



PostNL
Central Works Council
PO box 30250
2500 GG The Hague

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Our reference 23-CWC-U-158 Your reference: SB2023

Subject CWC/23-06/Remuneration policies BoM & SB 2024, CWC advice

Dear members of the Supervisory Board,

The Central Works Council (hereafter: CWC) has taken note of your request for advice dated 14 December 2023, in line with the draft consultation request received on 8 November 2023 (hereafter: request for advice), which includes a comprehensive motivation for the proposed adjustments regarding the remuneration policies of the Board of Management (hereafter: BoM) and Supervisory Board (hereafter: SB) as from 2024 onwards.

This request for advice refers to prior limited, particularly compliance-driven, adjustments of the remuneration policies in 2019 and 2021 and delves into the further necessity that has arisen to change the remuneration policies of the BoM and the SB.

It has been indicated that no material strategic changes have been implemented in the past ten years, while the world in which PostNL operates has substantially evolved during that timeframe. Furthermore, it has been noted that the proposed changes stem from a strategic evaluation by the Remuneration Committee. While maintaining the guiding principles, a comparative study (benchmark assessment) has been conducted based on a refreshed group of companies that serves as a reference ('peer group'). Hereby, the societal position of PostNL has explicitly been taken into account.

For base salary of the BoM, the Remuneration Committee of the SB refers to the median level of the peer group. For the variable part of the salary, the 25th percentile of the peer group has been considered.

The conclusion was that the current variable compensation lags behind the 25th percentile of the peer group, which is the variable remuneration's ambition level as outlined in the current remuneration policy; the ambition of the Remuneration Committee is to align the remuneration accordingly. With this adjustment, it is expected that PostNL will continue to be able to attract, reward and retain qualified future BoM members.

1. Proposed changes (summarized)

The key proposed changes the SB wishes to implement for the BoM and SB are as follows:

1. BoM: Increase STI (short-term incentive) and LTI (long-term incentive)

Currently, PostNL has a STI of 37.5% (of the annual base salary) if all targets are achieved. The LTI is also 37.5% (of the annual base salary) if all targets are achieved. The SB proposes to increase the STI to 40% at target and the LTI to 50% at target so that the variable compensation better aligns with its ambition as outlined in the remuneration policy.

2. BoM: Introduction of threshold and stretch in the STI

Additionally, the SB proposes to introduce a threshold (20% pay-out of the annual base salary) and a stretch (60% pay-out of the annual base salary) within the STI, thereby better expressing the pay-for-performance mechanism, ensuring not only underperformance is penalized but also overperformance is rewarded (which is also common market practice). Currently, the STI is based on the all-or-nothing principle. You either achieve it or you don't. The change prevents undesirable STI outcomes in uncertain times and enables the SB to set targets in uncertain times. As the SB intends to set challenging and realistic targets, they do not expect stretch levels to be frequently attained.

3. BoM: Introduction of stretch in the LTI

Within the LTI, the SB wishes to apply the same system. We already have a threshold (25% pay-out of the annual base salary), but the SB also wants to introduce a stretch (75% pay-out of the annual base salary) so that the principle of pay-for-performance is better embedded, rewarding not only underperformance but also overperformance. Since the SB intends to set challenging and realistic targets, it is not expected that stretch levels will be frequently attained.

4. BoM: Flexibility in performance measures

Moreover, the SB would like to introduce more flexibility in the selection of annual STI performance measures (and non-financial LTI performance measures) within the current framework of 60% financial and 40% non-financial performance measures. These can be determined annually by the SB, enabling more alignment with changing strategic priorities. To enhance transparency, the SB will disclose the chosen performance measures in the annual report at the beginning of the calendar year.

5. SB: Increase in board and committee fees

Regarding the remuneration policy for the SB, the SB considers it appropriate, for the first time since 2011, to increase the board fee and certain committee fees to better align with the increased tasks and responsibilities of this body. This also aligns with the ambition level as outlined in the current remuneration policy of the SB, which lies between the 25th percentile and the median of the peer group. The fees for the audit committee will not be increased as they already align with the ambition level.

6. SB: Introduction of ESG committee fee

Following the introduction of an ESG committee, it is proposed to introduce an ESG committee fee, equal to the fee for the remuneration committee and the nomination committee.

For the rest, I refer to the request for advice and the accompanying annexes.

2. Process

AGM

The proposed remuneration policies will be presented at the Annual General Meeting of Shareholders (hereinafter: AGM) on 16 April 2024. The request for advice, the COR's advice and the SB's response will be added to the proposal and further documentation, which will be published in March 2024 together with the AGM agenda.

Stakeholder engagement process

You indicated that various stakeholders have been consulted during the roadshow in September/October 2023 concerning this request for advice. Hereby, PostNL engaged with shareholders (representatives) and proxy advisors.

