ARKEMA

DECISIONS OF THE BOARD OF DIRECTORS' MEETING OF 26 FEBRUARY 2020 REGARDING THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S COMPENSATION

The decisions regarding Thierry Le Hénaff's compensation as Arkema's Chairman and Chief Executive Officer, taken by the Board of Directors on 26 February 2020 on the recommendation of the Nominating, Compensation and Corporate Governance Committee, are set out below.

Components of compensation due for 2019

As in previous years, the variable compensation for 2019 could represent 110 % (target) to 150% (maximum) of annual fixed compensation and was based on the achievement of specific quantitative and qualitative criteria adopted by the Board of Directors on 26 February 2019.

Given the performance for the year ended 31 December 2019, the Board of Directors set the amount of variable compensation for 2019 as follows:

- **concerning the three quantitative criteria** linked to the Group's financial performance, the achievement rates by criterion were as follow:
  - 58.2 % for EBITDA, whose maximum weighting represents 55%, and which reached €1,430 million in 2019 (excluding the M&A impact), close to the record level reached in 2018, despite an increasingly challenging economic environment marked by persistent geopolitical tensions and uncertainty that weighed on demand in certain end-markets;
  - 100 % for recurring cash flow, whose maximum weighting represents 27.5 %. Recurring cash flow reached an excellent level in 2019, totaling €713 million. The EBITDA to cash conversion rate exceeded 50% and reached its highest ever level. This performance reflects the Group's very solid operational performance and notably includes a cash inflow linked to working capital, which reflects tight management of inventories, lower raw material costs and the ability to adapt to weaker demand at the end of the year. This strong cash flow, which was achieved while keeping recurring capital expenditure within budget, in line with the organic growth strategy, enabled the Group to maintain its net debt at around €1.6 billion, representing 1.1 times annual EBITDA (or 1.6 times including the hybrid bonds); and
  - 100 % for the contribution of new developments, whose maximum weighting represents 27.5%. The Board of Directors took into account the commercial success from its main innovation platforms, assessed using a reporting table that tracks the evolution of the margin on variable costs of various pre-defined products, the development of (also pre-defined) new customers, growth in emerging geographies, and the introduction of new applications over the year. For 2019, the Board noted in particular the following examples with significant evolution: 3D printing, materials for batteries, lighter materials, and high-performance adhesives such as hot-melt encapsulation adhesives in the automotive industry, adhesives for flexible packaging and thin diapers, and specialty sealants. It also stressed the contribution of new developments in downstream acrylics and PMMA in high value-added products.

  The variable compensation due in respect of the quantifiable criteria thus amounted to 87 % of the annual fixed compensation; and

- **concerning the qualitative criteria**, 50 % of which involved the implementation of the Group's strategy and main operational priorities, and the other 50 % operational management issues, the notable achievements include:

- Regarding the implementation of the Group's strategy and main operational priorities: 2019 was marked by a high density of M&A projects and an increase in the share of specialties within the portfolio, with the signing of the divestment of the Functional Polyolefins business, and the acquisitions of ArrMaz, Prochimir, Lambson and LIP. The acquisition of Taixing Jurong Chemicals' stake in the Sunke joint-venture is also noteworthy. In terms of capital expenditure, the Board of Directors further acknowledged the completion or progress achieved in several industrial projects that are significant and key for the Group's long-term positioning, such as the extension of the thiochemicals plant in Malaysia, and the finalization of the amino 11 monomer and Rilsan® polyamide 11 world-scale manufacturing plant layout in Singapore. The Board of Directors also acknowledged Bostik's continued progression, with high-teens EBITDA growth and an EBITDA margin close to 13%, together with confirmation – and strong growth in – the Group's long-term strategic focus areas driven by innovation priorities (batteries, MS polymers, lightweight materials, 3D printing, etc.). The inauguration of the 3D printing center of excellence in Serquigny (France) and the opening of the joint R&D center in composites with Hexcel were also taken into account;

