

CEO COMPENSATION REACHES ALL TIME HIGH

AEX EXECUTIVE COMPENSATION INSIGHTS FOR 2020

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COVID-19 Impact on AEX Companies

As the Coronavirus continues to disrupt normalcy around the globe, governments and businesses have adapted rapidly to navigate through these times of uncertainties. On one hand, we have seen governments implement restrictions such as travel bans, limiting commute to work by advising to work from home and social distancing measures in order to decrease and avoid the spread of COVID-19. On the other, business have been forced to adapt (if not change) their outlook for 2020 and beyond. In the Netherlands —where some of the world's most prominent companies reside— companies have rescheduled Annual General Meetings (AGM), withdrawn proposed dividends from the agenda, canceled share buy-back schedules in the hopes of preserving capital, prepared for potential losses that they might incur and others have canceled their proposed forecast (outlook) for 2020 and beyond.

One certainty is that companies from all industry sectors are being affected. In the oil and energy sector we have seen oil giant Royal Dutch Shell NV/plc discontinue its share buy-back schedule as it acts to reinforce the company's resilience and financial strength. In the technology sector ASML Holding NV has faced delays in shipment especially to Wuhan, China, and other countries due to travel restrictions. Even though the company hit the mark on its 2020 Q1 forecast, it has refrained from announcing further projections due to the uncertainties of the virus. In the health sector, Philips has urged all shareholders not to attend the AGM in person as precautionary measures to protect the health and safety of all participants. The company is also doing its part to combat the virus; they announced plans to ramp up production of hospital ventilators in Q3 of 2020 and introduced the new Respironic E30 ventilator to help free up ICU units. Unilever NV/plc also followed the likes of Philips and others in urging shareholders to not attend AGM in person, in addition, the company has moved the AGM to a smaller venue (head office) to ensure participants' safety.

In the commercial and professional services sector we have seen the likes of Randstad NV remove proposals for dividend payments as a precaution to preserve capital. Aalberts NV pushed its AGM to a month later and announced that it will be taking several steps such as reduce capital expenditure, initiate additional cost reductions and reduce the salary of the Management Board and Executive Team by 20 percent for three months during this period. Another company that took a similar approach was Unibail-Rodamco-Westfield, announcing that during the pandemic their Senior Management team (including the CEO and CFO) and Supervisory Board will reduce their salary by 25 percent during this period as a sign of solidarity with all employees. In the consumer staples sector, Heineken decided that they will withdraw all guidance for 2020 due to COVID-19 so they can properly assess the potential impact.

Companies in the financial sector have been following the recommendations made by the European Central Bank (ECB) to credit institutions to conserve capital and refrain from making dividend payments and perform share buy-backs until at least 1 October 2020 to support the economy in an environment of heightened uncertainty caused by COVID-19. As a result, financial institution such as ABN AMRO NV, ASR NV, NN Group NV, and ING Groep NV all postponed dividend payments until at least October 1, 2020. The impact of COVID-19 is not only affecting the large companies (in terms of market capitalization) but companies of all size and shape. Examples can be seen in companies such as Signify NV, Arcadis NV and Brunel NV as all have decided to withdraw proposed dividend payment from their upcoming meetings.

All in all, we have seen companies take the necessary steps to ensure the safety of its employees, shareholders and stakeholders, and implement measures and preserve capital to prepare for the financial impact that COVID-19 might continue to cause.

To understand investors' focus and areas of concern to navigate through the challenges ahead, we look back at executive compensation practices in 2019 and reactions from shareholders. As reported from filings last year, Dutch executives earned their highest realized compensation in nearly a decade. CEOs of the Netherlands' 25 largest listed corporations earned on average of EUR 5.4 million in 2018, up from EUR 4.8 million the previous year.

Analyzing remuneration packages reveals the largest portion of executive compensation came from long-term incentives (LTI), accounting for more than half (51%) of CEOs' realized pay, an increase of three percent from the previous year. Top earners last year were Royal Dutch Shell's Ben van Beuren, who earned EUR 20.1 million pay-out in salary, bonuses, shares, pension and other benefits. A large portion of his compensation is attributed to a EUR 15 million share bonus. Wolters Kluwer's CEO, Nancy McKinstry came in second, earning EUR 13.6 million.

Top AEX CEO earners:

- | | |
|--------------------------------------|------------------|
| • Royal Dutch Shell's Ben van Beuren | EUR 20.1 million |
| • Wolters Kluwer's Nancy McKinstry | EUR 13.6 million |

In contrast to these high levels of compensation for CEOs, Total Shareholders Return (TSR) in the index experienced a steep decline from the previous year, hitting a low of negative 10% when compared with 2017's positive 13%. Consequently, executives also saw a decline in granted LTI packages in 2018, down by 17% compared with the previous year. Short-term incentives, on the other hand, remained relatively unchanged as a portion of CEO's compensation mix.

