



Executive Remuneration in the Netherlands 2020

Facts and Insights about Board
Remuneration

This report presents executive remuneration policies and practices at the major Dutch listed companies. This report also provides insight into the implementation of the updated Shareholder Rights Directive (SRD2) in the Netherlands and the impact it had and will have on the role of the Supervisory Board.

Our 10 main findings give an impression of how Dutch listed companies paid their executives and disclosed executive pay decisions in relation to the newly implemented SRD2 legislation. Our findings also indicate that the increased rights of shareholders have not been managed adequately by a number of companies, which might have serious implications going forward.

In this report we have also highlighted one company that disclosed very transparently and in line with the intention of the SRD2 legislation. By pointing out a good example of transparent reporting, EY aspires to bring guidance into remuneration practices and reporting.

- 1. The average salary increase at board level (+5.0%) is significantly above the average private sector CLA increase in 2019 (+2.4%).**
- 2. Median target remuneration levels have increased significantly for AMX Management Board members over the last three years.**
- 3. Profit related KPIs are most predominant in STI plans, both in use and in weight.**

- 4. For approximately two-thirds of the observations it holds that the target LTI % is higher for the CEO than for the CFO.**
- 5. LTI plans are solidly founded on either (relative) TSR or profit related KPIs, and show a growing emphasis on sustainability under the pressure of investors.**
- 6. Gender diversity in the Management Board is still very low. In our dataset, only three CEOs and six CFOs are female.**
- 7. One company decided not to payout the variable remuneration over 2019 due to COVID-19.**
- 8. At least three companies did not put an updated remuneration policy up for vote during their 2020 AGM.**
- 9. At 5 companies the shareholders rejected the new remuneration policy during the 2020 AGM.**
- 10. The remuneration report of Philips is a good example of transparent disclosure in line with the intention of SRD2.**



Outlook

2019 truly marked a special reporting year with the implementation of SRD2 in Dutch law. Aimed to enhance long-term shareholder engagement, this directive requires companies to be more transparent in their reporting on executive remuneration. Although the impact of this new legislation can be clearly observed in the remuneration reports of Dutch listed companies, we found that few companies fully comply with the intention of the new reporting requirements.

Looking ahead to reporting year 2020, we expect that the 2020 AGM voting on the revised remuneration policy as well as the advisory vote on the 2019 remuneration report will be on the agenda of Supervisory Boards, as well as a review of how other companies have reported on several SRD2 topics. We further elaborate on this topic in Chapter 3 of this report. The impact of COVID-19 on bonuses for executives will surely be an important agenda item at Supervisory Board meetings as well as frequent deliberation on how to steer the company through these uncertain times. Finally, we expect that the anticipated new legislation on gender diversity in the Board room will be an important agenda item.

COVID-19 impact on remuneration

We found that that only one company in our dataset decided not to payout the variable remuneration over 2019 (the Management Board waived their payout) and one company decided to postpone the payout over 2019 due to COVID-19. At the same time, several companies have decided for 2020 to temporarily reduce the fixed salaries of the Management Board. We are seeing reductions in fixed salary of 10%, 20%, 25% and even 50% for different time periods. A small number of companies has already indicated that they will not payout STI over 2020. Since KPIs and targets had already been set before the COVID-19 outbreak in Europe, most executives will not be able to achieve those targets and STI payouts will be limited anyway. Of course it is possible to renegotiate targets and Supervisory Boards have discretionary power to adjust (calculated) STI payouts if these would otherwise be considered unfair. However, it is to be seen whether there will be any appetite for this among Supervisory Boards if the impact of the crisis is severe, resulting in layoffs and further cost savings.

The Supervisory Board has an important (employer) role to play during these challenging times. As a prominent Supervisory Board member recently stated, it



is important to operate in an “honest, ethical and justifiable” manner. This statement is always true for Management Board and Supervisory Board members, but especially on the topic of executive remuneration in times where companies depend on state support programs to continue business operations. In this regard, especially the NOW governmental aid program is relevant. On 17 March 2020, the Dutch state introduced the first NOW support program and on 20 May the second NOW support program was communicated.

Companies, of which an operating company (‘werkmaatschappij’) receives NOW support, are not allowed to pay bonuses or dividends over 2020 and until the date of the AGM in 2021. Companies who received support at concern level from the first NOW program are not explicitly prohibited to payout bonuses over 2020. The government indicated that the chance that these companies can payout bonuses is deemed very small anyway. Companies who make use of the second NOW support program are not allowed to payout bonuses to their executives over 2020 and until the date of the AGM in 2021 if the NOW support they receive is equal to or higher than EUR 125,000.

After the previous (financial) crisis, an additional tax of 16% was levied on all employee income above EUR 150,000 in the years 2012 and 2013. It is not inconceivable that a similar crisis levy will be implemented in due time again.

Gender diversity

Another upcoming topic is improvement of gender diversity in the Board. A draft bill, which is intended to become effective as of 1 January 2021, states that if the Supervisory Board does not consist of at least one-third males and one-third females, a person cannot be appointed (except for a re-appointment) if this would not make the male - female ratio more balanced.

Furthermore, the draft legislation states that (big) companies should set ambitious targets themselves for gender diversity in the Supervisory Board, Management Board and levels below the Management Board. Companies should draft a plan in which it is clarified how the targets will be achieved. Furthermore, companies should be transparent on the process, their efforts and the results.



Reward team

EY's Reward team advises companies on executive compensation, variable pay plans, the people side of M&A and provides interim C&B solutions.

Our team consists of reward professionals with a background in consultancy and in-house C&B roles. Through our work we help clients improve their performance, effectiveness and maintain compliancy in their HR and reward strategies.

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With special thanks to _____ and _____

Contents

1	About this report	8
1.1	Management Board demographics	9
2	Remuneration levels and design	10
2.1	Total Direct Compensation	10
2.2	Fixed salary	14
2.3	Short Term Incentives	17
2.4	Long Term Incentives	21
2.5	Internal Pay Ratios	24
2.6	Supervisory Board remuneration	26
3	Shareholder Rights Directive	28
3.1	EY findings from the audit season	28
3.2	Example of transparent disclosure	31
3.3	Voting results from the 2020 AGMs	32
4	Our services	33
4.1	Executive remuneration	33
4.2	HR transactions	33
4.3	Variable pay plans	33
4.4	Other specialty services	33
5	Appendix: included companies	35

1. About this report

The analyses in this report are based on data from remuneration reports of companies listed on the AEX, AMX and AScX indices. Findings presented in this report are also based on our observations from support of EY audit teams, which involves reviewing the quality of remuneration reports in relation to the newly implemented SRD2 legislation as well as the Dutch Corporate Governance Code (hereafter: Governance Code). Furthermore, we have analyzed how shareholders have voted on the new remuneration policies (binding vote) and the remuneration reports (advisory vote) in line with SRD2.

This year's report contains two main chapters; one chapter on remuneration levels and design and one chapter on the quality of reporting in line with the Governance Code and SRD2. For the analyses conducted in the chapter on remuneration levels and design we have chosen to exclude Financial Sector companies because of the impact the bonus cap has had on remuneration levels and design. We have included a separate paragraph on Financial Sector remuneration.