- Regarding operational management aspects, one-third of which were quantifiable: the consolidation of workstation safety performance with a TRIR of 1.4 accidents per million hours worked, with a record low level of accidents for external companies (TRIR of 1 compared to 2.3 in 2018), the completion on time and on budget of key industrial projects, notably the polyamide powders plant in Mont (France), the expansion of Sartomer in China and of the acrylic acid production unit at Clear Lake (United States), as well as the benefits of the pricing and product mix policy for downstream activities. The major efforts with respect to competitiveness, in particular in the second half of the year with a range of savings on fixed and variable costs, which largely offset inflation, were also highlighted. The Board also acknowledged the ramp-up of several major cross-functional projects launched or stepped up in 2019, such as CSR with an update of the materiality assessment used to redefine priorities and the roll-out of the Portfolio Sustainability Assessment and the CSR culture, the commercial excellence with the creation of the Sales Academy, the deployment of customer relationship management software and the sales and margin reporting tool, as well as the ramp-up of cyber security and digital initiatives, notably more widespread use of "*Travailler Malin*" local smart work applications and of supply chain management, with over 40% of managers trained in 2019 following the creation of the Sales Academy in 2018. Finally, it noted the proactive management of the Company's managers and talents, in particular the replacement of the Chief Human Resources Officer, the strengthening of Bostik's organizational structure, the increase in the percentage of women in senior management and executive positions to over 23% (versus 21% in 2018) and the accelerated development of the Group's digital culture.

In light of all of these achievements, and in particular those achieved in particularly volatile circumstances and remarkably well handled by Thierry Le Hénaff, 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 2019 variable compensation amounts to 1,143,000 euros, 15.3% less than in 2018. It reflects the high-level performance over the year and the continued transformation of the Group's profile, in a context of tougher market conditions. It represents 127% of the 2019 annual fixed compensation and an overall achievement rate of 84.66% of the maximum.

The payment of this annual variable compensation is subject to shareholders' approval at the annual general meeting to be held on 19 May 2020 of the Chairman and Chief Executive Officer's compensation components in accordance with the conditions provided for under article L. 225-100 III of the French Commercial Code (Code de commerce). This compensation would only be paid after this date.

Thierry Le Hénaff's total annual gross compensation for 2019 therefore comprises €900,000 in fixed compensation and €1,143,000 in variable compensation, i.e., a total amount of €2,043,000, down 9.2% compared with 2018.

In view of the variable compensation for 2019, the component enabling the constitution of a retirement fund, in place since 7 June 2016 (date on which the supplementary defined benefit pension scheme to which the Chairman and Chief Executive Officer was entitled terminated), and due in respect of 2019, amounts to €408,600.

Compensation policy for the new term of office

In accordance with the compensation policy in force, which specifies that the Chairman and Chief Executive Officer's compensation must be reviewed every four years, when his term of office as director is renewed, and subject to shareholders' approval at the annual general meeting to be held on 19 May 2020, on the renewal of the Chairman and Chief Executive Officer's term of office as a director, on the one hand, and on the proposed amendments to the compensation policy described below, on the other, the Board of Directors, on the recommendation of the Nominating, Compensation and Corporate Governance Committee, decided to change the Chairman and Chief Executive Officer's compensation as described below. These changes will apply from the annual general meeting of 19 May 2020 and for the duration of his new term of office, i.e., four years:

- increase in fixed annual gross compensation to €1,000,000 (versus €900,000 every year since 2016), corresponding to an average increase of 2.67% per year over four years;

- change in the structure of the annual variable compensation, with an increase in the target bonus from 110% to 120% and in the maximum bonus from 150% to 180% of fixed annual compensation. Variable compensation will continue to be based on quantitative criteria, which are the same as those currently in force relating to the Group's financial performance (EBITDA, recurring cash flow and contribution of new developments), and whose weighting, which is the same for each criterion, is set at between 30% (target) and 45% (maximum), i.e., a maximum global weighting of 135% of fixed annual compensation (representing 75% of the criteria used to determine variable compensation). Within this context, the targets for these criteria have been increased so that the maximum levels better reward outperformance. In addition to the quantitative criteria, qualitative criteria will again be applied, the overall weighting of which is also set at 30% (target) and 45% (maximum), i.e., a maximum weighting of 45% of annual fixed compensation (representing 25% of the criteria used to determine variable compensation). These qualitative criteria will continue to be based on the Group's priority areas, which involve the implementation of the Group's long-term strategy and its key priorities by the Chairman and Chief Executive Officer for one half, and the operational management of the Group for the other half, with one-third being quantifiable elements. Non-financial performance and policy are part of these qualitative criteria.