Throughout the 2019 proxy season, shareholders remained sceptical when making their proxy voting decisions regarding remuneration-related voting items. 32% of Dutch large-cap companies that proposed remuneration-related items received more than 5% opposition on the submission of their remuneration reports or amendments to the company's remuneration policy.

Looking ahead, companies can expect shareholders to be even more focused on this issue, as the new EU Shareholders Rights Directive II (SRD II) mandates that shareholders must be given the right to vote on the company's remuneration policy and the remuneration report at a firm's Annual General Meeting (AGM).

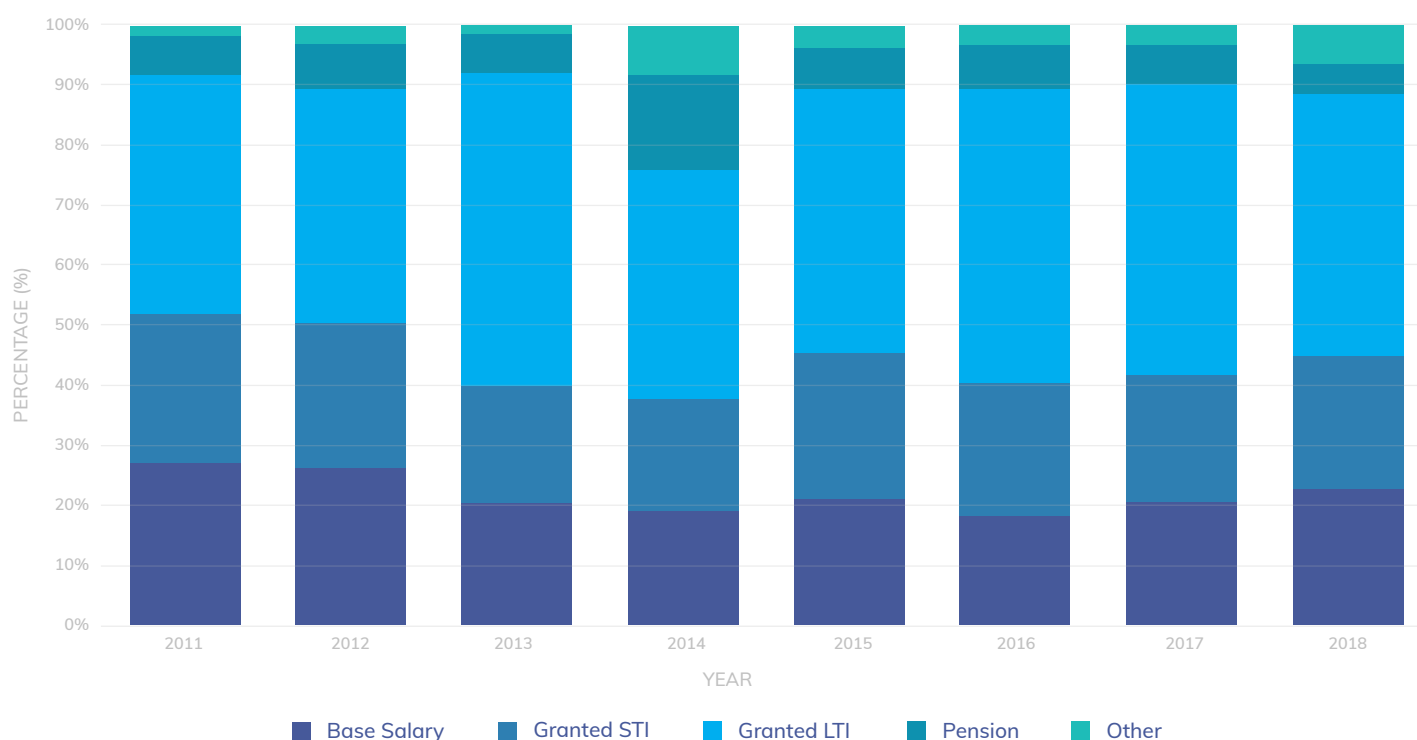
Further, 2018 was the first full fiscal year for which companies were obliged to disclose their CEO to employee pay ratio according to the terms mandated by the Dutch Corporate Governance Code. In 2018, 84% of the companies on the AEX index reported on their CEO pay ratio. Heineken, Unilever, Royal Dutch Shell and Ahold Delhaize were among the companies that displayed the highest CEO pay ratio.

AEX companies that reported the highest CEO to employee pay ratio:

- | | |
|---------------------|------------------|
| • Heineken | • Unilever |
| • Royal Dutch Shell | • Ahold Delhaize |

With the ever-increasing attention to CEO pay, the topic of aligning pay with performance will surely remain as a point of discussion for years to come. The subsequent findings provided within this document provide insight into compensation practices of the 25 most prominent Dutch corporations and how their practices have developed over the periods under review.

