Proposed Remuneration Policy for the Managing Board

2021 AGM
Process for revising the Remuneration Policy

Context and key actions undertaken

• The proposal for revision of the remuneration policy for the Managing Board(*) was rejected by the 2020 AGM. This leaves the remuneration policy as adopted by the 2005 AGM intact.

• The Supervisory Board has undertaken a holistic review of the compensation structure based on benchmark with the market, with the involvement of members of the Supervisory Board (directly and through an ad-hoc committee) and the support of an external consulting firm, taking into consideration comments received from proxy advisors and shareholders.

• Based on this review, a new remuneration policy was elaborated and approved by the Supervisory Board on March 24, 2021 and is submitted for adoption by the 2021 AGM.

(*) Under Dutch law, the approval of the remuneration policy for the Managing Board requires a super-majority of 75% of votes cast. The “Managing Board” refers to the sole member of the Managing Board, President and CEO.
Remuneration Policy for the Managing Board

Highlights

- Improve disclosure and transparency on compensation information
- Update the remuneration structure to align with best market practices

Key changes

- Corporate Social Responsibility criteria in both STI(*) and LTI
- STI: fully paid in cash based on 4 to 7 performance criteria (70% financial / 30% non-financial)
- LTI: 3-year performance period before conditional vesting
- Explicit disclosure of threshold and target performance levels for both STI and LTI
- Implementation of Share Ownership Guidelines
- Clawback Provisions
- Termination Provisions

(*) A CSR criteria called “Sustainability Index” has already been included in the STI 2020 (paid in 2021) to the Senior Management
Remuneration policy supports ST’s value proposition…

For our **shareholders**

Return value in line with our sustainable, profitable growth objective

Sustainable and profitable growth

For our **customers**

Provide differentiating enablers

Independent, reliable & secure supply chain

For other **stakeholders**

Committed to sustainability

Our values: Integrity – People – Excellence
…and is an integral part of ST’s strategy focused on long-term enablers

**Smart Mobility**

ST provides innovative solutions to help our customers make driving **safer, greener and more connected** for everyone.

**Power & Energy**

ST technology and solutions enable customers to increase **energy efficiency** everywhere and support the use of renewable energy sources.

**Internet of Things & 5G**

ST provides **sensors**, **embedded processing solutions**, **connectivity**, **security** and **power management**, as well as **tools and ecosystems** to make development fast and easy for our customers.
Key principles of the remuneration policy are aligned with ST’s strategy and value proposition

Alignment with the Company’s strategy
Improving the performance of the Company
Enhancing long-term creation of shareholder value
Promoting Sustainable corporate development
Retaining and motivating key employees

Mix of ambitious financial and non-financial performance conditions for both STI and LTI
Highly variable, performance-related compensation structure (ca. 85% of maximum total direct compensation)
3-year performance period for LTI
CSR criteria for both STI and LTI
Benchmark against industry peers and alignment with best market practices
Overview of the Proposed Changes (1/3)

Compensation Component

Fixed Compensation
Base salary and benefits
(pension, company car, housing allowances)

Short-Term Incentive
Maximum of 210% of base salary

Long-Term Incentive
maximum of 100,000 shares per year

Proposed Changes

• No change for 2021

• STI fully paid in cash
• 4 to 7 performance criteria
• Introduction of CSR criterion
• Define threshold, target and maximum

• 3-year performance period before any vesting
• Introduction of CSR criterion
• Definition of threshold and target

Rationale

• Monitoring against market median will be carried out on a regular basis

• Clarify the distinction between STI and LTI
• Better alignment with market practice

• Ensure a significant part of the remuneration is linked to ST's longer-term time strategy
• Better alignment with market practice
Clawback Provisions

- Reclaiming of payments (i.e., any cash or shares granted) after they have been awarded or withholding of remuneration under specific conditions such as:
  - a significant downward restatement of financial results,
  - a breach of duty,
  - incorrect information about goals achievement

Proposed Changes

- Managing Board is expected to build up a shareholding in ST equal to 1.5x base salary within 3 to 5 years
- Investment up to 15% of LTIP vested shares net of tax

Rationale for Change

- Better alignment with market practices and regulations
- In accordance with Dutch Law and Alignment with best market practices

Overview of the Proposed Changes (2/3)
Overview of the Proposed Changes (3/3)

Other Component

Termination
No connection with change-in-control

Proposed Changes

• If the Managing Board is not employed at the time of vesting, the award will lapse, except under certain circumstances such as sickness, death, retirement.
• If employment is terminated without cause but for a pre-defined good reason, then the portion of any award to vest will be determined by the Supervisory Board based on several factors, including performance against targets.

