

## ARKEMA

### DECISIONS MADE BY THE BOARD OF DIRECTORS ON 27 FEBRUARY 2017 REGARDING THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S COMPENSATION

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At its meeting held on 27 February 2017, Arkema's Board of Directors, on recommendation by the Nominating, Compensation and Corporate Governance Committee, has set out Thierry Le Hénaff's compensation as Arkema's Chairman and Chief Executive Officer, as follows.

#### Compensation for 2016

Variable compensation due for 2016 could, as in previous years, represent up to 150% of the annual fixed compensation and was set subject to the achievement of specific quantitative and qualitative criteria approved by the Board in March 2016.

Taking into account the achievements at 31 December 2016, the Board of Directors set out the variable compensation for 2016 as follows:

- **concerning the three quantitative criteria**, linked to the financial performance of the Group (EBITDA, recurring cash flow and margin on variable costs of new developments), the achievement rates by criterion are as follows in 2016:
  - 100% for EBITDA, whose weighting represents 55%, taking into account the excellent performance of the Group, with EBITDA significantly up by 12.5% in 2016 compared to 2015, which was already strongly up, in an economic environment characterized by overall moderate growth worldwide and strong volatility, particularly with regard to raw materials. This increase is fully in line with the Group's medium-term target announced in 2014 for 2017, to increase EBITDA to €1.3 billion compared to €784 million in 2014 ;
  - 100% for recurring cash flow, whose weighting represents 27.5%. After a very good performance in 2015, recurring cash flow reached an excellent level again in 2016, totaling €477 million with a very high EBITDA to cash conversion ratio of 40%, which is among the highest within the Group's peers. This cash generation was directly reflected in a stable gearing at 35% despite the acquisition of Den Braven at the end of the year for an enterprise value of €485 million. This performance reflects the further strict management of capital expenditure and working capital in a raw material context significantly less favorable with rising raw material prices at the end of 2016 compared to their 2015 level ; and
  - 100% for the contribution of new developments, whose weighting represents 27.5%. The Board of Directors took into account the further progress made compared to previous years with, in particular, the commercial successes in lighter materials (in sports, automotive industries and consumer electronics), innovation in new energy applications, the very positive impact for Bostik of increased R&D investment structured around its three regional platforms, with notable successes in hygiene, floor adhesion systems and flexible packaging with new-generation formulations, and diversification of the Group's downstream acrylics (Coatex, Sartomer and coating resins) into higher value-added products.

After applying the calculation formula defined by the Nominating, Compensation and Corporate Governance Committee, the variable compensation due in respect of quantitative criteria amounted to 110% of his annual fixed compensation; and

- **concerning the qualitative criteria** relating for the most part to the implementation of the Group's strategy and operating priorities, and several of which are quantifiable, the performance was once again deemed excellent at the end of a year 2016 marked by the successful integration of Bostik and the implementation of synergies with an EBITDA growth target of 30% in 2017 versus 2014 achieved one year early, the acquisition of the Den Braven group finalized on 1 December 2016, which strengthens the Specialty Adhesives (Bostik) Business Line and supports the Group long-term ambition in this market, and the continued implementation of the divestment program with the sale of the activated carbons and filter aids business on favorable terms with an 9.5x enterprise value to EBITDA multiple. In addition, the Board of Directors noted the completion or progress of several industrial projects that are complex, significant and fundamental in establishing the Group's long-term positioning. They include the doubling of specialty molecular sieve production capacity at the Honfleur site in France, doubling of organic peroxide production capacity in China, renegotiation of the agreements concluded with Jurong in acrylics in China enabling Arkema to access to

50% of total capacity for a limited cash outflow and the renegotiation of the terms and conditions for the purchase and sale of a number of key raw materials. The Board of Directors also noted the further efficient management of fixed costs, working capital (with a ratio of working capital to pro forma sales of 14.5%, excluding Den Braven, in 2016 versus 14.6% in 2015) and capital intensity (with capital expenditure representing 5.6% of sales in 2016, the same as in 2015). EBITDA margin was also up significantly to 15.8%, compared with 13.8% in 2015, and EBIT margin came in close to 10%. The Group's rating was upgraded by two agencies with a neutral outlook with a gearing stable despite the acquisition of Den Braven. Lastly, the Group's very good safety record was maintained at a level among the best in the industry (TRIR of 1.5 accidents per million hours worked in 2016 again). The Board also noted the effective succession planning for senior executives and Executive Committee members, notably when the CEO of Bostik was replaced, and the creation of a Management Committee in addition to the Executive Committee. As a result, the achievement rate of these qualitative criteria was set at 100%. Consequently, the variable compensation due in respect of qualitative criteria was set at 40% of the annual fixed compensation.