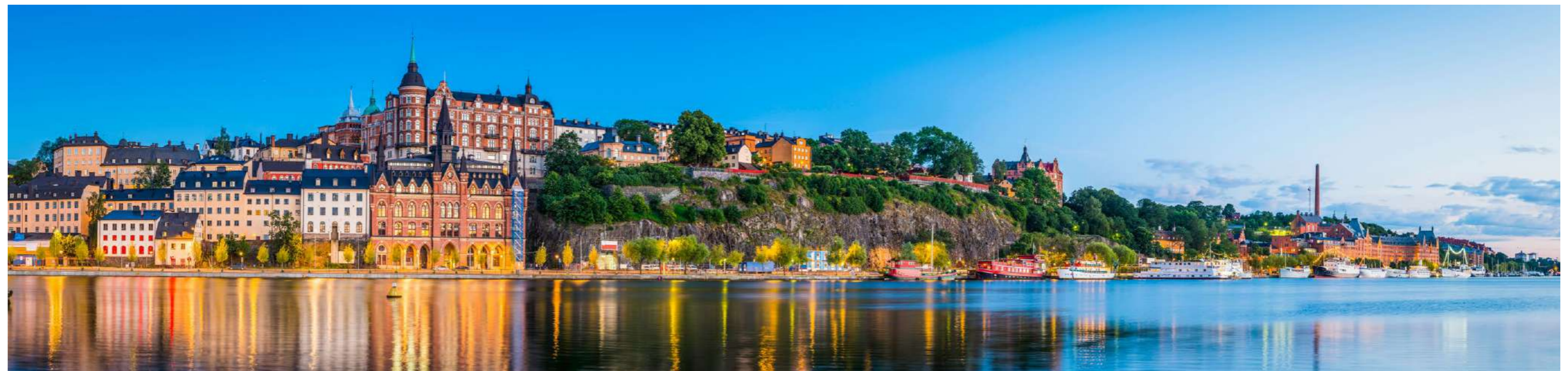
All tables and graphs are based on all available data points, i.e. not excluding observations where executives replaced their predecessors and/or where the index composition changed. Therefore, all reported data by position and index include the effects of remuneration changes for existing executives and for successors and the effects of different index composition on remuneration. Note that when two people filled a position at a specific company during the year, the average remuneration of these two people is used for that position.

1.1 Management Board demographics

The table below shows by gender the number of Management Board members including age and tenure. The number of female MB members is still very low. Tenure of CEOs in the AEX is higher than that of other positions.

Index	Position	Male			Female		
		Count	Age	Tenure	Count	Age	Tenure
AEX	CEO	24	57.4	9.2	1	60.0	16.3
	CFO	22	53.4	4.9	3	49.3	4.2
	OM	24	52.1	6.5	6	53.0	1.0
AMX	CEO	21	55.6	7.8	2	52.0	4.8
	CFO	20	52.1	3.8	1	52.0	1.7
	OM	17	52.3	5.8	3	45.0	3.9
AScX	CEO	20	55.4	7.5	0		
	CFO	19	51.4	4.5	2	41.5	2.8
	OM	14	54.3	7.1	0		

“
Gender diversity in the Management Board is still very low. In our dataset, only three CEOs and six CFOs are female.”



2. Remuneration levels and design

2.1 Total Direct Compensation

The table below shows 2019 Target Total Direct Compensation (TTDC) levels per index for the CEO and CFO position. TTDC is the sum of base salary, target Short Term Incentive (STI) and target Long Term Incentive (LTI). The table also shows statistical values for revenue and full time equivalents (FTE).

Index	Position & scoping	Q1	Median	Q3
AEX	CEO	€ 2,872,000	€ 3,775,000	€ 5,780,000
	CFO	€ 1,751,000	€ 2,430,000	€ 3,112,000
	Revenue (EUR m)	3,442	9,280	23,676
	FTE	11,248	21,390	80,495
AMX	CEO	€ 1,355,000	€ 1,728,000	€ 2,359,000
	CFO	€ 880,000	€ 1,188,000	€ 1,434,000
	Revenue (EUR m)	543	1,631	2,844
	FTE	3,014	5,477	9,728
AScX	CEO	€ 734,000	€ 872,000	€ 1,063,000
	CFO	€ 493,000	€ 546,000	€ 806,000
	Revenue (EUR m)	169	533	1,600
	FTE	560	2,541	3,755

The spread of the data is shown at the first quartile (Q1), median and third quartile (Q3). The median represents the value that separates the higher half from the lower half of the observations. Q1 is the middle number between the lowest observation and the median, while Q3 is the middle number between the median and the highest observation.

Remuneration levels by revenue

Management board remuneration tends to be higher at bigger companies. In benchmark exercises certain factors are used to determine an appropriate peer group such as revenue, market cap, number of FTE, business complexity and geographical spread. This section shows 2019 median target remuneration levels for different revenue categories.

CEO median target remuneration levels							
Revenue in EUR bn			Companies	Fixed salary	STI	LTI	TDC
0.0	to	0.5	13	€ 434,000	€ 203,000	€ 237,000	€ 775,000
0.5	to	1.0	7	€ 575,000	€ 286,000	€ 501,000	€ 1,139,000
1.0	to	5.0	22	€ 680,000	€ 439,000	€ 643,000	€ 1,781,000
5.0	to	10.0	7	€ 875,000	€ 697,000	€ 1,071,000	€ 2,560,000
10.0	to	50.0	4	€ 1,125,000	€ 1,063,000	€ 1,488,000	€ 4,175,000
50.0	to	above	4	€ 1,424,000	€ 1,812,000	€ 2,550,000	€ 5,265,000