Rationale for Change

• Alignment with best market practices and regulations, to clarify termination provisions.

(*) Good and bad leaver will be included in appendix to the member of the Managing Board’s contract.
The compensation package of the Managing Board should have a **highly significant portion of performance-related components** through a combination of short- and long-term variable instruments.

As an **illustration**, the following provides a breakdown of the proposed threshold and maximum total direct remuneration structure of the Managing Board:

<table>
<thead>
<tr>
<th>Performance-related components(*)</th>
<th>15%</th>
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</thead>
<tbody>
<tr>
<td>31%</td>
<td></td>
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<tr>
<td>54%</td>
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</table>

### Total Direct Compensation Components

- **Base salary** is a fixed cash amount (**€800,000** – unchanged for 2021)
- **STI** is a maximum of **210%** of base salary, fully paid in cash and subject to financial and non-financial performance conditions
- **LTI** represents a **maximum of 100,000 shares** granted annually, which will conditionally vest subject to performance conditions assessed over a 3-year period.

(*) As an illustration, 100,000 shares granted subject to performance conditions over a 3 years period at a price of $29.07 – corresponding to an average of ST share price in 2020 from January 1, 2020 to December 31, 2020. Note that the variation of share price impacts the portion of LTI in the illustrative breakdown.
Rationale for change: Alignment with market practice and simplification (in terms of design and implementation), without adjusting the maximum STI opportunity.

Simplification of the STI design and alignment with market practices

- **Unique set of 4 to 7 predefined performance conditions** (ca. 70% financial conditions and 30% non-financial conditions) from the following list:
  - Revenue, Gross Margin, Operating Margin, Net Income, Free Cash Flow, RoCE, market share evolution, share price evolution
  - Sustainability/CSR Index from the following criteria list: Health & Safety, CO2 Neutrality, Diversity, Inclusion and People Engagement
  - Special Projects
- **Introduction of Sustainability/CSR performance condition**
- **Explicitly outline threshold and target payouts** (105% and 210% of base salary respectively), including overperformance conditions for financial conditions
- **STI will now be paid out 100% in cash** following assessment of and subject to the achievement of pre-defined performance conditions
As an illustration, set forth in the following table are an overview of the performance conditions and weight set for 2021 that will be used for the attribution of the 2021 STI (payable in 2022).

<table>
<thead>
<tr>
<th>Proposed Short-Term Incentive (STI) criteria for 2021</th>
<th>Below Threshold</th>
<th>Between Threshold and Target</th>
<th>Between Target and Stretch</th>
<th>Above or equal to Stretch (for financial criteria)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial performance conditions (weighted ca. 70%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market share evolution</td>
<td>0%</td>
<td>15%</td>
<td>30%</td>
<td>45%</td>
</tr>
<tr>
<td>Revenue Growth</td>
<td>0%</td>
<td>20%</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>Operating income</td>
<td>0%</td>
<td>20%</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>Net operating cash flow</td>
<td>0%</td>
<td>20%</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>Sub-total for financial performance conditions</td>
<td>0%</td>
<td>75%</td>
<td>150%</td>
<td>Max 150%/*</td>
</tr>
</tbody>
</table>

| Non-financial performance conditions (weighted ca. 30%) |                |                            |                            |                                               |
| Execute special programs                              | 0%             | 15%                        | 30%                        | 30%                                           |
| Execute strategy implementation                       | 0%             | 5%                         | 10%                        | 10%                                           |
| Sustainability/CSR Index                              | 0%             | 10%                        | 20%                        | 20%                                           |
| Sub-total for non-financial performance conditions    | 0%             | 30%                        | 60%                        | 60%                                           |
| Total                                                 | 0%             | 105%                       | 210%                       | Max 210%                                      |