3. Information basis

- A delegation of the daily management of the CWC has been informed of the intention to change the remuneration policies on 3 and 24 October 2023.
- Consequently, on 13 November 2023, the complete CWC was informed on the intention to change the remuneration of the BoM and the SB..
- Furthermore, throughout November, several questions from the CWC were answered, particularly regarding the connection between the 'Resultaat Afhankelijke Uitkering' (RAU) according to the Collective Labor Agreements (CLAs) and the proposed remuneration policy of the BoM.

4. CWC's advice

The CWC thinks it is extremely important that PostNL is able to attract members of the BoM and the SB who can responsibly and socially lead the company through the numerous challenges we will be facing. In this regard, we believe it is logical to consider what is common market practice in terms of remuneration. Given the societal profile of the company and its essential function, as clearly demonstrated in the almost forgotten Corona years of 2020 and 2021, one might assume that remuneration will not be the sole motivation for joining the BoM and the SB, but it is undoubtedly a significant consideration.

In broad terms, the CWC therefore supports the proposed movement to adjust the remuneration policies. However, we have three conditions and one point of attention.

Condition 1:

According to the proposal, we are moving away from a rigid and predefined remuneration policy towards a policy that offers more flexibility to the SB. While this indeed allows for better translation of moving strategic priorities into remuneration, it also necessitates actively involving stakeholders, including the CWC, more than before in the policy's implementation. Therefore, the CWC wishes to be actively involved in the annual selection of performance measures in order to be able, if applicable, to give their advice before performance measures are set.

Condition 2:

The CWC sets as a condition for a positive advice that the SB discusses with the BoM that, following the publication of the company results, any communication regarding the RAU (whether or not the RAU will be awarded, and if so, to which extent) will include information about the link with the BoM's STI in an understandable way.

Condition 3:

If the SB deems it necessary to derogate from the remuneration policy in exceptional circumstances- for instance due to changes in tax law - in order to award additional compensation to the BoM, the CWC wishes to be informed in a timely manner, and (where necessary) asked for advice.

Point of attention:

The CWC considers it crucial to maintain a healthy link between the BoM's STI and the RAU (outlined in Article 8.8 of the PostNL CLA and Article 7.8 of the CLA for postal deliverers and capped to an annual cash payment of 3% of the salary, provided the set targets on the performance measures are met). The performance measures relate to the financial performance of PostNL (up to a maximum of 2%-point) and customer satisfaction results (1%-point). Regarding the financial performance, Normalized EBIT is considered. Normalised EBIT also applies to the BoM, but Normalised EBIT exceedance does not (and only applies for the RAU). For customer satisfaction, the performance measure used equals the performance measure as set by for the BoM. Additionally, the BoM has other performance measures (such as, currently, free cash flow, quality parcels, quality mail and employee engagement).

Currently, the STI amounts to 37.5% if all targets (financial and non-financial) are met. Under the new remuneration policy, it is proposed to increase the STI at target level for the BoM from 37.5% to 40%. This increase applies at an overall level, for all STI performance measures together. The proposed increase does not affect the level of the RAU, as a fixed percentage of (max.) 3% is set in the CLAs. While there is a link between some of the BoM's performance measures and the RAU, this does not apply to the overall level.

The current RAU is therefore linked to the BoM's STI in terms of financial results (Normalized EBIT) and customer satisfaction. If the BoM does not meet their targets in this regard, the same applies to the employees covered by the RAU. The CWC is aware that the BoM also has performance measures in areas that are not part of the RAU performance measures (e.g., in terms of quality), and this does not directly matches.

We understand that unions are responsible for the CLAs, but the CWC advocates for maintaining and, where possible, strengthening the abovementioned link. It cannot be that employees do not receive RAU while the BoM almost entirely receives their STI. In line with the guiding principle 'alignment' as included in the remuneration policy and the intention to align the principles underlying the BoM's remuneration policy with the broader workforce, the CWC advocates to

keep, and where possible, reinforce, the link between the RAU and the STI (of the BoM). Hereby, the CWC advises the SB to request the BoM to evaluate and where possible, adjust, the RAU against the backdrop of the proposed remuneration policy. Furthermore, the CWC advises the SB to take notice of the RAU outcomes in any year, when setting the performance measures for the next year.

Of course, we will also raise this issue with the unions so that they, especially with regard to the increased flexibility in determining the BoM's performance measures, can consider these elements in the upcoming CLA negotiations. We will thereby advocate for aligning the extent to which the RAU is awarded with the STI.

5. Finally

If our advice is adopted, the CWC advises to present the remuneration proposals to the AGM. I look forward to receiving your response as soon as possible.

Kind regards,



Hans Blikman
Chairman of PostNL's Central Works Council