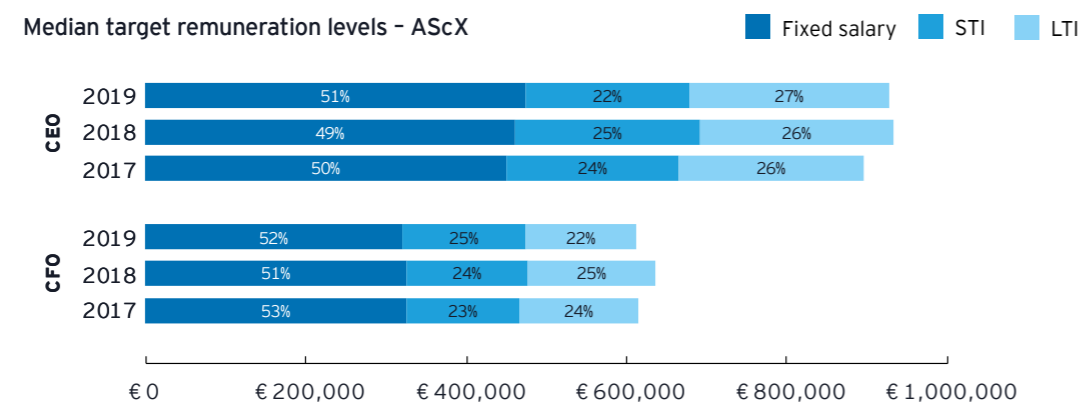
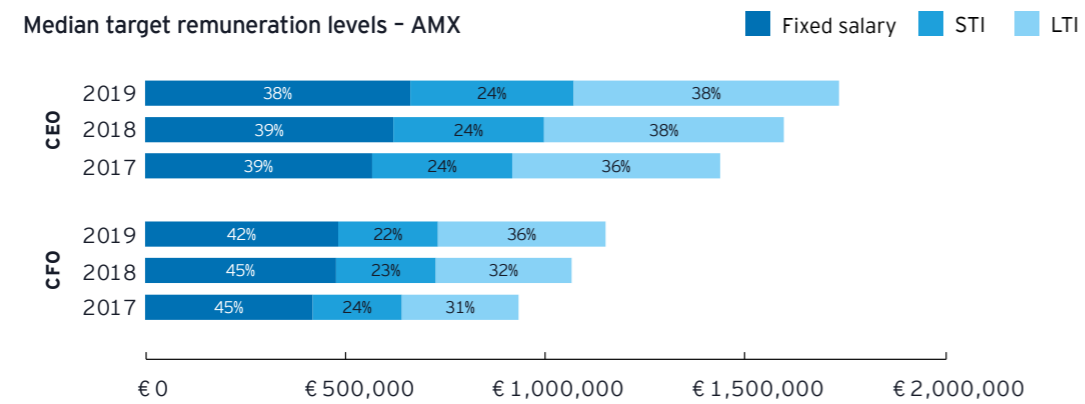
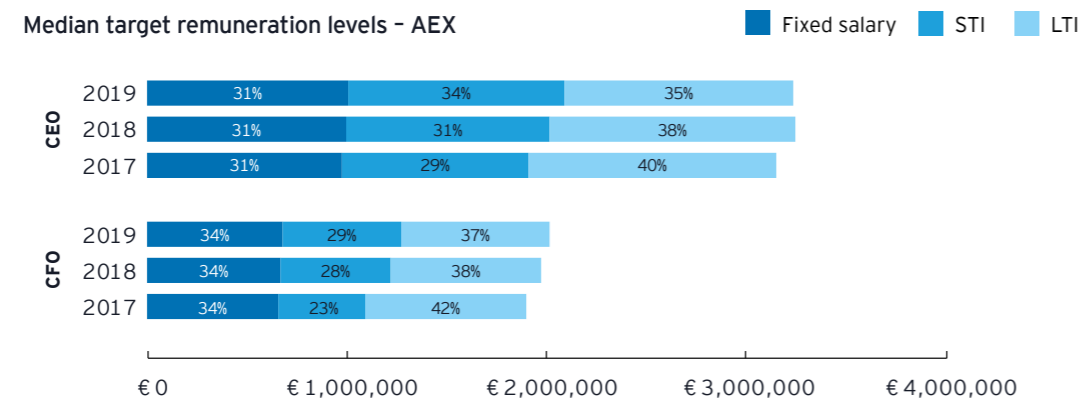
CFO median target remuneration levels							
Revenue in EUR bn			Companies	Fixed salary	STI	LTI	TDC
0.0	to	0.5	11	€ 317,000	€ 138,000	€ 130,000	€ 543,000
0.5	to	1.0	7	€ 400,000	€ 160,000	€ 297,000	€ 880,000
1.0	to	5.0	22	€ 475,000	€ 251,000	€ 395,000	€ 1,200,000
5.0	to	10.0	7	€ 638,000	€ 405,000	€ 623,000	€ 1,688,000
10.0	to	50.0	4	€ 766,000	€ 586,000	€ 905,000	€ 2,434,000
50.0	to	above	3	€ 1,015,000	€ 1,218,000	€ 2,043,000	€ 3,490,000

Other Member median target remuneration levels							
Revenue in EUR bn			Companies	Fixed salary	STI	LTI	TDC
0.0	to	0.5	4	€ 338,000	€ 166,000	€ 155,000	€ 604,000
0.5	to	1.0	4	€ 388,000	€ 126,000	€ 230,000	€ 546,000
1.0	to	5.0	12	€ 480,000	€ 302,000	€ 436,000	€ 1,485,000
5.0	to	10.0	4	€ 597,000	€ 354,000	€ 551,000	€ 1,448,000
10.0	to	50.0	3	€ 687,000	€ 481,000	€ 760,000	€ 2,097,000
50.0	to	above	1	€ 801,000	€ 801,000	€ 1,439,000	€ 3,041,000

The tables above show that the majority of companies in our data set (Financial Sector companies excluded) have a revenue between € 1bn and € 5bn. The tables also show that the median remuneration values increase with revenue. Note that median TDC values are not equal to the sum of median salary, median STI and median LTI (no sum of medians, but median of sums).

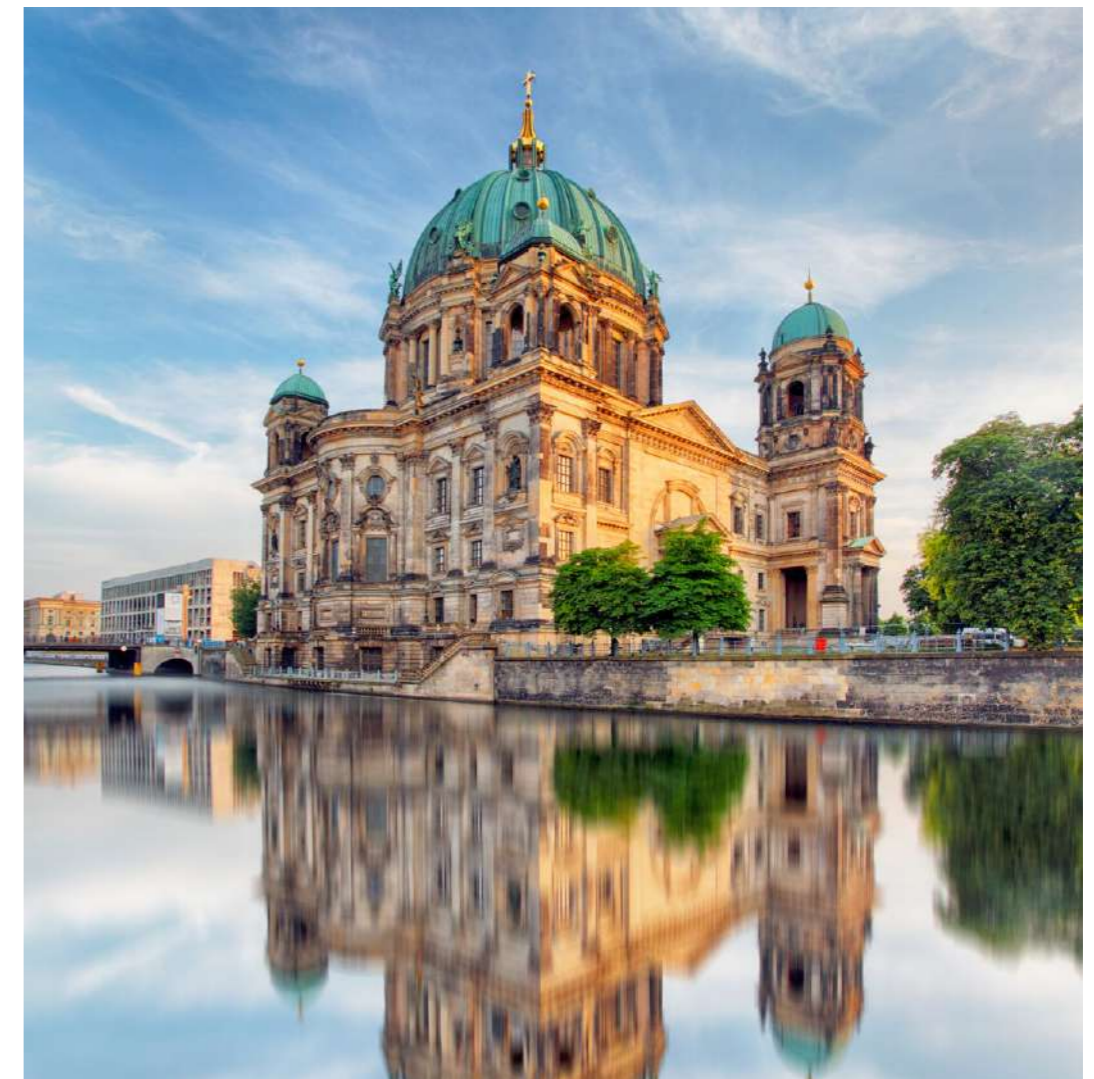
Development of target remuneration levels

