company operates in the Netherlands, and furthermore considers the competitive market practice as well as the guidance issued by organizations representing institutional shareholders in the Netherlands, and has decided not to follow the (high) international market level for long-term incentives ("LTI") and as such cap the maximum target LTI award at 200% of base salary. This implies that the reference to a median market level described above will be used for the cash compensation only (i.e. the base salary and the short-term incentive ("STI")), as the LTI will be capped.

Since ASML has a dual presidency and considers the two presidents of equal weight and importance to the Company, the Supervisory Board has decided to continue the Company's longstanding practice that the relevant benchmark reference level for the two presidents is the average of the CEO level and that of the other members of the Board of Management in the labor market data, instead of benchmarking against CEO data only. For the other members of the Board of Management, the Supervisory Board has applied the average of all non-CEO members of the Board of Management in the benchmark as relevant reference, instead of differentiating between members of the Board of Management.

In principle, a benchmark of the Board of Management remuneration is conducted every two years. In the year without a market assessment, the Supervisory Board considers the appropriateness of any change of base salary, taking into account the market environment as well as the salary adjustments for other ASML employees. To ensure an appropriate composition of the relevant labor market, the Supervisory Board reviews the composition of the reference group at the time a benchmark is conducted. The composition of the reference group may be adjusted as a result of takeover transactions, mergers or other corporate activities. Substantial changes applied to the composition of the reference group will be proposed to the shareholders.

The current reference group consists of the following companies:

Reference group composition		
European companies with focus on long-term technology / industrial engineering / R&D	**Semiconductor manufacturing / design companies**	**Semiconductor equipment companies**
ABB	Broadcom	Applied Materials
Airbus	Intel	Lam Research
Dassault Systèmes	Qualcomm	
Infineon Technologies		
Linde		
Medtronic		
Novartis		
NXP Semiconductors		
Philips		
Roche		
SAP		
Shell		
Siemens		
Siemens Healthineers		
Schneider Electric		

Total direct compensation

The remuneration levels are determined using the Total Cash Compensation (“TCC”). TCC consists of base salary and an STI. A capped LTI is added to TCC, which then together constitutes the Total Direct Compensation (“TDC”). 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 TCC level. The base salary of Board of Management members is derived from this TCC level. The actual base salary and annual increases will be reported in the remuneration report.

Variable compensation

The variable compensation consists of the STI and the LTI. The performance parameters for the variable compensation are set by the Supervisory Board and consist of financial and non-financial 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 contributes to the strategy, long-term interests and sustainability of the Company. The Supervisory Board 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 Supervisory Board assesses the extent to which performance standards are met at the end of a performance period.

Maximum variable compensation (on-target)	**Market reference**	**Presidents**	**Other members of the Board of Management**
STI	Determined based on ASML's relative position in the reference group capped at 50th percentile	Maximum target STI aligned with the 50th percentile: 120%	Maximum target STI aligned with the 50th percentile: 100%
LTI	Maximum target LTI is capped at 200% of base salary	200%	200%
Total maximum target variable compensation as % of base salary		320%	300%

The above-mentioned maximum target STI levels can be implemented if ASML's relative positioning in the reference group is at least equal to the median (in terms of size). For 2022, the target STI level will be lower, namely 95% for the Presidents and 90% for the other members of the Board of Management, aligned with a positioning in the reference group slightly below the median (in terms of size) at the time of designing this policy, and applying a gradual transition into the new policy levels. For the same reason, the target LTI level for 2022 will be 160% of base salary, for all members of the Board of Management.

The Supervisory Board 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.

Scenario analyses of the possible outcomes of the variable remuneration components and their effect on the remuneration of the Board of Management have been conducted.

Short-term incentive

The STI refers to the annual performance-related cash incentive that is provided to all members of the Board of Management. The STI target level is set in accordance with the 2022 Remuneration

Policy. In case of excellent performance the maximum STI opportunity amounts to 150% of target. In order to achieve alignment in the remuneration structure of the Board of Management 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 currently have an own profit sharing plan).

