

## DECISIONS MADE BY THE BOARD OF DIRECTORS ON 2 MARCH 2016 REGARDING THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S COMPENSATION

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In compliance with the applicable laws and regulations and in accordance with the AFEP-MEDEF Code, the decisions regarding Thierry Le Hénaff's compensation as Arkema's Chairman and Chief Executive Officer, unanimously taken by the Board of Directors on 2 March 2016 on the recommendation of the Nominating, Compensation and Corporate Governance Committee, are set out below.

### Variable compensation for 2015

The variable compensation for 2015 could represent up to 150% of the annual fixed compensation and was based on specific quantitative and qualitative criteria.

Given the performance for the year ended 31 December 2015, the Board of Directors set the amount of variable compensation for 2015 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 were as follows in 2015:
  - 100% for the first criterion (level of EBITDA) taking into account the very good performance of the Group, with EBITDA up 35% compared to 2014 in a soft and volatile global economic environment. The Board also noted that, excluding the effect of changes in the scope of business, EBITDA was 13% higher than in 2014;
  - 100% for recurring cash flow. In 2015, recurring cash flow reached an excellent level at 478 million euros with a very high EBITDA to cash conversion ratio of over 40%. This very strong growth reflected good control over capital expenditure, with a lower ratio of capital expenditure to sales and over working capital supported by the positive effect of lower raw materials costs in 2015. In addition, the Board observed that, just eleven months after the Bostik acquisition, the Group's gearing ratio was back below 40%;
  - 100% for the contribution of new developments. The Board took into account, in particular, the very successful start-up of the Kerteh thiochemicals platform using an innovative technological process, the success of the technical polymers used in new sports applications, promising developments in the areas of consumer electronics and new energies, the discovery of new applications in oil additives, developments for Coatex and coating resins in several specialty segments, new low odor grades developed by Bostik, the growth in sales of hydrogen peroxide specialties and advances in 3D printing and thermoplastic compounds.

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 the annual fixed compensation; and

- **concerning the qualitative criteria** relating for the most part to the implementation of the Group's strategy and operating priorities, the performance was deemed excellent at the end of a particularly busy year, in light of the successful implementation of several projects of significant importance to the Group. In particular, the Board of Directors noted the completion or progress of several industrial projects that were complex, significant and fundamental in establishing the Group's long term positioning. They include the successful technical start-up and rapid ramp-up of the thiochemicals platform in Malaysia, the smooth integration of Bostik and the implementation of the first synergies between the two groups, renegotiation of the contractual conditions governing the Sunke acrylics joint venture set up with Jurong Chemical in China, in challenging market conditions for these products in Asia, gradual deployment of the recovery plan for the fluorogases business, progress in implementing the divestment program with the divestment

of Sunclear which represented annual sales of around 180 million euros, ongoing deployment of the SAP global management system for the Group's supply chain, the successful outcome of the Klesch arbitration, efficient management of fixed costs and working capital (with a pro forma ratio of working capital to sales of 14.6% in 2015 versus 16.1% in 2014), and lower capital intensity (with capital expenditure representing 5.6% of sales in 2015 compared to 7.9% in 2014). Lastly, improvements in the safety records exceeded the original targets to reach levels among the best in the industry (TRIR of 1.5 accidents per million hours worked in 2015 compared to 1.9 accidents in 2014). 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 2015 approved by the Board of Directors amounts to 1,125,000 euros, around 63% more than the variable compensation for 2014 which reflected an overall challenging year. Such an increase reflects the very strong earnings growth and the successful implementation of a number of projects. It represents 150% of 2015 annual fixed compensation and an overall achievement rate of 100% (100% in respect of quantitative criteria and 100% in respect of qualitative criteria), after a very significant decline in variable compensation in 2013 and 2014.

Thierry Le Hénaff's total annual gross compensation for 2015 therefore comprises 750,000 euros in fixed compensation (unchanged since 23 May 2012) and 1,125,000 euros in variable compensation.

### **Annual (fixed and variable) compensation for 2016**

As the Board of Directors proposes that Thierry Le Hénaff be re-elected at the Annual General Meeting to be held on 7 June 2016, it has set Thierry Le Hénaff's fixed compensation and the principles for determining his variable compensation as follows:

- the basis for calculating Thierry Le Hénaff's annual gross fixed compensation would remain unchanged at 750,000 euros for the period in 2016 up to the date of his re-election and re-appointment as Chairman and Chief Executive Officer, when it would be increased to 900,000 euros per year for the duration of his new term of office. This increase, which is only reviewed every four years when his appointment as Chairman and Chief Executive Officer comes up for renewal, is based on:
  - a benchmarking study, carried out by Towers Watson, comparing the compensation packages offered by 17 French industrial companies that are comparable to Arkema in terms of their sales, complexity, number of employees and market capitalization, and four European chemical companies of a similar size to the Group. Such analysis showed that as of the date of this document, Thierry Le Hénaff's annual fixed compensation was 12% below the median of the panel and even below the last quartile; and
  - the increase in the size of Arkema's business following the acquisition of Bostik which has annual sales of some 1.6 billion euros and around 4,900 employees. With this acquisition, which has had a profound, favorable impact on the Group's profile, Group sales have expanded by over 25% and the High Performance Materials business has nearly doubled in size. At the same time, the Group's geographic footprint has become more balanced, with a decrease in Europe, which now represents less than 40% of Group sales, towards the United States and emerging markets. The very good 2015 results reflect the evolution in the Group's positioning.