Remuneration levels tend to be higher at companies with a bigger market cap (share price times shares outstanding). Market cap is the factor which determines on which index a company will be listed. This section shows the development of median target remuneration levels per index over the last 3 years for CEO and CFO positions.



The graphs show limited increase in the AScX, moderate increase in the AEX and significant increase in the AMX over the last 3 years. Note the difference in scale on the horizontal axis. Also note that the graphs do not display median TDC levels, but just give an impression of median salary, STI and LTI development which would normally not be added up.

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**Median target remuneration levels
 have increased significantly for
 AMX Management Board members
 over the last three years.**”



2.2 Fixed salary

As shown in the previous section, fixed salary constitutes a minor part of target total direct compensation at AEX and AMX companies. At AScX companies it constitutes about half of target total direct compensation.

The table below shows 2019 fixed salary levels per index for the CEO and CFO position. This table also shows statistical values for revenue and number of FTE.

Index	Position & scoping	Q1	Median	Q3
AEX	CEO	€ 819,000	€ 1,003,000	€ 1,343,000
	CFO	€ 626,000	€ 680,000	€ 785,000
	Revenue (EUR m)	3,442	9,280	23,676
	FTE	11,248	21,390	80,495
AMX	CEO	€ 578,000	€ 660,000	€ 816,000
	CFO	€ 435,000	€ 481,000	€ 563,000
	Revenue (EUR m)	543	1,631	2,844
	FTE	3,014	5,477	9,728
AScX	CEO	€ 398,000	€ 474,000	€ 521,000
	CFO	€ 275,000	€ 320,000	€ 399,000
	Revenue (EUR m)	169	533	1,600
	FTE	560	2,541	3,755

Fixed salary developments

We performed a same-sample analysis on changes in fixed salaries. This same-sample analysis is based on observations where executives remained in the same position at the same company. In contrast to other tables and graphs, this table also includes Financial Sector companies where executives remained in position at the same company.

The table below shows the number of executives who remained in the same position at the same company as well as the respective average salary increases.

Index	Position	Count	Δ% 2018-2019
AEX	CEO	20	4.5%
	CFO	21	5.2%
	OM	20	3.9%
	AEX average		4.5%
AMX	CEO	17	3.8%
	CFO	16	7.4%
	OM	12	10.5%
	AMX average		6.9%
AScX	CEO	16	2.5%
	CFO	16	5.0%
	OM	10	3.3%
	AScX average		3.7%

The average fixed salary increase was 5.0% across the 3 indices. The fixed salaries increased most at the AMX (+6.9%), followed by the AEX (+4.5%) and the AScX (+3.7%).

It is worth noting that 5 companies in our data set switched index from 2018 to 2019. At these 5 companies, 12 executives remained in the same position and are included in the table above. From these 5 companies, 3 companies moved to a lower index, but this did not have a negative impact on the salary increase for their executives.

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The average salary increase at board level (+5.0%) is significantly above the average private sector CLA increase in 2019 (+2.4%).

Fixed salary levels at Financial Sector companies

Since the introduction of the Dutch bonus cap legislation in 2015, the variable pay levels at Financial Sector companies have decreased significantly. At the same time salaries have been increased to (partly) compensate for the loss of variable pay. Therefore, the remuneration packages of Financial Sector companies are not comparable to non-Financial Sector companies, which is why we present some observations on Financial Sector companies separately in this section.

The table below shows the 2019 fixed salary levels for the CEO and CFO as well as revenue and number of FTE at first quartile (Q1), median and third quartile (Q3) level. The data are based on the 7 Financial Sector companies in the dataset in 2019.

Position & scoping	Q1	Median	Q3
CEO	€ 747,000	€ 1,160,000	€ 1,532,000
CFO	€ 630,000	€ 750,000	€ 1,068,000
Revenue (EUR m)	2,657	4,740	6,693
FTE	1,560	14,913	20,867

Some Financial Sector companies have decided to stop using variable pay altogether. This is partly due to the limited impact that a maximum variable pay of 20% has on the behavior of Management Board members, but also due to the relatively high administrative burden that comes with the bonus cap legislation. In 2019, 3 out of the 7 Financial Sector companies do not offer variable pay to Management Board members. From these 3 companies, 2 do offer shares or share-based payments as part of fixed salary.

2.3 Short Term Incentives

Target STI levels

STI levels are commonly expressed as a percentage of fixed salary. Most companies that offer an STI disclose both a target STI % and a maximum STI % for their executives. From our data set, 7 companies did only disclose a maximum STI %.

The table below shows the 2019 target STI levels for the CEO and CFO as well as revenue and number of FTE at first quartile (Q1), median and third quartile (Q3) level.

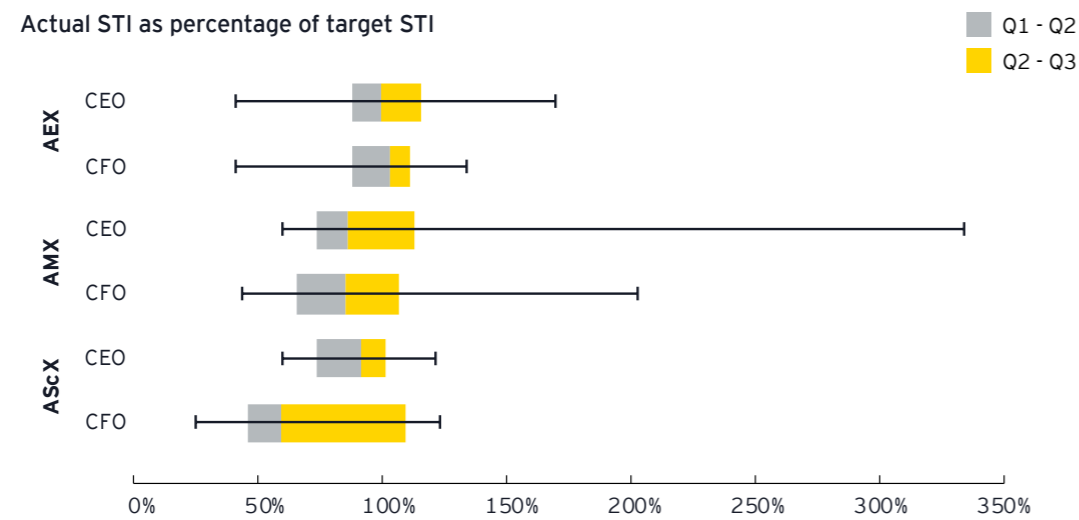
Index	Position & scoping	Q1	Median	Q3
AEX	CEO	76%	100%	125%
	CFO	61%	80%	100%
	Revenue (EUR m)	3,442	9,280	23,676
	FTE	11,248	21,390	80,495
AMX	CEO	40%	53%	80%
	CFO	40%	45%	60%
	Revenue (EUR m)	543	1,631	2,844
	FTE	3,014	5,477	9,728
AScX	CEO	38%	50%	60%
	CFO	35%	50%	55%
	Revenue (EUR m)	169	533	1,600
	FTE	560	2,541	3,755