Average CEO Granted Pay break-down



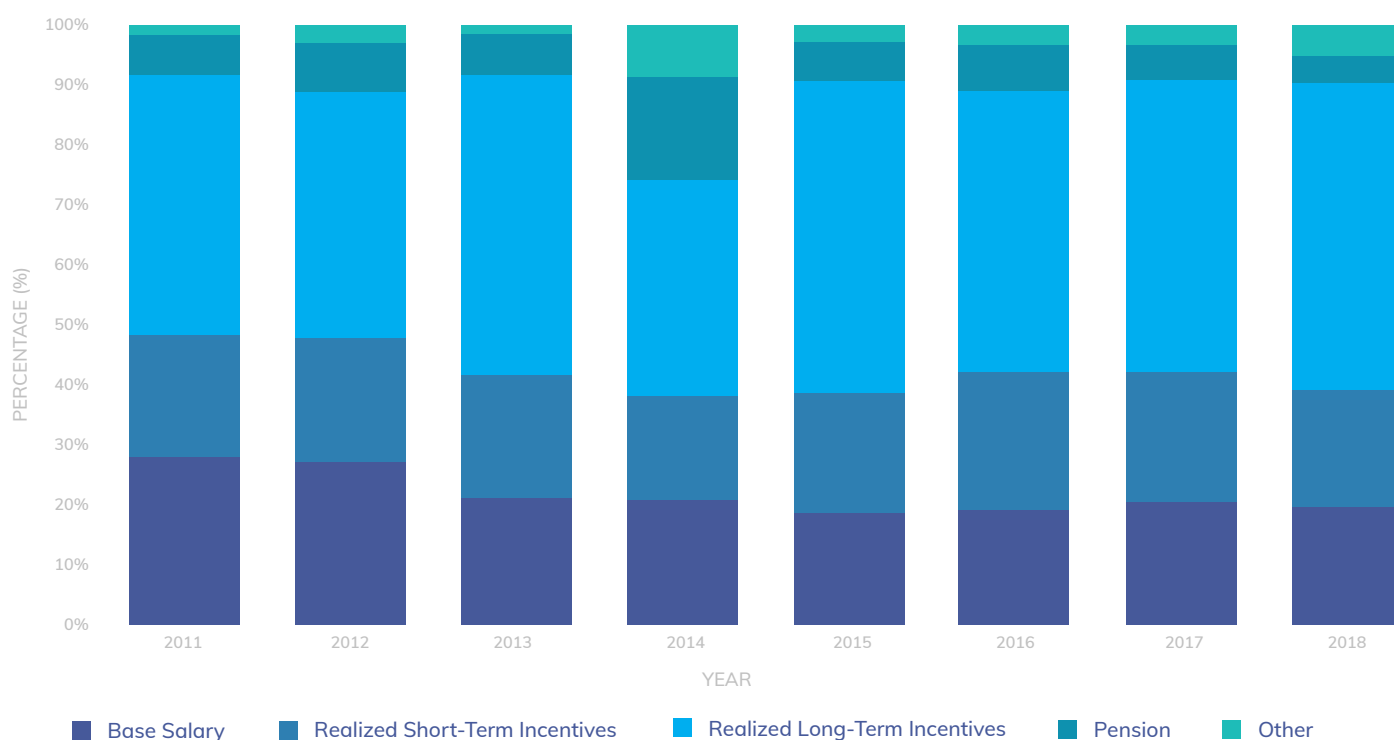
Long-term incentives continue as the largest component of AEX CEOs' total grant awards:

- ▶ In 2018, CEOs on average were granted LTI amounting to a little over EUR 2 million. This is a significant reduction (17%) from 2017 when executives were granted an average EUR 2.4 million.
- ▶ The amounts of STI granted saw a slight increase in 2018 when compared with 2017. In 2018, the average granted STI was EUR 1.05 million and in 2017 it was EUR 1.06 million. STI granted in 2018 was the lowest amount since 2014.
- ▶ When comparing the average total compensation granted in 2018 with that of 2017, there was a slight decrease of 2%. In 2018 the average total granted was EUR 4.8 million and in 2017 it was EUR 4.9 million. This figure has been declining for the past two years.
- ▶ Overall, there has been a decline in variable compensation granted, whereas base salary granted has reached its highest amount, suggesting that companies are leaning towards a more fixed approach.