STI performance measures

For the STI the following criteria are set:

STI performance measure	**Weight**
Financial measures	**60%**
Every year, prior to the performance period, the Supervisory Board chooses 1-3 financial measures aligned with the business priorities and challenges for the given year, for example revenue measures, profit / margin measures, cash flow measures, cost measures (e.g., R&D, SG&A expenses, etc.), productivity measures, capital expenditures or economic / value added measures. The selected financial performance measures and their individual weighting will be disclosed ex-ante in the remuneration report. The target levels and actual achievement per selected measure will be disclosed ex-post in the remuneration report, except when this concerns sensitive information that is not in the interest of ASML or its shareholders to be disclosed. The accounting standards used for calculating relevant STI targets are US GAAP	
Non-financial measures	**40%**
• Technology Leadership Index • Customer Orientation These two non-financial performance measures are related to technology advancement and customer experience and consist of several sub-measures. Every year, prior to the performance period, the Supervisory Board will determine the relevant sub-measures and target setting aligned with the business priorities and challenges for the given year. The selected non-financial performance measures will be disclosed ex-ante in the remuneration report. The target levels and actual achievement ex post in the remuneration report, except when this concerns sensitive information that is not in the interest of ASML or its shareholders to be disclosed	20% 20%
Total	**100%**

The performance measures form a balanced mix of financial and non-financial measures, which together ensure a balanced focus on both the performance of the Company in the short term, as well on the Company's sustainable 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 selected performance measures, the Supervisory Board sets challenging, but realistic target levels. The target setting and performance review occur on an annual basis, except for circumstances where the Supervisory Board considers semi-annual target setting more appropriate. All performance measures and corresponding target levels 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 measures. 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

To further enhance a long-term focus and alignment with the long-term strategy of the Company, ASML also grants an LTI to the members of the Board of Management, 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 capped at 200% of base salary. In case of excellent performance the maximum opportunity amounts to 200% of the target level. The performance shares are conditionally granted on an annual basis to the members of the Board of Management. 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.

LTI performance measures

The LTI performance measures applicable to the Board of Management are aligned with the LTI performance measures for the senior and executive management of ASML, in order 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 and the long-term continuation of technological advancement, whilst also taking into account the objectives for the environmental, social and governance ("ESG") aspects relevant to the Company. By doing so, the LTI contributes to the strategy, long-term interests and sustainability of the Company, as reflected in the following LTI performance measures:

- ASML's Total Shareholder Return ("TSR") compared to a reference index
- Long-term strategic and qualitative targets to ensure ASML's ability to keep performing at high standards and for creating future value for all stakeholders. Depending on the business priorities for the given 3-year performance period the definition of the measures may change upon the judgement of the Supervisory Board:
    - Technology Leadership Index
    - ESG measures
    - Long-term strategic value drivers

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 aforementioned performance measures receive the following weights:

LTI performance measure	Weight
Relative TSR	30%
ESG measures The selected measures, their individual weighting and the target levels will be disclosed ex-ante in the remuneration report. Actual achievement per selected measure will be disclosed ex-post in the remuneration report	20%-30%
Technology Leadership Index	20%-30%
Strategic value drivers The selected measures, their individual weighting and the target levels will be disclosed ex-ante in the remuneration report. Actual achievement per selected measure will be disclosed ex-post in the remuneration report. When the selected strategic value drivers concern sensitive information that is not in the interest of ASML or its shareholders to be disclosed, the target levels and actual achievement will not be disclosed. The accounting standards used for calculating financial LTI targets (if any) are US GAAP	20%-30%
Total	**100%**

LTI performance incentive zone

The performance shares are subject to three-year vesting period (the performance period). At the end of the performance period, the vesting of performance shares will be calculated for all performance measures, based on predefined pay-out matrices.

Relative TSR incentive zone

Performance ASML vs PHLX Index	Pay-out as a % of target
Upper quartile or above	200%
Between median and upper quartile	Linear between 100% and 200%
Between lower quartile and median	Linear between 25% and 100%
Below lower quartile	0%

For measures other than the relative TSR, the following performance incentive zone applies:

LTI target	Below threshold	Threshold	Target	Maximum
Pay-out	0%	50%	100%	200%

The Supervisory Board, in cooperation with the relevant subcommittees (Technology Committee, Audit Committee and Remuneration Committee) assesses the extent to which the performance targets are met.