When excluding the Financial Sector companies, the minimum observed target STI for the CEO position is 20% (NSI) and the maximum target STI for the CEO position is 150% (Unilever). For approximately half of the observations it holds that the target STI % is equal for the CEO and the CFO. When the CEO target STI % is higher than the CFO target STI %, the median difference is 18% of base salary.

Actual STI as % of target STI

In this section we show how actual STI payout over 2019 compared to the target STI payout. Please note that the data presented here does not include any STI payouts over 2019 that were waived or cancelled due to the impact of COVID-19.

The box plot chart below shows the spread in actual STI as percentage of target STI. The X-axis shows the actual STI expressed as % of target STI, e.g. 100% means that the actual STI payout was equal to the target STI payout. The median values can be found at the intersection of the grey and yellow boxes.

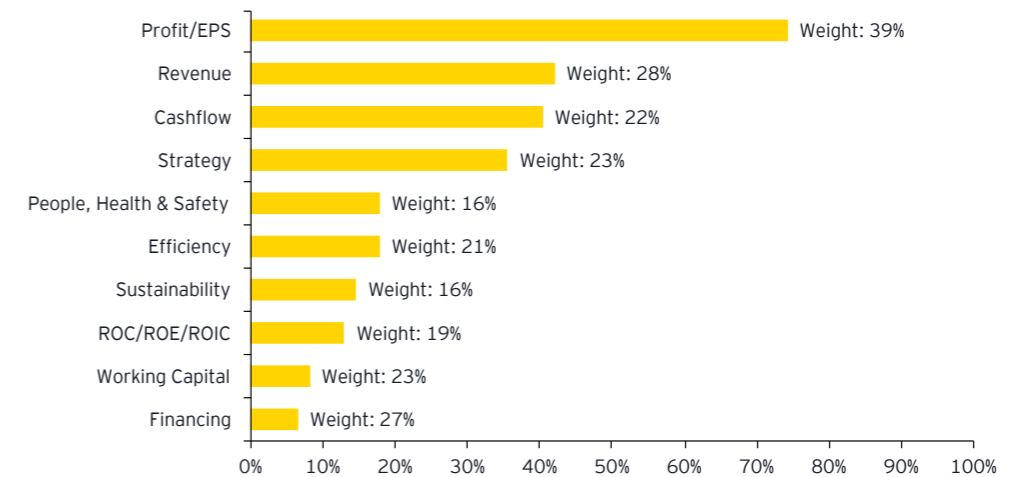


Over the last years, the average actual STI payout has consistently been around and slightly above 100% of target STI. For 2019, this is still true for the CEO position at AEX and AMX companies (104%). However, the average for the CEO position at AMX companies is strongly impacted by one CEO with a payout of 333% of target STI. Excluding this extreme case, the average STI payout would be 92% of target STI payout for AMX CEOs. The average actual payout for the CFO positions and the CEO position at AScX companies ranged between 74% and 99% of target STI payout.

KPIs used in STI plans

The chart below shows for the AEX, AMX and AScX indices combined the percentage of companies that use one of the ten listed KPI categories in their STI plan. The chart also shows the average weight companies placed on each KPI category.

KPIs used in STI plans



Short-term performance is often seen as companies' annual level of profit. Companies largely adopt this view in their STI plans, with 74% of the companies using some kind of profit or EPS measure to determine annual bonus payouts. Besides the high use of profit related KPIs, the weight on these KPIs is also the highest with 39% on average.

Note that we excluded the KPI category 'other' from the chart for which the bar would be comparable to the one for Profit/EPS. Examples of these other KPIs include personal targets, customer metrics and other unspecified qualitative or quantitative measures. Due to SRD2 legislation companies are moving towards more transparent disclosure, but our analysis of KPIs used shows that a significant number of companies is still vague about (some of) their KPIs.

The focus on maximizing annual profits can have adverse consequences for sustainable performance. Therefore, most companies combine various financial and non-financial measures to reduce this risk, besides of course balancing short-term and long-term incentives. In 2019 STI plans included on average 4 to 5 different KPIs, which is more than a couple of years ago. It is questionable whether this development is to the benefit of the effectiveness of STI plans. Hopefully this is not a development back to a balanced scorecard approach, which has proven not to be a tool for value creation.



Profit related KPIs are most predominant in STI plans, both in use and in weight.

Share matching plans

Share matching plans offer executives the opportunity to invest in company shares for which the company will grant the executives free shares after a certain vesting period.

In most cases executives have to invest at least a part of their STI in company shares and have the opportunity to invest up to a maximum part of their STI. After the vesting period a percentage of the shares purchased, will be matched by the company. In some cases the percentage of shares that will be matched depends on performance against KPIs in which case the maximum matching can be higher than the target matching.

Eight companies in our data set offer their executives a share matching plan. These plans can be seen as a hybrid between STI and LTI plans. The table below shows the characteristics of these eight share matching plans.

Company	Index	Min % of STI	Max % of STI	Vesting	Performance	Target match	Max match
Unilever	AEX	33%	67%	4 years	Yes	150%	300%
Heineken	AEX	25%	50%	5 years	No	100%	100%
Randstad	AEX	25%	50%	3 years	Yes	100%	100%
DSM	AEX	25%	50%	3 years	Yes	67%	100%
PostNL	AMX	0%	25%	3 years	No	100%	100%
Nedap	AScX	50%	100%	4 years	No	25%	25%
ICT	AScX	33%	66%	3 years	Yes	100%	150%
Heijmans	AScX	0%	50%	3 years	No	100%	100%

These plans can be quite effective in aligning interests of executives and shareholders, especially since executives invest in the shares using their own money.

2.4 Long Term Incentives

Target LTI levels

LTI levels are commonly expressed as a percentage of salary. Most companies that offer an LTI disclose both a target LTI % and a maximum LTI % for their executives. From our data set, 5 companies did only disclose a maximum LTI %.

The table below shows the 2019 target LTI levels for the CEO and CFO as well as revenue and number of FTE at first quartile (Q1), median and third quartile (Q3) level.