After giving effect to the increase, Thierry Le Hénaff's annual fixed compensation will be slightly above the median of the panel defined above; and

- the Chairman and Chief Executive Officer's variable compensation could reach, as for 2015, a maximum of 150% of his annual fixed compensation and 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, with the weighting of each criterion to remain unchanged. In addition to the quantitative criteria, qualitative criteria will continue to be based on the Group's priority areas: implementation of the Group's long-term strategy by the Chairman and Chief Executive Officer, day-to-day management of the Company with quantified operational criteria (safety, fixed costs, working capital, capital expenditure and balance sheet structure) and implementation of major industrial projects that are important to the Group. The Board will focus in particular on the Group's success in maintaining its current very good safety record, progress made in the area of sustainable development, the further implementation of integration synergies with Bostik, the divestment program and the main development

projects currently in progress or planned, as well as on operational excellence and talent management. The weighting of the different criteria used to determine variable compensation remains unchanged.

### **Supplementary pension benefits**

The Board of Directors decided that the defined benefit pension plan (governed by Article L.137-11 of the French Social Security Code), from which Thierry Le Hénaff has benefited since his appointment in 2006, would be terminated with effect from the date of his re-election as a director at the Annual General Meeting of 7 June 2016 and his re-appointment as Chairman and Chief Executive Officer. In exchange for withdrawing this benefit, the Board of Directors decided to award Thierry Le Hénaff:

- an additional annual compensation corresponding to 20% of his total fixed and variable compensation for the year concerned, to enable him to build up his supplementary retirement benefits; and
- a one-off lump sum paid as compensation for the loss of pension rights accumulated in the terminated plan. This compensation consists of the payment of 1,500,000 euros in cash and of the award of 50,000 free shares that will vest in 2017, 2018 and 2019 in three tranches of 16,667, 16,667 and 16,666 shares respectively, the definitive award being contingent to a condition of presence in the Group, and that will be subject in each case to a two-year holding period. The free shares to be awarded will be the subject of a specific plan to be submitted to shareholders for approval at the Annual General Meeting on 7 June 2016. As this one-off grant of free shares is intended to compensate for the loss of rights accumulated in the past, the Board of Directors has decided that the shares should not be subject to any performance conditions.

The one-off compensation has been determined based on an amount corresponding to the cumulative annual additional compensation that would have been paid to the beneficiary since the Company's spin-off in May 2006 if the new pension scheme had been in place since he was appointed as Chairman and Chief Executive Officer. By deciding to pay part of this one-off compensation in Arkema shares and spreading the vesting period over three years, the Board of Directors has ensured a retention component in the scheme.

Thierry Le Hénaff has committed to invest the cash component of the one-off and the additional annual compensation, net of any contributions and tax, in investment vehicles dedicated to the financing of his supplementary retirement benefits.

According to the calculations performed by an independent actuary, the new scheme will imply, from the beneficiary's standpoint, giving up around 70% of the net value of the benefits he would have been entitled to under the current system. For the Company, the overall cost of the new system will be divided by two compared to the existing pension scheme. The new system will lead to the reversal in 2016 of a provision amounting to around 20 million euros carried in the Company's accounts.

### **Termination indemnity**

The Board of Directors decided to renew the commitment to pay compensation for termination of office to Thierry Le Hénaff as Chairman and Chief Executive Officer, in the event of forced departure, subject to his re-election as a director at the Annual General Meeting on 7 June 2016.

In compliance with the recommendation of the AFEP-MEDEF Code, the Board decided to link the payment of these termination indemnity to a forced departure linked to a change of control or strategy. As a result, the Chairman and Chief Executive Officer would be entitled to compensation for termination of office only in the event of forced departure, regardless of the form of this departure, including dismissal before the end of the term of office or the non-renewal of such term of office on expiry, linked to a change in control or strategy. No compensation for termination of office will be paid in the event of serious or gross misconduct.

As was the case previously, the termination indemnity will amount to a maximum of twice his total annual gross fixed and variable compensation, it being specified that the calculation base of this total annual

compensation would correspond to the fixed annual compensation for the year in which the forced departure occurs and the average of the last two years of variable compensation paid prior to the departure.