Both the STI and LTI include the Technology Leadership Index as a non-financial performance measure. The objective is the same, but the applicable measures, targets and performance periods are different and are respectively aligned with specific short- and long-term strategic priorities.

Holding period

The minimum holding period is two years after the vesting date. Upon termination of the management services contracts of a member of the Board of Management, 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 Board of Management 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 Board of Management and the Company's long-term value creation, minimum share ownership guidelines apply. The minimum shareholding requirement for the Presidents is equivalent to three times their annual base salary and for other members of the Board of Management two times their annual base salary. These shareholdings may be built up over five years. At its discretion, the Supervisory Board may waive this obligation for a limited period of time in the event of extraordinary circumstances.

Other remuneration

The pension arrangement for the members of the Board of Management 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[1], 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.

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, or other benefits which reflect local market practice.

Further information regarding the benefits and pension arrangements for current members of the Board of Management are disclosed in the remuneration report.

Contract terms

Management services agreements with members of the Board of Management

The Company enters into a management services agreement with each member of the Board of Management for the duration of his or her respective appointment as member of the Board of Management. Members of the Board of Management are appointed for a maximum period of 4

[1] Dutch pension arrangements have a threshold in the build-up 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.

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 member of the Board of Management).

Severance payment

The management services agreements with members of the Board of Management 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 member of the Board of Management, 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 member of the Board of Management with mutual consent between such member of the Board of Management and the Company.

Change of control over the Company

Members of the Board of Management 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 member of the Board of Management 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 the members of the Board of Management. Any application of claw-back will be disclosed and explained in the remuneration report.

Loans

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

Decision-making process

At least every four years, the Company will submit the remuneration policy to a vote by the General Meeting, upon a proposal of the Supervisory Board following the recommendation of the Remuneration Committee and after providing the Works Council the opportunity to give advice. 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 Supervisory Board is responsible for the execution of the remuneration policy.

Temporary deviation

In the event of exceptional circumstances, the Supervisory Board may at its own discretion, upon recommendation of the Remuneration Committee, decide to temporarily deviate from the remuneration policy. A deviation for exceptional circumstances only covers situations in which the deviation 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 member of the Board of Management or the buy-out of remuneration forfeited on joining the Company to facilitate recruitment of new members of the Board of Management, comprising cash or equity incentives. Deviation may relate to the following aspects of this remuneration policy (including the subsections thereof): Total Direct Compensation, Other Remuneration and Contract Terms.

ANNEX 1: STI and LTI performance measures and target setting for 2022

For 2022, the Supervisory Board has decided to apply the following STI performance measures:

Performance measure	**Weight**
EBIT Margin %	60%

Customer Orientation, consisting of four equally weighted sub targets:
• Applications market share
  o YieldStar
  o HMI Single Beam
• DUV output (systems)
• EUV availability
• VLSI customer survey
	20%

Technology Leadership Index	20%

The targets levels for the STI performance measures and the actual achievement will be disclosed ex-post in the 2022 Remuneration Report except when this concerns sensitive information that is not in the interest of ASML or its shareholders to be disclosed.

For the 2022-2024 performance period, the Supervisory Board has decided to apply the following LTI performance measures and target setting:

Performance measure	**Weight**	**Target setting**			**2021 Actuals**
		Threshold	*Target*	*Maximum*	
Relative TSR	30%	As per policy (see earlier)			
Strategic value driver: Cash Conversion Rate % (3-year average)[2]	30%	80.0%	90.0%	95.0%	120.9% / 100.1% (normalized)[3] (3-year average)
ESG Measures: • EUV energy use per wafer pass • Employee engagement • % female JG13+	20%	 7.0 kWh X[4] - 4 % point 10%	 6.5 kWh X[4] - 3 % point 12%	 6.0 kWh X[4] 14%	 8.3 kWh X – 4% points 8%
Technology Leadership Index	20%	4	6	10	

The actual achievement for the LTI performance measures will be disclosed ex-post in the 2022 Remuneration Report.