Index	Position & scoping	Q1	Median	Q3
AEX	CEO	100%	135%	213%
	CFO	100%	113%	169%
	Revenue (EUR m)	3,442	9,280	23,676
	FTE	11,248	21,390	80,495
AMX	CEO	60%	100%	100%
	CFO	55%	75%	95%
	Revenue (EUR m)	543	1,631	2,844
	FTE	3,014	5,477	9,728
AScX	CEO	35%	53%	60%
	CFO	30%	45%	50%
	Revenue (EUR m)	169	533	1,600
	FTE	560	2,541	3,755

When excluding the Financial Sector companies, the minimum observed target LTI for the CEO position is 22.5% (Neways Electronics) and the maximum target LTI for the CEO position is 340% (Shell).

For approximately two-thirds of the observations it holds that the target LTI % is higher for the CEO than for the CFO. When the CEO target LTI % is higher than the CFO target LTI, the median difference is 25% of base salary. This means in general that companies put more emphasis on long term performance for the CEO than they do for the CFO.

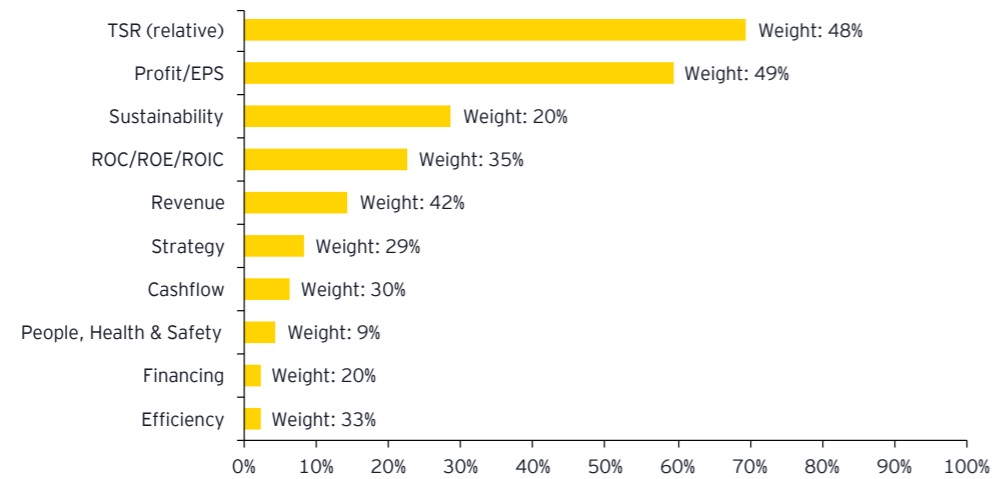


For approximately two-thirds of the observations it holds that the target LTI % is higher for the CEO than for the CFO.

KPIs used in LTI plans

The chart below shows for the AEX, AMX and ASX indices combined the percentage of companies that uses one of the ten listed KPI categories in their LTI plan. The chart also shows the average weight companies placed on each KPI category.

KPIs used in LTI plans



Long-term performance can be defined as companies' ability to create value in the long run leading to sustainable profitability. LTI plans typically have a 3-year performance period which leads to a focus on the longer term, but does not necessarily drive sustainable profitability. One way companies try to prevent the performance horizon from becoming shorter is by granting LTIs every year, which ensures continuous longer term focus. In order to extend the performance horizon, more and more companies have implemented a shareholding guideline for their executives which basically requires them to hold a certain amount of company shares as long as they are in position and often a couple of years beyond that.

Since the share price reflects companies' ability to generate profits in the coming years, the most commonly used KPI in LTI plans is Total Shareholder Return (TSR) which measures the share price increase plus the dividends paid over the performance period. The vast majority of companies who use TSR also compare the TSR performance of their company to the TSR performance of a peer group, which is intended to accommodate pay for true performance. However, this approach can and does still lead to unfair outcomes, mainly because of poor peer group selection.



LTI plans are solidly founded on either (relative) TSR or profit related KPIs, and show a growing emphasis on sustainability under the pressure of investors.

On average, LTI plans include 2 to 4 performance measures. Over the past years, the use of sustainability measures has increased. This is in part due to the increased focus of investors and proxy advisors on broader sustainability goals.

Shareholding guidelines

Most companies offer LTI grants every year in order to continuously provide long term incentives. This prevents loss of focus on the longer term in the event that performance targets of previous grants become or begin to appear unattainable. Another way to strengthen the executives' focus on the longer term and to increase the performance horizon, is the use of shareholding guidelines.

These guidelines can be seen as part of the trend towards more shareholder commitment, long-term value creation and commitment to institutional investors, who are strong supporters of the idea that management has skin in the game to play fairly with controllable risks.

Shareholding guidelines are usually expressed as a % of fixed salary. The table below shows the usage and levels of shareholding guidelines in 2019.

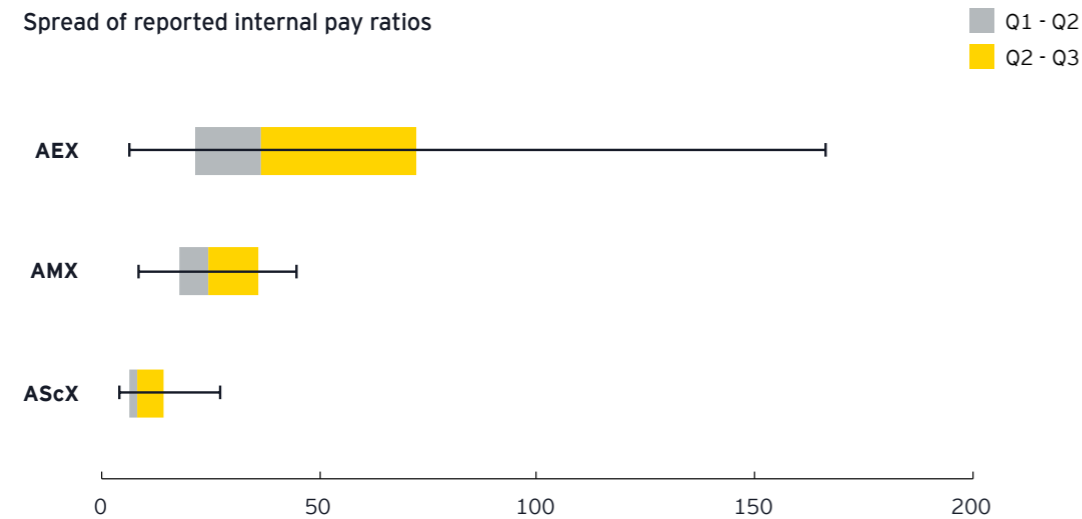
Index	Position	% Use	Q1	Median	Q3
AEX	CEO	50%	288%	300%	413%
	CFO	52%	150%	200%	300%
AMX	CEO	43%	200%	250%	300%
	CFO	50%	100%	150%	200%
AScX	CEO	30%	144%	200%	275%
	CFO	29%	94%	175%	200%

In 2019 both the usage and levels of shareholding guidelines slightly increased compared to last year, which is in line with the trend we have seen over the years 2014 to 2019 when the average usage increased from 24% to 44%.

2.5 Internal pay ratios

Internal pay ratios are described in the Governance Code as the ratios between the remuneration of the Management Board members and that of a representative reference group determined by the company for the financial year as well as for the previous financial year.

The box plot chart below shows the spread of the reported pay ratios in the three indices, including Financial Sector companies. The X-axis shows the pay ratio level, e.g. 100 means that the CEO or Management Board remuneration was 100 times the remuneration level of the reference group as chosen by the company.