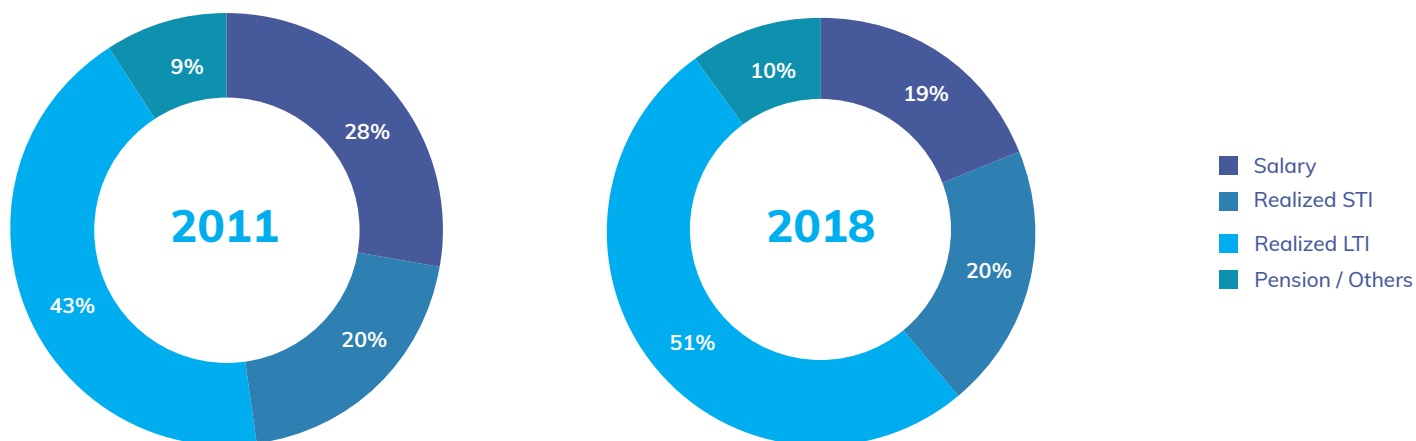
Realized compensation on the other hand shows a different story:

- ▶ In 2018, CEOs on average realized EUR 2.8 million in LTI; in 2017 this amount was EUR 2.4 million, translating into a 15% increase in realized compensation.
- ▶ STI realized compensation also saw an increase, as in 2018 the total STI realized was EUR 1.1 million, whereas in 2017 it was EUR 1.07 million. This was a slight increase of 1%.
- ▶ 2018 saw the total average realized compensation increase by 13.8%.
- ▶ Overall, realized compensation reached its highest level in nearly a decade. The high payout is mostly attributed to LTI granted from the previous 3-4 years.

CEO Total Realized Compensation (average)



Compensation Mix Design: Fixed vs. Variable AEX CEO Compensation Mix 2011 & 2018



Top 5 earning CEOs' by company:

Royal Dutch Shell	EUR 20.1 million
Wolters Kluwer	EUR 13.6 million
Unilever NV/PLC	EUR 11.2 million
Heineken NV	EUR 8.8 million
Relx NV/PLC	EUR 8.2 million

Top 5 CEO earnings growth by company:

Altice Europe NV	EUR 1.7 million	+192%
Royal Dutch Shell	EUR 20.1 million	+126%
Gemalto NV	EUR 3.2 million	+124%
Aalberts NV	EUR 2.5 million	+85%
Galapagos NV	EUR 7.0 million	+39%

Absolute Growth in Pay Versus One-Year Average TSR Performance



Even though total average realized compensation increased by 13.8% in 2018, the one-year average TSR for AEX companies in the same year fell with an annual loss of more than -10%. This fall marks the first such loss in seven-years, down from 23% for the previous year. According to wealth strategist, the European border crisis, Brexit and the trade war between the US and China played a role in souring investor sentiment. Furthermore, the fear of an economic slowdown and the crisis around Saudi Arabia also played a role.

However, irrespective of the significant drop in one-year average TSR, AEX company executives were well compensated in 2018. Total granted compensation appears to have slightly decreased for the same year in question.

CGLytics 2018 Pay for Performance alignment ranking:

Wolters Kluwer NV. was the best-aligned company in 2018, as opposed to 2017 when the company showed a misalignment. Wolter Kluwers' CEO Mrs. McKinstry is also the highest compensated female CEO among Dutch listed companies. The largest component of her earnings can be attributed to equity compensation in the form of vested shares which are tied to achieving performance targets in the form of total shareholders return (TSR) and earnings-per share (EPS).

The highest CEO compensation among the AEX index was that of Mr. B. van Beuren of Royal Dutch Shell. In 2018, his total realized compensation was a little over EUR 20 million. The largest component of his earnings can be attributed to equity compensation in the form of EUR 15 million shares vested at the end of 2018. In 2017, his total realized compensation was EUR 8.9 million, representing an increase of almost 125% compared with the previous year. The largest component of his total realized compensation can be attributed to shares vesting for the 2018 performance year.