\(^{(1)}\) Over-performance for financial condition can balance the potential under-performance of other financial condition, without exceeding a maximum pay-out of 150% of base salary.
Detailed proposed changes for the LTI plan (1/2)

**Rationale for change:** Alignment with market practices and investors’ requirements, without adjusting the maximum LTI opportunity

**Implementation of new vesting conditions and share ownership guidelines**

- **Up to 100,000 shares per year**, subject to predefined performance conditions
- Performance conditions will be assessed over a **3-year period**:  
  - Revenue Growth  
  - Operating Margin Ratio before Restructuring  
  - Sustainability/CSR Index from the following criteria list: Health & Security, environmental, diversity, inclusion and people engagement
- **Introduction of Sustainability/CSR performance condition**
- **Granted shares will conditionally vest after 3 years**, subject to the assessment of performance conditions based on a combination of 3 predefined criteria and a matrix of objectives. This matrix will include **threshold and target performance levels**.
- The Managing Board is expected to build up a **shareholding in ST equal to 1.5 times base salary** (within 3 to 5 years) net of tax
Set forth in the following table are the performance criteria, weight, and achievement rate for the periods indicated below set for the LTIP plan.

<table>
<thead>
<tr>
<th>Proposed Long-Term Incentive criteria</th>
<th>At Threshold</th>
<th>Above Threshold and Below Target</th>
<th>At Target or above</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability/CSR Index (1)</td>
<td>16.67%</td>
<td>16.67%</td>
<td>33.33%</td>
</tr>
<tr>
<td>Operating Margin Ratio before restructuring (2)</td>
<td>16.67%</td>
<td>16.67%</td>
<td>33.33%</td>
</tr>
<tr>
<td>Revenue Growth (2) (3) (FY 2023 vs. FY2020 versus peer group)</td>
<td>16.67%</td>
<td>25.00%</td>
<td>33.33%</td>
</tr>
<tr>
<td>Total</td>
<td>50%</td>
<td>58.34%</td>
<td>Max 100%</td>
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</table>

Illustration of the final number of shares to be allocated after the assessment of the three pre-defined performance conditions:

(1) Include the following topics: Health & Safety, CO2 Neutrality, Diversity, Inclusion & People Engagement
(2) When assessing performance, ST’s Revenue and Operating Margin will include the impact of (pending) acquisitions/divestments (pro forma) that have already been announced.
(3) Compound Annual Growth Rate over a 3-year period. ST’s performance over the 3-year period will be assessed against a peer group panel.
The proposed Remuneration Policy is aligned with ST’s long-term strategy and is expected to make a key contribution towards the company’s performance.

The changes also provide increased clarity, transparency, and disclosures, and took into consideration comments received from proxy advisors and shareholders.

Upon recommendation of the Compensation Committee, the proposed remuneration policy for the Managing Board was approved by the Supervisory Board on March 24, 2021.

The Supervisory Board recommends its adoption by the 2021 AGM.
## Appendix: Summary of Compensation Proposal

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<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Fixed Compensation</strong></td>
<td><strong>Basic Annual Salary</strong></td>
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<td><strong>Benefits</strong></td>
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<td><strong>Pension</strong></td>
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<tr>
<td><strong>Short-Term Incentive (STI)</strong></td>
<td><strong>Purpose</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Performance criteria</strong></td>
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<td><strong>Cap</strong></td>
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<td></td>
<td><strong>Payment</strong></td>
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<tr>
<td><strong>Long-Term Incentive (LTI)</strong></td>
<td><strong>Purpose</strong></td>
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<tr>
<td></td>
<td><strong>Plan type</strong></td>
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<tr>
<td></td>
<td><strong>Performance criteria</strong></td>
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<tr>
<td></td>
<td><strong>Cap</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Guidelines</strong></td>
</tr>
</tbody>
</table>

15 times base salary (within 3 to 5 years) net of tax