The median value at AEX companies was 36.9, at AMX companies it was 24.8 and at AScX companies it was 8.2. Still, we would like to point out that absolute pay ratio levels are not useful to compare between companies because of differences in build-up and geographic location of companies' workforces. The intention of the Governance Code is that companies form an opinion on what is an appropriate pay ratio level in the context of their own organization and discuss any changes from year to year.

Impact on the remuneration policy

Based on the Governance Code, listed companies in the Netherlands were required to mention that internal pay ratios have been taken into account when formulating the remuneration policy. With the implementation of SRD2 in Dutch law, companies have to explain how internal pay ratios have been taken into account in their remuneration policies as of 2020.

Most companies have chosen to use CEO remuneration or Management Board remuneration to compare with the remuneration of all other employees. It is mainly for this reason that most companies still struggle to meaningfully take internal pay ratios into account in the remuneration policies for their executives.

The intention of taking internal pay ratios into account is to justify pay differences from an internal perspective as well. Therefore, more meaningful internal pay ratios are ratios between the CEO and the level of managers below the Management Board and between other Board Members (incl. CFO) and the level of managers below the board. This is because the level below the Management Board often is included in the internal grading and remuneration structure. By setting appropriate policy ranges for these pay ratios, the company is able to balance Management Board remuneration also from the internal perspective. Next to this, the internal pay ratios give meaningful information when their development is transparently disclosed which is an important requirement from governance and SRD2 perspective.



2.6 Supervisory Board remuneration

This section provides insight into the remuneration levels for Supervisory Board (SB) members at AEX, AMX and AScX companies in 2019.

The table below shows the 2019 annual fee levels for the Supervisory Board Chairman and Member positions at first quartile (Q1), median and third quartile (Q3) level.

Index	Position	Q1	Median	Q3
AEX	Chairman	€ 84,000	€ 107,000	€ 200,000
	Member	€ 50,000	€ 65,000	€ 79,000
AMX	Chairman	€ 60,000	€ 70,000	€ 91,000
	Member	€ 45,000	€ 50,000	€ 58,000
AScX	Chairman	€ 50,000	€ 60,000	€ 64,000
	Member	€ 35,000	€ 40,000	€ 50,000

Annual fee levels remained relatively stable across the indices compared to last year. Pay differences for SB members are significant between AEX and the other 2 indices.

The table below shows the 2019 Audit Committee fees at first quartile (Q1), median and third quartile (Q3) level.

Index	Position	Q1	Median	Q3
AEX	Chairman	€ 13,000	€ 20,000	€ 27,000
	Member	€ 10,000	€ 12,500	€ 18,000
AMX	Chairman	€ 9,875	€ 10,000	€ 13,125
	Member	€ 7,125	€ 7,500	€ 9,500
AScX	Chairman	€ 7,375	€ 7,875	€ 10,000
	Member	€ 5,000	€ 6,000	€ 7,250

The table below shows the 2019 Remuneration Committee fees at first quartile (Q1), median and third quartile (Q3) level.

Index	Position	Q1	Median	Q3
AEX	Chairman	€ 10,000	€ 14,500	€ 20,000
	Member	€ 7,000	€ 10,000	€ 12,500
AMX	Chairman	€ 7,875	€ 8,750	€ 10,000
	Member	€ 5,220	€ 6,500	€ 7,150
AScX	Chairman	€ 5,500	€ 6,750	€ 7,500
	Member	€ 3,375	€ 4,750	€ 5,500

Interestingly, the committee fees for Remuneration Committees increased across all indices since last year, mostly so at AEX companies where the median fee level increased by 5.4%. However, our analysis shows that the committee fees for Audit Committee work still exceed those for Remuneration Committee work.

We found that most companies in our sample disclose detailed information on the remuneration of their individual SB members and reported additional fixed committee fees in 2019. However, with the implementation of SRD2 companies are also required to report the development of SB members remuneration over the last 5 years. We found that only a few companies appropriately disclosed on this requirement.



3. Shareholder Rights Directive

3.1 EY findings from the audit season

Due to the implementation of SRD2 in Dutch law, 2019 has been a special reporting year. Aimed to enhance long-term shareholder engagement, this directive requires companies to be more transparent in their reporting on executive remuneration. Although the impact of this new legislation can be clearly observed in the remuneration reports of Dutch listed companies, we found that few companies fully comply with the intention of the new reporting requirements.

Before the implementation of SRD2 companies already had to apply the Governance Code with regard to disclosure on executive remuneration. However, the 'comply or explain' principle allowed companies to deviate if they would properly explain the reason for the deviation. The quality of these explanations has not in all cases been very strong. With the implementation of SRD2 reporting has moved from 'comply or explain' to just 'comply'. Simple as that, one might say, but unfortunately that is not the case.

The recent audit season has shown that several SRD2 requirements are open to interpretation, especially when only the Dutch Civil Code text is taken into account. The 'problem' has been that the guidance from the European Committee on how to comply to SRD2 is non-binding and more importantly, is still a draft document. Nonetheless, this draft guidance already provides an explanation of the intention of the SRD2 legislation. Only a few companies have decided to apply this guidance and reported in line with the intention of SRD2. With that decision these companies have taken a leading role in transparency on executive remuneration.

Disclosure on how the performance criteria have been applied

The topic on which most debate has been, and where most companies chose not to apply the EU guidance, is on the disclosure of how the performance criteria have been applied. The EU guidance explains that if full disclosure would be seriously prejudicial to the company's business position or may negatively affect the sustainability of the company, the company may decide not to disclose in full. However, these situations are not likely in most cases and the actual use of this 'exception opportunity' is often not justified.

Note that proxy advisor Glass Lewis actually updated their voting guidelines on this topic to say that companies should disclose the specific targets as well as actual performance against the targets, at least retrospectively in the remuneration report.

The table below is based on the EU guidance document and shows how to transparently disclose on performance criteria (KPIs).

Position	Plan	Target	KPI	Weight	Performance incentive zone			2019 actual	
					Element	Threshold	Target		Maximum
CEO	STI 2019	50% of base salary	EBITDA	60%	Performance	€ 13m	€ 14m	€ 15m	€ 13.5m
					Payout %	50%	100%	150%	75%
			Revenue	40%	Performance	€ 80m	€ 100m	€ 120m	€ 110m
					Payout %	50%	100%	150%	125%
Actual STI (% of target STI)								95%	

The table shows the full calculation of the actual STI as % of target STI by showing KPIs, weights, the performance incentive zone, the actual performance and resulting payout.



5-year comparison

Another much debated topic was the comparison of board remuneration, company performance and average employee remuneration over the five most recent financial years. As opposed to the previously discussed topic, most companies were willing to disclose transparently, but were struggling with how to present the information. The EU guidance shows a table with year-to-year differences, both in absolute and in relative terms. In the opinion of most companies, such presentation would not be easy to read, nor understand. Therefore, some companies came with a better alternative, which was then copied by other companies.

The table below shows the most transparent example of the 5-year comparison as adopted by several companies.