In total, the variable compensation for 2016 amounts to 1,252,500 euros. It reflects the very strong performance of the year and the continued transformation of the Group's profile. It represents 150% of the 2016 annual fixed compensation of 835,000 euros and an overall achievement rate of 100%.

Thierry Le Hénaff's total annual gross compensation for 2016 therefore amounts to 835,000 euros in fixed compensation and 1,252,500 euros in variable compensation.

As a result of the 2016 variable compensation, the variable part of the component to build his retirement put in place since 7 June 2016 (when the supplementary defined benefit pension scheme from which the Chairman and CEO benefited was terminated) and due for 2016 amounts to 152,250 euros.

### **Annual compensation for 2017**

In accordance with the Chairman and Chief Executive Officer's compensation policy, as decided by the Board of Directors on 2 March 2016 as part of the renewal of the term of office as director of Mr. Thierry Le Hénaff, for the duration of the term of office, and outlined at the annual general meeting on 7 June 2016, the Board of Directors confirmed:

- the annual gross fixed compensation of M. Thierry Le Hénaff at 900,000 euros for 2017; and
- the Chairman and Chief Executive Officer's variable compensation structure for 2017 which may reach, as was the case in previous years, a maximum of 150% of his annual fixed compensation. It will continue to be based on quantitative criteria of the same type as in previous years and linked to the Group's financial performance: EBITDA, recurring cash flow and contribution of new developments. The weighting of each criterion remains unchanged respectively at 55%, 27.5% and 27.5%.

In addition to the quantitative criteria, qualitative criteria will continue to be based on the Group's priorities which are mainly linked to (i) the implementation of the Group's long-term strategy by the Chairman and Chief Executive Officer, and in particular changes in the Group's profile to reinforce the balanced geographical presence, the management of acquisitions, the development of innovation platforms and the secure access to strategic raw materials, (ii) the day-to-day management of the Company with quantified operational criteria (safety, fixed costs, working capital, capital expenditure and balance sheet) and (iii) the implementation of major industrial projects for the Group. For 2017, the Board of Directors will focus in particular on the Group's ability to maintain its current very good safety record, progress made in the area of corporate social responsibility, the implementation of integration synergies between Bostik and Den Braven, the adaptations to the raw material context, the ramp-up of molecular sieves and the start-up of capacity expansions in polyamides and PVDF, the start-up of the digital transformation program, the further implementation of the divestment program and the progress made on the main ongoing or planned development projects which have not been yet announced by the Group. The Board of Directors will also monitor the operational excellence initiatives and talent management. The weighting of the different criteria used to determine variable compensation remains unchanged.

The Board of Directors also confirmed all other elements of the compensation of Mr. Thierry Le Hénaff and, in particular, the allocation of 30,000 performance shares as part of the 2017 annual performance share plan which will be granted in November 2017, as decided as part of its new term of office renewed at the annual general meeting on 7 June 2016. This level, which is coherent with the change in the fixed part of the compensation, also takes into account, as part of the new term of office, the very positive transformation of the Group's profile and of its financial performance and aims at maintaining a balanced split between the different components of the compensation, consistent with past practice.

In accordance with the provisions of article L. 225-37-2 *nouveau* of the French Commercial Code, as introduced by Act no. 2016-1691 of 9 December 2016, relating to transparency, the fight against corruption and modernization of the economy, known as the "*loi Sapin II*", payment of the 2017 variable compensation will only take place subject to the approval of the shareholders' annual general meeting to be held in 2018.

In accordance with the provisions mentioned above, the Board of Directors also set out the terms of the special report and the resolution to be submitted to the shareholders' annual general meeting on 23 May 2017.

The Board of Directors also approved the proposed resolution and the summary table presenting the components of compensation due or awarded to Thierry Le Hénaff for 2016, which will be submitted as well to the vote of the shareholders at the annual general meeting on 23 May 2017 in accordance with article 26.1 of the AFEP-MEDEF Code.

All reports, summary table and draft resolutions will be included in 2016 Arkema's reference document.