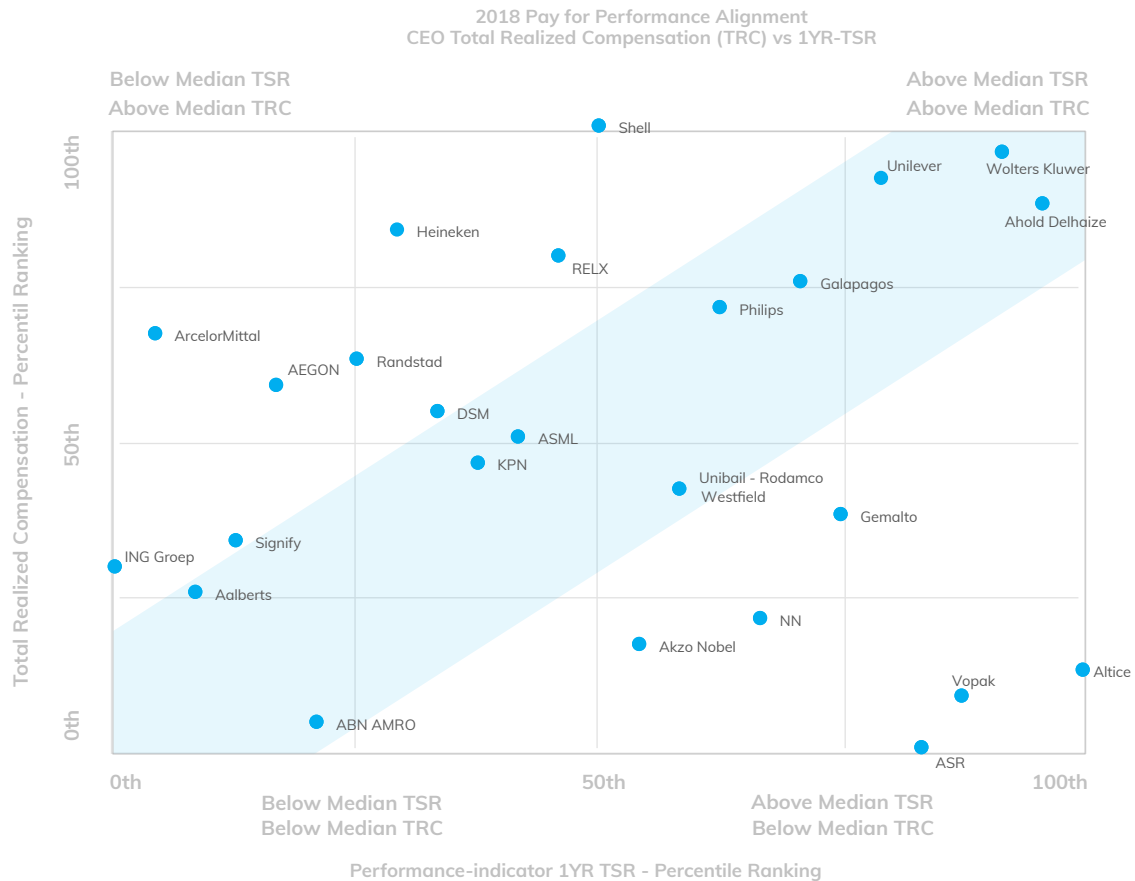
The vested shares were valued at EUR 15.2 million. His Pay for Performance ranking however was ranked among the lowest of the AEX index.

Other CEOs' that crossed the EUR 10-million mark were: Mr. Polman of Unilever, as well as Mr. Holt & Mr. Boer of Ahold Delhaize. We noted that Mr. Boer resigned as CEO of Ahold in July of 2018. Both of these companies' CEO Pay for Performance alignment ranking were among the top 10 on the AEX index.

The lowest compensated CEOs among the AEX index were both at financial institutions: Mr. Beaten of A.S.R. and Mr. van Dijkhuizen of ABN AMRO. It is not uncommon for CEOs of financial institution in the Netherlands to earn less than their international peers in light of the regulatory cap on variable compensation (up to a maximum of 20% of base salary).