[2] In setting the Cash Conversion Rate % target levels, the Supervisory Board has taken into account that, for a growing company such as ASML, it is generally challenging to fully convert net income into cash, as a larger company generally requires more working capital and fixed assets, which ties up cash. For ASML, this effect is amplified by the upcoming large investments and long lead-times related to High NA.
The main reason that ASML realized a cash conversion significantly above 100% in 2021 is driven by the (one-off) step up made in down payments.
[3] CCR% is calculated by dividing Free Cash Flow by Net Income (3-year average). For the normalized CCR% actual, Free Cash Flow actual is excluding early payments received in a certain financial year from customers without a contractual payment obligation in that financial year.
[4] X = top 25% companies

ANNEX 2: Rationale for amending the Remuneration Policy of the Board of Management

The 2022 remuneration policy for the Board of Management builds on the remuneration policy that was developed since 2017, when a last major revision took place. Since that time, only limited adjustments have been implemented, mainly to reflect the increased size of ASML. This has been done by slightly adjusting the labor market reference group to ensure that ASML remained around the median in terms of size, and by benchmarking remuneration levels of the Board of Management against the (adjusted) reference group. Since 2017, this has led to incremental changes in the STI and LTI, in order to remain competitive compared to the chosen labor market.

ASML has a practice to conduct a remuneration benchmark every two years, which may be followed by the implementation of certain changes to the remuneration policy, and to consider the need for more fundamental changes in the fourth year after a major revision. In line with that practice, the next major revision after the 2017 policy review would have been in 2021. However, due to the Covid-19 pandemic, it was decided to only carry out a new benchmarking at that time, and consider any further, more fundamental changes in 2022. Therefore, five years after the last major revision in 2017, the Supervisory Board considered a more fundamental revision due for 2022, to evaluate to what extent a more comprehensive adjustment would be appropriate.

In these five years, ASML has grown significantly. For example (comparing 2021 with 2016, based on full-year figures available prior to effective data of the revised policies), the revenue increased from almost seven to almost 19 billion (170%), headcount increased from below 14.000 to almost 33.000 (140%) and the share price increased from just above EUR 80 to just above EUR 700 (750%), the latter also having an evident impact on the market cap of the Company. Apart from these numbers, with its growth, ASML has become a true global player, not just in the semiconductor industry, but in the world at large.

Not only ASML has changed during this time, but also the context in which it operates. Society and ASML's stakeholders have different expectations compared to five years ago. Given its position in the world, ASML has a responsibility to live up to, which is reflected in its future aspirations, and which go beyond financial growth.

Given this new context and position, a review of the remuneration policy was needed to reflect the growth and strategic objectives of the Company.

Labor market reference group

The first step as part of this policy review was to assess whether the current labor market reference group was still appropriate, both in terms of size and in terms of composition. An important principle of our remuneration policy is to ensure that ASML is able to attract, motivate and retain qualified industry professionals for the Board of Management in order to define and achieve our strategic goals. This is the same principle that ASML applies for all its employees, viz. to be competitive in the relevant labor markets and to pay what is fair in such markets.

Given ASML's position in the world, the conclusion is that ASML's labor market for Board of Management positions extends beyond Europe. Our labor market competitors are large global players active on at least three continents. Therefore, the Supervisory Board considered whether qualified industry professionals should solely be targeted in Europe, as has been done up until now, or in Asia and the US as well. The outcome of these considerations and analyses is to propose a more international reference group, that is still weighted towards European companies (75%), but also contains several US companies (25%). In this proposal, ASML has taken into account the advice from shareholder representatives and proxy advisors that for companies headquartered in Europe, the share of US companies in its reference group should not be too dominant. The reason that no Asian companies are included is mainly because of the fact that they do not disclose remuneration data.

Positioning in the reference group

A next step was to determine the positioning in the labor market reference group. Even though the share of US companies in the reference group is only 25% and therefore the impact on the median remuneration levels is limited, ASML is aware of the perception that may arise as a result of benchmarking with US companies, especially in the Netherlands, since pay levels in the US are significantly higher than in Europe (mainly because of higher share grants). The Supervisory Board has given this thorough consideration and concluded that although ASML compares with an international reference group, it does not want to follow the LTI levels that are common in the labor market reference group.