The changes in the components of the Chairman and Chief Executive Officer's compensation policy, decided by the Board of Directors and presented above, have been prepared with the assistance of an international firm specialized in executive compensation, with a view to ensuring that the compensation policy is aligned with the Group's short- and long-term strategic and operational priorities, by reflecting the Group's economic, financial and non-financial performance, as well as the Chief Executive Officer's individual performance and responsibilities. They also ensure that the policy contributes to the Company's and the Group's commercial strategy and sustainability, and that the social interests of the Company are respected. The following elements have, in this context, been taken into account:

- cumulative annual salary increases (both general and individual increases) between 2015 and 2019 at Arkema France, which represents 77% of the Group's French workforce, corresponding to an average increase of 11% during that period;
- changes in the Group's profile and profitability over the current term of office; and
- a comparison with the fixed and variable compensation paid to senior executives of companies included in the following two peer groups:
    - ✓ 18 French industrial companies listed on the CAC 40 and Next 20 indexes: Peugeot, Schneider Electric, Air Liquide, Solvay, EssilorLuxottica, Bureau Veritas, Michelin, Valeo, Eiffage, Compagnie de Saint-Gobain, Faurecia, Veolia Environnement, Suez, Alstom, Bouygues, Ingenico, Legrand and Thales, and
    - ✓ 8 companies from the sector at an international level: AkzoNobel, Clariant, DSM, Evonik, Lanxess, Lonza, Solvay and Wacker.

Feedback from the main shareholders during governance roadshows or following annual general meetings has also been taken into account.

With regard to the qualitative criteria used to determine variable compensation for 2020, the Board will pay particular attention to:

- in terms of long-term strategy, the definition of the 2024 strategy and communication with the markets as part of the Capital Markets Day, the continued roll-out of the Group's transformation strategy with a focus on innovation, industrial projects and M&A, the ongoing organic and external growth of Bostik, the integration of ArrMaz and the execution of synergies, progress with major industrial projects such as the PA11 one in Singapore and ramping up of innovation in materials and coatings, especially around major themes such as lightweight materials, 3D printing, batteries, durable goods and waterproofing, etc.; and

- tracking operational management aspects such as the consolidation of workstation safety performance (with a particular focus on sensitive sites and hand accidents), continued roll-out of the CSR roadmap (particularly on climate, the circular economy and non-financial evaluation), environmental performance, continued ramp-up of cross-functional initiatives (operational and commercial excellence, cybersecurity, digitization and data management), cost control and working capital management in a volatile economic environment, the reorganization of the Executive Committee, the continued improvement of Bostik's operational efficiency and of talent management with a focus on appointing more women to senior management positions.

The Chairman and Chief Executive Officer will also continue to benefit from a severance payment in the event of a forced departure, regardless of the form this departure takes and notably in the event of removal before the end of his term of office due to a change in control or strategy. It will not be due in the event of non-renewal of his term of office, serious misconduct (i.e., willful wrongdoing that prevents him from continuing as a corporate officer) or gross misconduct (i.e., willful wrongdoing committed with intent to harm the Company) nor in the event of resignation.

The compensation for loss of office cannot exceed twice his total annual gross fixed and variable compensation. The calculation base would correspond to the fixed annual compensation for the year in which he was forced to step down and the average of the last two years of variable compensation paid prior to his departure. It would be calculated based on the achievement of three demanding conditions, which have been simplified and modified as follows in order to further increase the level of requirements compared to the current term of office. Each condition accounts for one-third of the amount of the payment:

- TRIR: average TRIR (total recorded injury rate) for the three years preceding departure would have to be less than or equal to 1.4, making Arkema one of the leaders for the industry as a whole;
- Annual variable compensation: on average, the annual variable compensation paid during the three years preceding departure would have to be at least 75% of the target variable amount; and
- EBITDA to cash conversion rate (defined as free cash flow excluding exceptional capital expenditure divided by EBITDA): the EBITDA to cash conversion rate must be greater than or equal to 35%. The achievement rate will be determined using the average conversion rate for the three years preceding departure.