	Alignment Rank 2018 (2016 rank)	AEX	2018				2016-2018				2018 year-end-value of 100 EUR investment made in 2016
			Total Realised Compensation (million EUR)	Compensation Percentile	TSR	TSR Percentile	Total Realised Compensation (million EUR)	Compensation Percentile	3YR TSR	TSR Percentile	
Strong Alignment	1 (19)	Wolters Kluwer	13,6	96	21%	92	14,1	100	78%	95	178
	2 (14)	Galapagos	7,0	75	2%	71	6,2	75	42%	67	142
	3 (16)	Ahold Delhaize	10,9	88	24%	96	8,3	79	24%	48	124
	4 (7)	Philips	6,2	71	0%	63	5,4	71	43%	71	143
	5 (4)	KPN	4,0	46	-7%	38	2,9	29	-9%	10	91
	6 (5)	ASML	4,1	50	-5%	42	4,3	54	71%	90	171
	7 (20)	Unilever	11,2	92	4%	79	9,7	83	28%	57	128
	8 (1)	Aalberts	2,5	25	-30%	8	1,9	8	-4%	24	96
	9 (9)	ABN AMRO	1,0	4	-19%	21	1,0	4	16%	43	116
	10 (21)	Unibail-Rodamco-Westfield	3,8	42	0%	58	4,9	67			na
Conservative Practice	11 (18)	Akzo Nobel	1,7	17	-1%	54	3,7	38	30%	62	130
	12 (15)	Gemalto	3,2	38	2%	75	3,2	33	-7%	19	93
	13 (6)	NN	2,5	21	1%	67	2,3	21	25%	52	125
	14 (13)	Vopak	1,5	8	11%	88	1,9	13	8%	33	108
	15 (-)	ASR	1,0	0	7%	83	0,9	0			na
	16 (11)	Altice	1,7	13	65%	100	1,9	17	9%	38	109
Misaligned	17 (2)	DSM	4,1	54	-8%	33	4,3	58	67%	86	167
	18 (-)	Signify	3,0	33	-30%	13	3,7	42			na
	19 (8)	ING Groep	2,6	29	-36%	0	2,5	25	-12%	5	88
	20 (22)	RELX	8,2	79	-5%	46	12,1	96	46%	76	146
	21 (17)	Randstad	4,3	63	-18%	25	4,0	46	-21%	0	79
	22 (3)	AEGON	4,2	58	-19%	17	4,8	63	-7%	14	93
	23 (12)	Shell	20,1	100	-2%	50	10,8	92	48%	81	148
	24 (23)	Heineken	8,8	83	-10%	29	10,0	88	3%	29	103
	25 (10)	ArcelorMittal	5,0	67	-33%	4	4,3	50	101%	100	201

One-Year Pay for Performance Review

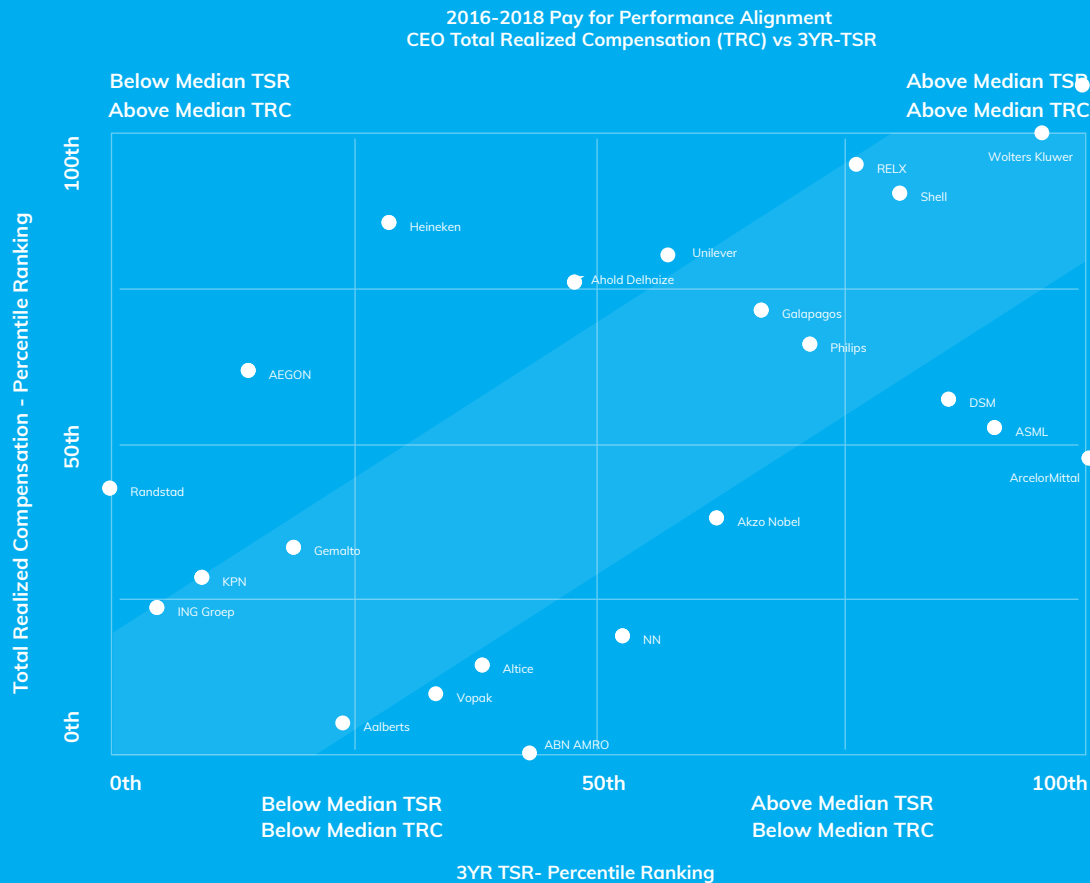


Highlights: One-Year Pay for Performance

- 10 companies displayed strong alignment between pay and performance.
- 6 displayed conservative pay practices.
- 7 displayed misalignment between pay and performance.