This is why the LTI levels are capped at 200% of base salary, which is significantly lower than the median levels of the reference group. It must be noted here that the median levels of LTI are not only high because of the US companies in the reference group. As already explained above, with a share of only 25%, the US companies have limited impact on the median levels. The fact is that also within the rest of Europe, LTI levels are much higher than in the Netherlands. So also without US companies in the reference group, the median LTI levels would be much higher than proposed. Base salary and STI levels of the reference group are more comparable with those in the Netherlands, which is why the Supervisory Board has decided to benchmark the cash compensation (base salary and STI) against the median levels of the reference group, and to keep the LTI capped at 200% of base salary.

Dual presidency and differentiation between members of the Board of Management

Related to the positioning in the reference group, is the question how we treat the dual presidency of ASML and whether or not differentiation in remuneration between the other members of the Board of Management is desired.

ASML considers the two presidents (CEO and CTO) of equal weight and importance to the Company, although they fulfill different roles. It has been longstanding practice within ASML that in benchmarking with the market, the relevant reference level for the two presidents is the average of the CEO level and that of the other members of the Board of Management in the labor market data, instead of benchmarking against pure CEO data.

It has also been a conscious decision to not differentiate remuneration levels of the other members of the Board of Management as these roles are considered of equal weight and importance to the Company. This is why the Supervisory Board has applied the average of all non-CEO members of the Board of Management in the market benchmark as relevant reference, instead of differentiating between the other members of the Board of Management.

Transition and compensation levels for 2022

Following the median of the reference group, a target STI level of 120% of base salary would be appropriate for the presidents (taking into account the dual presidency) and 100% for the other members of the Board of Management. However, at the time of benchmarking (2021, based on 2020 data), ASML positioned slightly below the median of the reference group in terms of size. This is why the 120% and 100% will serve as maximum in this policy but will not be applied immediately.

Based on the current positioning in the reference group, and also in order to apply a gradual transition into the new remuneration levels, the STI target levels for 2022 will be 95% of base salary for the presidents and 90% for the other members of the Board of Management. The maximum levels of 120% and 100%, respectively, can be applied as soon as ASML positions at least at median level in terms of size. This will be determined at the beginning of any new calendar year and will not be changed during a year.

A similar rationale holds for the LTI. However, the LTI is already capped at (much) lower levels than the median of the reference group. Therefore, only the transition element is relevant here, which implies that for 2022 a target level of 160% of base salary will be in place (for all members of the Board of Management).

The base salary of the presidents and the other members of the Board of Management is considered competitive compared to the reference group and will therefore not change in 2022 compared to 2021.

Altogether, with the proposed increase of STI and LTI targets levels, the TDC (consisting of base salary + STI + LTI) for 2022 compared to 2021 will increase with 18% for the presidents and 17% for the other members of the Board of Management. Although this is a significant increase, the Supervisory Board considers this appropriate given all arguments mentioned above. It is noted that, even with this proposed increase, ASML positions on the low side of the reference group in terms of TDC, while it is close to median in terms of size.

ASML also carried out an internal pay analysis, comparing the remuneration levels of the Board of Management with those of the senior management population in ASML in the Netherlands. The conclusion is that the new proposed Board of Management remuneration levels are still aligned internally as well.

It is furthermore noted that the proposed 2022 policy levels are based on market and company data of 2020, 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 the Supervisory Board 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, and which could be perceived as a conservative approach.

Changes in STI and LTI performance measures

The next step in the review of the remuneration policy was to see to what extent the performance measures of the STI and LTI needed adjustment to better reflect the Company's strategic objectives. It was concluded that the STI and LTI performance measures of the current policy were largely still the appropriate measures to incentivize the Board of Management in defining and executing the strategy aimed at the creation of value for ASML and its stakeholders. However, there were some areas where changes were deemed appropriate.