The amount of this termination indemnity would be calculated by reference to the achievement of five demanding performance conditions, which have been partly modified as follows in order to further increase the level of requirements compared to the previous term of office:

- TRIR: the total recordable injury rate (TRIR) would have to have decreased by at least 5% per year (average compound rate) between 31 December 2010 and the date at which the performance condition was assessed. For this condition, the Board decided to change the reference year from 2005 to 2010, when the Group started implementing its global safety improvement program. Given that significant progress was made in this area between 2005 and 2010, with TRIR nearly halved over the period, the change in reference year makes this performance condition significantly more demanding;
- annual variable compensation: on average, the annual variable compensation paid during the three years preceding departure would have to be at least 50% of the maximum amount payable. This demanding new condition is also consistent with the Board's objective of avoiding any form of "pay for failure";
- return on capital employed: the average of net operating income over capital employed ((recurring operating income - actual income tax<sup>(1)</sup>)/(capital employed - provisions)) for the last three years prior to the termination date would have to exceed the Group's cost of capital for the year preceding his re-election, i.e.: 7% in 2015. The cost of capital has been adjusted to take into account current interest rate levels. Capital employed and provisions are those at year-end, and recurring operating income of companies acquired during the year would be included on a full year basis and that of divested companies would be excluded;
- working capital: the year-end working capital over annual sales ratio would have to have decreased by at least 2.5% per year (average compound rate) between 31 December 2005 and the date at which the performance condition was assessed;
- comparative EBITDA margin: this financial performance indicator will continue to be measured against that of competitors in the chemicals industry comparable to the Arkema Group. The growth in the Group's EBITDA margin would have to be at least equal to the average growth in the EBITDA margin of the companies in the peer group between 31 December 2005 and the date at which the performance condition was assessed.

For the last two conditions only, the Board of Directors decided to leave the reference year as 2005, which was the last financial year prior to the Company's stock market listing and the implementation by the current Chairman and Chief Executive Officer of his own, independent strategy. Indeed the Board wants the termination indemnity to be also determined by reference to the Group's long-term performance under Thierry Le Hénaff's leadership. The use of 2005 as the reference year will enable the Board to better assess the magnitude of the Group's transformation initiated ten years ago and set to continue at least until 2020. The process to reshape Arkema as an innovative chemicals and specialty materials manufacturer is a key factor in understanding the Group and assessing its value.

The value of the end-of-period index to be taken into account in the computation of the above criteria would be the average of the indices calculated at Group level over the three years for which financial statements have been published prior to the termination date.

The Board of Directors also decided to make the allocation scale more demanding, as follows:

- if 5 conditions were met, Thierry Le Hénaff would receive 100% of the maximum of the termination indemnity;
- if 4 out of 5 conditions were met, Thierry Le Hénaff would receive 90% of the maximum of the termination indemnity;
- if 3 out of 5 conditions were met, Thierry Le Hénaff would receive 70% of the maximum of the termination indemnity;
- if 2 out of 5 conditions were met, Thierry Le Hénaff would receive 40% of the maximum of the termination indemnity;

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<sup>1</sup> On recurring income (in particular excluding impact of M&A, restructuring operations).

- if fewer than two conditions were met, no termination indemnity would be paid.

In addition, to take into account the change in Thierry Le Hénaff's supplementary pension scheme as from his re-election to the Board, in accordance with the AFEP-MEDEF Code's recommendations concerning the accumulation of termination indemnity and supplementary pension benefits, the Board of Directors has decided to gradually reduce the termination indemnity that would be payable to Thierry Le Hénaff beyond the age of 60, as follows:

- 18 months' total annual gross compensation (fixed and variable) beyond the age of 60; and
- 12 months' total annual gross compensation (fixed and variable) beyond the age of 62-and-a-half.

No compensation would be paid in the event of departure beyond the age of 65.

In accordance with Article L.225-42-1 of the French Commercial Code, the commitment to pay compensation for termination of office will be submitted to shareholders for approval at the Annual General Meeting to be held on 7 June 2016.

### **Other components of compensation**

In addition to the compensation described above, Thierry Le Hénaff will continue to benefit from:

- the long-term compensation plans set up by the Board of Directors, which currently comprise performance shares;
- director unemployment insurance; and
- a company car.

### **"Say on pay"**

The Board of Directors also approved the proposed resolutions and the summary table presenting the components of compensation due or awarded to Thierry Le Hénaff for 2015, which will be submitted to an advisory vote by shareholders at the Annual General Meeting on 7 June 2016.

All of the information relating to the Chairman and Chief Executive Officer's compensation is included each year in the Board of Directors' report to the Annual General Meeting, which is part of the reference document available on the Company's website: [www.finance.arkema.com](http://www.finance.arkema.com)