ABN Amro was the only financial institution (bank), that showed a strong Pay for Performance alignment in 2018. The other banks in consideration (ING Groep) displayed a Pay for Performance misalignment or, as in the case of ASR & NN Group, displayed a conservative remuneration practice.

Three-Year Pay for Performance Review

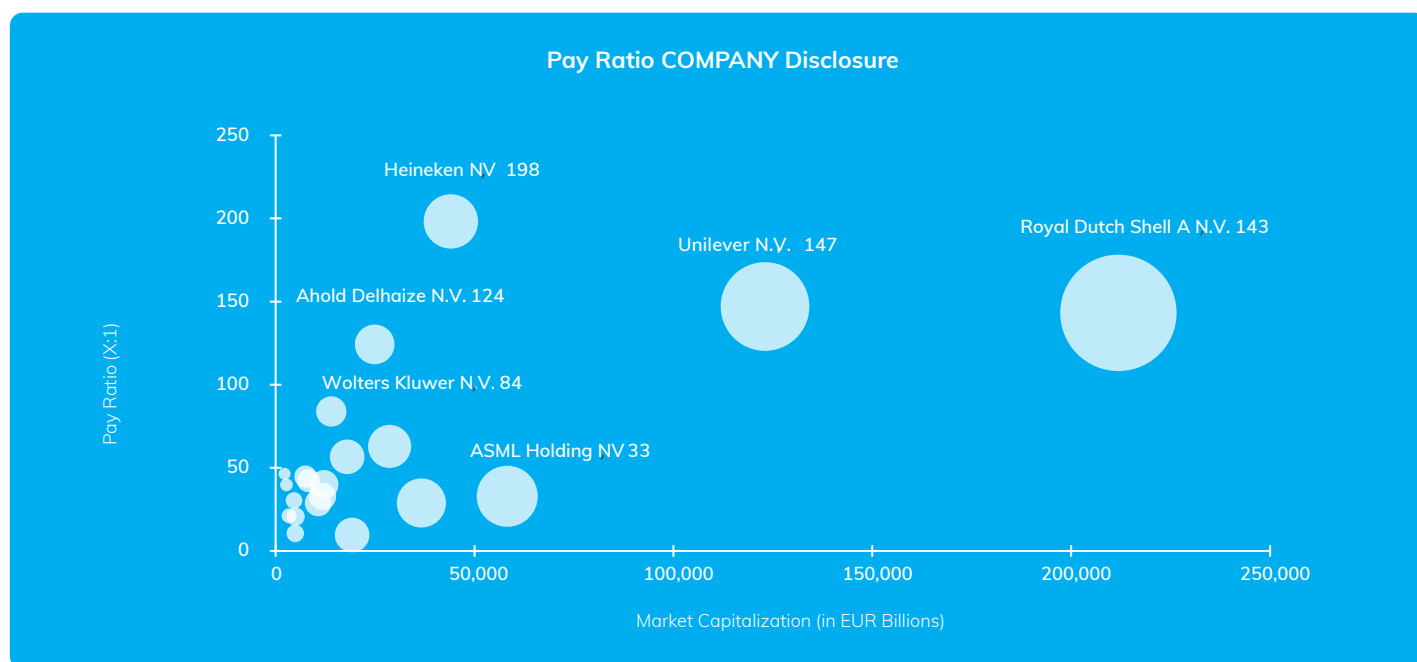


Highlights: Three-Year Pay for Performance (2016-2018)

- ING Groep, Shell, and Relx display a strong three-year Pay for Performance alignment over 2016-2018 while displaying a one-year Pay for Performance misalignment in 2018.
- Gemalto (delisted on May 29, 2019) demonstrated a strong Pay for Performance alignment over 2016-2018 and yet conservative practices in 2018.
- ASML and ABN AMRO show conservative compensation practices over 2016-2018, while demonstrating a strong alignment in 2018.
- ArcelorMittal displays conservative pay practices over a three-year Pay for Performance alignment, while exhibiting a Pay for Performance misalignment on a one-year basis.
- Ahold Delhaize was the only company displaying a strong Pay for Performance misalignment over 2016-2018, while appearing to catch up in 2018 with a one-year strong Pay for Performance alignment.