Regarding the STI, an important overall driver was to increase simplicity and transparency, and to finetune the alignment with strategic objectives, especially related to the strategic pillar 'strengthen customer trust', which was introduced as an element of the corporate strategy in 2020. In the new proposal, largely the same structure as in the 2021 policy is kept, with some meaningful adjustments. The new proposed set-up is explained as follows:

- The intention is to reduce the number of **Financial performance measures** that are chosen every year. For example, for 2022 only EBIT Margin % will be taken, instead of a fixed number of three financial performance measures as was the case in the 2021 policy. It is furthermore the intention to be transparent about the level and realization of these financial performance measures by disclosing the targets in advance and the realization ex post.
- The previous “Market Position” measure is renamed into “**Customer Orientation**”, and will continue to focus on customer satisfaction, but ASML will strive here for simpler targets that are more directly linked to the customer experience.
- For the **Technology Leadership Index** there will be no change. This has been instrumental in driving our technological advancement over the last years and will continue to do so. There is a well-established process in the company to set targets and measure performance on this element. Hence a continued performance measure in the STI.
- The weight of the different elements were also considered appropriate and will not change (60% Financial measures, 20% Customer Orientation, 20% Technology Leadership Index).

For LTI, it was decided to apply slightly more changes. The new proposed set-up is explained as follows:

- Relative **TSR** was considered an appropriate performance measure to ensure continued focus on creating shareholder value, and will therefore remain as LTI performance measure, with the same weight (30%). The only change applied here is the performance incentive zone, which will now be linked to percentiles, rather than to a fixed range. With this change there is a more direct relationship with the relative performance of the peer companies in the index and it is also better aligned with market practice. The result is that maximum vesting only occurs if ASML performs at or above the upper quartile of the index. Furthermore, the minimum vesting level for threshold performance is reduced from 50% to 25% of target, to have a lower reward for below-median performance.
- ROAIC will be replaced by **Strategic Value Drivers** with a weight of 20-30%. Since many investments have a longer return period than the three-year performance period for the LTI, the result of the ROAIC performance over the last years has regularly been adjusted for extra R&D expenses and other accounting changes which were unforeseen at the time of target setting. The Supervisory Board considered these discretionary adjustments reasonable, since otherwise the Board of Management would have been penalized for investments that were beneficial to the Company and also often requested by customers to accelerate their roadmap. Although ROAIC in itself is a good strategic value driver, the Supervisory Board decided to replace ROAIC as an LTI performance measure in the 2022 Remuneration Policy and to introduce other "Strategic Value Drivers" that are relevant for the three-year performance period and can be measured well, without the disadvantages described above. In taking the decision to replace ROAIC, the Supervisory Board has also considered feedback received from stakeholders about the discretionary adjustments made in previous years. At the beginning of each three-year performance period, the Supervisory Board will decide which Strategic Value Driver(s) to use for that performance period, thereby taking into consideration the strategic priorities of ASML. For the three-year performance period 2022-2024, the chosen Strategic Value Driver is Cash Conversion Rate, to ensure a focus on balance sheet and cash generation, in addition to the focus on margin that is already part of the 2022 STI (by including EBIT Margin).
- The element of Sustainability is replaced by the broader concept of **ESG**, with a higher weight (20%-30% instead of 10%). At the beginning of each three-year performance period,

the Supervisory Board will decide which ESG measure(s) are most relevant to use for that performance period, thereby taking into consideration the strategic priorities of ASML's ESG strategy, which has been reshaped in 2021. For the performance period 2022-2024, the focus will be on energy consumption, employee engagement and representation of women in our senior management.

- Finally, the **Technology Leadership Index** will remain as a performance measure for the same reasons as explained for the STI above.

In summary

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

1. A new reference group has been composed to reflect the growth and future aspirations of ASML and taking into account its position in the global ecosystem it operates in. The reference group consists of a mix of European (75%) and US (25%) companies. ASML currently positions slightly below the median in terms of size.
2. The Total Direct Compensation levels at target have been adjusted by increasing STI and LTI target levels to bring the compensation slightly closer to the median of the new reference group, although with that increase ASML still positions on the lower side of the reference group. This is a deliberate choice by capping the maximum LTI target levels at 200% of base salary. For 2022 lower target levels for STI and LTI apply to allow for a gradual transition to the new policy levels over time.
3. There will be changes in STI and LTI performance measures and weighting, mainly in the LTI, to ensure a stronger connection to ASML's strategic objectives, and a better alignment with market practice. Furthermore, ASML will improve disclosure ex ante and ex post (to the extent that this is not contrary to the interest of ASML).