Unchanged from his previous term of office and in accordance with the AFEP-MEDEF Code's recommendations concerning the accumulation of the severance payment and supplementary pension benefits, the severance payment that would be payable beyond the age of 60 will be reduced as follows:

- 18 months of total annual gross compensation (fixed and variable) in the event of departure beyond the age of 60; and
- 12 months of total annual gross compensation (fixed and variable) in the event of departure beyond the age of 62 years and 6 months.

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

The Board has also decided that in the event of forced departure, and excluding cases of dismissal for serious or gross misconduct or resignation, the Chairman and Chief Executive Officer will continue to be entitled to the shares that would have been awarded at the date of termination of his duties and which had not vested on that date – in principle on a pro rata basis – based on a reasoned decision of the Board of Directors. The vesting rate will be subject to fulfillment of the performance conditions set out in the plans concerned. Under no circumstances may the Board decide to accelerate vesting of the said shares.

The Board of Directors also considers that it is in the interests of Arkema and its shareholders to subject Thierry Le Hénaff to a non-compete clause, in accordance with the legal provisions and recommendations of the AFEP-MEDEF Code. Therefore, in the event of the termination of his office as Chairman and Chief Executive Officer, for whatever reason, he shall be bound by a non-compete obligation, limited to a period of one year from the effective date of termination of office.

The purpose of this non-compete clause is to prohibit Thierry Le Hénaff, in consideration of an indemnity to be paid to him under the conditions set out below, for a period of one year from the effective date of termination of office, from engaging, directly or indirectly, in an activity that competes with Arkema's business, either on his own behalf or on behalf of another company. An activity that competes with Arkema's business means any specialty chemicals activity in the same geographic regions and sectors as those of the Arkema Group when the term of office ends.

In consideration of the non-compete undertaking, and throughout the term of the agreement, Thierry Le Hénaff will receive a monthly indemnity equal to 100% of his monthly compensation calculated based on the sum of his fixed compensation for the year in which his term of office ended and the average of his annual variable compensation paid for the last two years prior to the effective termination date. A monthly payment will be made throughout the period of this non-compete agreement.

Any breach of this non-compete obligation will require Thierry Le Hénaff to repay the monthly indemnities he has already received and Arkema will no longer be liable to pay the remaining indemnities through to the end of the one-year period.

The Board of Directors may decide to waive this non-compete clause at the latest on the day the termination of Thierry Le Hénaff's office is announced. In such an event, he would no longer be bound by the constraints of the non-compete clause referred to above and Arkema would be released from any commitment to pay him a non-compete indemnity.

It should be noted that Thierry Le Hénaff will only be entitled to this indemnity if his departure is not concomitant with his retirement. Moreover, Thierry Le Hénaff will not be entitled to the indemnity once he reaches the age of 65. In these two cases, Thierry Le Hénaff will be released from his obligations.

Lastly, in accordance with the recommendations of the AFEP-MEDEF Code, in the event of the simultaneous application of severance pay and the non-compete indemnity, the cumulative amount of these indemnities shall not exceed two years of fixed and variable compensation (as defined above).

The Board also confirmed all of the other components comprising Thierry Le Hénaff's compensation, in particular:

- the award of 30,000 performance shares annually, subject to the achievement of demanding performance criteria. Since 2019, these criteria include Arkema's CSR performance, which counts for 20% of the total award. Up to 120% of the shares initially awarded may vest in the event of outperformance, i.e., a maximum of 36,000 shares. At the date of the Board of Directors' meeting held to approve the new compensation policy, this maximum award (36,000 shares) will correspond to approximately 70% of the new base salary (fixed compensation + maximum variable compensation) and approximately 45% of the overall package. By maintaining a fixed number of shares each year, the deadweight effect related to stock volatility can be avoided and sustainable value creation rewarded;
- an additional payment equal to 20% of overall compensation (fixed + variable) for the year in question, which the Chairman and Chief Executive Officer has been receiving since June 2016, i.e., the date on which the defined benefit pension plan to which he was entitled was terminated; and

- a company car, a director’s unemployment insurance policy and benefit and health insurance plan as all Company employees.

Lastly, the Board of Directors approved the terms of the draft resolutions concerning the Chairman and Chief Executive Officer’s compensation, which will be submitted to the shareholders’ vote at the annual general meeting of 19 May 2020. All of the reports, the summary table and the draft resolutions thus approved will appear in Arkema’s 2019 universal registration document.

***