On January 1, 2017 the revised Dutch Corporate Governance Code introduced a provision mandating that remuneration committees should consider the CEO pay ratio within the company and its affiliated companies when drafting the executive remuneration policy. One of the options for fulfilling this obligation is the use of ratios to reflect the relationship of CEO compensation with the remuneration of employees. With the implementation of SRD II, companies are required, to explain in which way the remuneration policy considers the internal pay ratio. In addition, the remuneration report should include the pay ratio compared with the previous financial year.

2018 was the first full fiscal year of which companies, according to the Corporate Governance Code, had to report on their CEO pay ratio. From the 25 AEX companies, 84% reported on their CEO pay ratio, and this obligation will be part of the disclosure requirements under Dutch law effective for the financial year 2019. Consequently, all companies must disclose their internal pay ratio soon. Heineken (198:1), Unilever (147:1), Dutch Shell (143:1), and Ahold Delhaize (124:1) were the companies with the highest executive-to-employee ratio. Neither the Dutch Corporate Governance Code, nor SRD II, specify which calculation method should be used to determine this ratio. Consequently, there are differences in how companies calculate and report on the CEO pay ratio.



The SRD II further brings into effect mandates that shareholders must be given the right to vote on the company's remuneration policy and on the remuneration report at a firm's AGM. Going forward, shareholders will have more to say on the link between pay and the performance of company directors and executives. In 2019, just over half of the AEX index constituents proposed remuneration-related items to be voted on. Of these eight companies (representing 32% of the AEX index) saw moderate shareholder opposition ($\geq 5\%$) to the proposed items.

Galapagos NV was the company that saw the highest opposition with 31.9% of participating shareholders voting against the proposed remuneration report, followed by Unibail which saw 26% of shareholders opposing the total remuneration and benefits for the company CEO. With SRD II set to transpose into national law between 2019 and 2020, we can expect to see shareholders focusing attentively into companies' remuneration report and remuneration policy.

Our methodology on Total Realized Compensation (TRC) explained

The realized compensation includes all realized components of compensation in the year of interest. It is defined as the sum of total indirect compensation realized and total direct compensation realized for one year. It consists of base salary + benefits + other compensation + bonus + deferred cash bonus + deferred share bonus + value of performance/restricted shares vested + value of performance/restricted options exercised. Total realized compensation is calculated based on performance indicators that have been met during the performance period. Most companies clearly disclose the performance period and vesting period, and the %age that will be paid in the next year. For example, for shares that will vest on March 31, 2016 but where the performance period ends at December 31, 2015, shares are included in realized compensation for the financial year 2015. When the company doesn't disclose the average share price over the last quarter, we use the company year-end share price to calculate the value of the vested multiyear share packages. In line with UK practices, adjustments are usually made in the following year when the company disclose the exact share price on which the shares vested. For options, we calculate realized compensation when the options have been exercised. In the event there were two CEOs in a year for a company, for example due to a change in CEO, we explored the companies on individual basis and annualized compensations depending on the issue at hand to make the total realized compensation as realistic as possible.

Total Shareholder Return (TSR)

Total shareholder return is defined as the total return of a stock to an investor. It combines annual changes in stock price and dividends paid and are expressed as an annualized %age. This will be calculated over one-year (1Y), three-year (3Y) and five-year (5Y) period. The growth in 3Y and 5Y TSR is calculated by the %age points of difference between latest year and 3/5 year prior. Please note that all figures have been rounded up in the table outlining the CEO Pay for Performance analysis.

Pay for Performance Analysis

We conducted a study on CEO realized compensation to determine degree of alignment relative to peers in the AEX constituents on a 1, 3, 5 years basis. The degree of alignment is determined by subtracting the compensation rank from the performance rank within a scope of +20 or -20. Results obtained on either side determine a more generous or a conservative remuneration policy. Therefore, for the three- and five-years' study, the %ile rank is calculated by the Total Realized Compensation (TRC) over the period subtracted from the sum of the period TSR performance.

Investment return of EUR 100

This figure looks to calculate how much a EUR 100 company investment would be worth over a period by indexing the TSR over multiple years.

Definition of financial years

AEX companies all have the similar year-end dates except for Royal Ahold Delhaize N.V. The common year-end date is 31/12 and 3/1 (Ahold).

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- ¹ <https://www.pershing.com/uk/en/news/what-is-big-in-our-world/regulation/srd-ii>
- ² The Dutch Corporate Governance Code, effective as per 1 January 2017, has introduced a provision that obliges remuneration committees to consider the pay ratio within the company and its affiliated companies when drafting the executive remuneration policy.
- ³ According to weath strategist Rein Schutte at Boer en Olij Securities BV in an article by the Telegraaf: <https://www.telegraaf.nl/financieel/2715010/beursverslag-aex-naar-laagste-slot-van-2018>

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