Year	2015	2016	2017	2018	2019
Management Board member total remuneration					
CEO	€ 1,000,000	€ 1,029,000	€ 1,024,884	€ 1,076,128	€ 1,126,706
CFO	€ 800,000	€ 820,000	€ 811,800	€ 844,272	€ 875,510
Company performance					
Revenue (EUR m)	19,130	22,770	24,500	25,300	26,890
EBITDA (EUR m)	1,684	1,937	2,150	2,301	2,416
Average total remuneration of employees (full-time)					
Employees	€ 70,000	€ 71,330	€ 70,331	€ 72,441	€ 74,397
Pay ratios					
CEO vs employees	14.3	14.4	14.6	14.9	15.1
CFO vs employees	11.4	11.5	11.5	11.7	11.8

The table shows real values for remuneration rather than year-to-year differences. Furthermore, the table additionally shows pay ratios which enables readers to quickly see how the remuneration of executives developed compared to the remuneration of employees. We have not seen examples of ratios between executive remuneration and company performance, e.g. executive total remuneration as % of revenue or profit, but perhaps some companies will include this next year.

3.2 Example of transparent disclosure

In this section we give recognition to transparent disclosure of executive remuneration, especially with regard to the new SRD2 requirements, such as the 5-year comparison and the disclosure on how KPIs were applied. Based on these new requirements as well as our assessment of overall transparency and completeness, we believe Philips presented a remuneration report of high quality, that can be used for inspiration by others.

Preceded by a clarifying letter from the Chairwoman of the Remuneration Committee on the activities of the Remuneration Committee, the remuneration report sets out the remuneration policy in an appropriate level of detail and subsequently describes how the policy was implemented in the financial year. The different remuneration elements are addressed in a logical sequence and in a transparent manner. The disclosure on how KPIs were applied is among the most transparent examples we have seen. The disclosure on LTI includes both the achievement of the grant ended in the financial year as well as the disclosure of the grant made in the financial year. For the disclosure on the total remuneration split into the separate components, Philips chose to disclose IFRS costs with regard to the share-based remuneration, rather than e.g. the value of the shares on the vesting date. The draft EU guidance and subsequent consultation shows that this is a topic of debate. Hopefully, the final guidance will bring clarity on what is expected. For the time being, any sensible choice is acceptable as long as it is explained.



The remuneration report of Philips is a good example of transparent disclosure in line with the intention of SRD2.

3.3 Voting results from the 2020 AGMs

The implementation of SRD2 in Dutch law prescribes two voting items related to executive remuneration on the AGM. First, the remuneration policy has to be re-submitted to the AGM for adoption at least every four years. Dutch SRD2 legislation requires a 75% majority of votes casted to accept changes to the remuneration policy, except if the company's by-laws state otherwise. The second voting item during the AGM concerns an advisory vote on the remuneration report. Companies are not obligated to act upon the outcome of this vote immediately, but should explain during the next AGM how last years' vote has been taken into account.

At the moment of writing, 49 of the 66 companies analyzed in this report have held their 2020 AGM, albeit most in an online form due to COVID-19 restrictions. Of these 49 companies, 40 companies have obtained the needed majority of 75% of votes cast for approval of the updated remuneration policies during the 2020 AGM. Of the remaining nine companies, three have not put their policy up for vote because it was approved in recent years and deemed to already be in line with SRD2. From the remaining six companies, one company just missed the 75% mark, but indicates to follow French law where a simple majority suffices. This means that five remuneration policy proposals have been rejected so far. This is a relatively high number and quite surprising considering the common practice to consult with key shareholders before finalizing the policy proposal. Such shareholder dialogue is also in line with the intention of SRD2 to increase transparency and shareholder commitment.

Most companies that successfully changed their remuneration policy had voting percentages exceeding 90%. Rejections of policy proposals mainly occurred due to the 75% majority requirement. Only one company reached less than 50% of favorable votes cast on the policy proposal. Therefore, we can conclude that the 75% requirement, which is a Dutch deviation from European legislation, has had impact already.

One company's policy was primarily voted against because of the revised reference group that would be used for the company's market positioning. The reference companies were mainly American or British, with shareholder sentiment leaning to a more realistic and European comparison. Unfavorable voting results for another company were mainly due to the frequent grants of discretionary bonuses, as well as a policy proposal that was not perceived to be very transparent in general.

While a lot of remuneration policies have been accepted during the 2020 AGM, it remains to be seen whether these policies clearly and understandably explain all the new elements introduced in the Dutch Civil Code. To the extent that this is not the case, companies can still use the remuneration report over FY21 to provide more details on the less clear and understandable explanations. We look forward to preparing the next audit season with you!

4. Our services

4.1 Executive remuneration

Being transparent and compliant is imperative these days. Our team supports Remuneration Committees and HR/C&B directors to design appropriate remuneration packages for their executives. We help our clients to write transparent and compliant remuneration policies. We support listed clients with writing their remuneration report and preparing them for their shareholder meeting. Furthermore, our team assists companies with the design and implementation of management participation plans and short and long term incentive plans.

4.2 HR transactions

Most companies are trying to achieve synergies from a merger or acquisition, but often fail to do so. We help clients to succeed by supporting them with their due diligence and guiding them through the process towards and beyond closing a deal. Our team supports clients with the planning process and execution of different workstreams, such as total rewards integration, labor relations, organizational design & talent retention, employee experience and HR operations.

4.3 Variable pay plans

Many employees perceive variable pay as a dissatisfier. Although companies spend a lot of time and money on their variable pay programs, they often do not achieve the desired result at the right cost. Our Reward team understands this contradicting outcome. We help our clients overcome this by improving transparency and fairness and by reducing complexity and executional difficulties of their variable pay programs.

4.4 Other specialty services

Other specialty services our Reward team provides are:

- ▶ Interim in-house C&B management and operations
- ▶ Reward strategy design
- ▶ Salary structuring and merit systems
- ▶ Management Incentive Plan design in Private Equity Deals

Please feel free to contact us at reward@nl.ey.com. We are always more than happy to think along and help you navigate your Reward challenges!



Appendix: included companies

AEX**	AMX**	AScX**
Aalberts	AMG	Accell Group
ABN AMRO*	Aperam	Alfen
Adyen*	Arcadis	Amsterdam Commodities
Aegon*	ASM International	B&S Group
Ahold Delhaize	Basic-Fit	Brunel International
AkzoNobel	BE Semiconductor	ForFarmers
ArcelorMittal	Corbion	Heijmans
ASML Holding	Fagron	ICT Group
ASR*	Fugro	Kendrion
Galápagos	Grandvision	Kiadis Pharma
Heineken	Intertrust	Nedap
IMCD	Koninklijke BAM Group	Neways Electronics
ING Group*	Koninklijke Boskalis	NSI
Koninklijke DSM	OCI	Ordina
Koninklijke KPN	PostNL	Pharming Group
Koninklijke Philips	SBM Offshore	Sif Holding
Koninklijke Vopak	Signify	Sligro Food Group
NN Group*	Just Eat Takeaway.com	TomTom
Randstad Holding	TKH Group	Van Lanschot Kempen*
RELX Group	WDP	VastNed Retail
Royal Dutch Shell	Wereldhave	VolkerWessels
Unibail-Rodamco		
Unilever		
Wolters Kluwer		

* Financial Sector company

** Some companies were not included due to insufficient disclosure on remuneration

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