



## DECISIONS OF THE BOARD OF DIRECTORS' MEETING OF 28 FEBRUARY 2024 REGARDING THE COMPENSATION COMPONENTS OF THIERRY LE HÉNAFF, CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Arkema's Board of Directors, at its meeting held on 28 February 2024, set the components of the compensation of Thierry Le Hénaff, Arkema's Chairman and Chief Executive Officer, based on the recommendations of the Nominating, Compensation and Corporate Governance Committee.

### COMPONENTS OF COMPENSATION DUE FOR 2023

For 2023, the annual variable compensation was determined taking into account the achievement of specific, precise and ambitious quantitative and qualitative targets approved by the Board of Directors at its meeting of 22 February 2023.

In accordance with the Chairman and Chief Executive Officer's compensation policy approved by the annual general meeting of 19 May 2020 for the term of his office as a member of the Board, and confirmed by the annual general meeting of 11 May 2023, the maximum weighting of each criterion for 2023 was equal-weighted at 45% each, up to a maximum global award rate of 180%.

Consequently, based on the achievements for the year ended 31 December 2023, and in particular:

- the Group's solid financial performance in a demanding macroeconomic environment, with an EBITDA of €1.5 billion, in line with the annual guidance, supported in particular by the robust growth of Adhesives and Performance Additives in the second half of the year, an EBITDA margin that remained solid in this context of low demand at 15.8%, and excellent recurring cash flow generation of €761 million and of more than 50% of the EBITDA thanks to the strict management of working capital and tight control of capital expenditure;
- the strengthening of Arkema's profile towards Specialty Materials, particularly with the acquisition of a majority stake of 54% in PI Advanced Materials, the gradual implementation of synergies related to the acquisition of Ashland's performance adhesives, the targeted acquisitions of Polytec PT and Arc Building Products, the positive momentum of new business developments in major innovation platforms, and the numerous industrial projects in attractive, high-growth markets;
- the preparation of the Group's new development phase focused on organic growth, with ambitious targets set for 2028 and unveiled at the Capital Markets Day in September 2023; and
- the validation of the 1.5°C trajectory by 2030 by the SBTi and the ongoing progress achieved in the area of CSR,

the Board of Directors set the amount of the variable compensation due in respect of 2023 as follows:

- **concerning the three quantitative criteria** related to the Group's financial performance, the achievement rates in relation to the maximum of each sub-criterion were as follows:
  - 50.11% for the EBITDA criterion, for which the average maximum weighting represents 45%, and which reached €1,501 million in 2023, in line with the guidance of between €1.5 billion and €1.6 billion as communicated to the market in February 2023 upon publication of the 2022 annual results and tightened to around €1.5 billion upon publication of third-quarter results, in a complex and demanding operating environment marked by significant destocking and lower underlying demand. This good performance reflects once more the Group's ability to adjust rapidly to volatile environments, maintain margins in a context of lower raw materials and weak volumes and to temporarily adjust its cost base;
  - 100% for the recurring cash flow criterion, for which the average maximum weighting represents 45%. Recurring cash flow in 2023 reached the high level of €761 million (free cash flow adjusted for exceptional capex and non-recurring items), leading to an EBITDA to cash conversion rate of 50.7%, well above the year's target of 40%. This achievement reflects the Group's operating performance and, in a context of low activity, the strict and dynamic management of working capital which represented 13.1% of Group sales (excluding PIAM) at end-December 2023. Net debt, which includes the payment for the acquisition of the majority stake in PI Advanced Materials on 1<sup>st</sup> December 2023, remained well controlled at €2,930 million (including hybrid bonds), representing 1.95x 2023 EBITDA;

- 85.84% for the new business developments criterion, for which the average maximum weighting represents 45%. The Board of Directors took into account in its calculation, as it does every year, the commercial successes of the main innovation platforms, assessed using a tracking table by Business Unit and segment, the evolution of the margin on variable costs of various products, applications or markets, the great majority of which being pre-defined, the development of new customers also targeted, and the growth in emerging geographies. For 2023, the Board noted in particular the following examples of more significant developments: high performance sealants and adhesives, structural adhesives for industry, new adhesives ranges for professionals and for DIY stores, PSA (Pressure Sensitive Adhesives) development and synergies with Ashland, the development of non-emissive fluorospecialties such as 1233zd and 1234yf, the development of DMDS for bio-refineries and its marketing through differentiating digital-focused service offerings, and additives for the solar industry.

The variable compensation due in respect of the quantitative criteria thus amounts to 106.18% of the annual fixed compensation; and

- **concerning the qualitative criteria**, with a maximum average weighting of 45%, half of which was linked to the implementation of the Group's strategy and main operational priorities, and the other half to elements of operational management, most of which were quantifiable, the following achievements were noted:
  - regarding the implementation of the Group's strategy and main operational priorities: 2023 was marked by the continuation of the transformation of the Group's profile in line with the strategy announced at the 2020 CMD, focusing on medium-term innovation areas, in particular linked to sustainable development. Significant developments were thus achieved in recycled polymers, additives for biofuels, digital services for customers, bio-based surfactants, additives for the solar industry, very low GWP fluorospecialties, high performance sealants, engineering adhesives and the implementation of technical and commercial synergies resulting from the acquisition of Ashland's adhesives. Key industrial projects for the Group's long-term positioning have started or progressed such as Pebax in France, PA11 in Singapore, hydrofluoric acid with Nutrien in the United States, and PVDF expansions in France and in China, as well as photocure resins also in China in order to support growth in electronics and new energies. M&A operations continued with the acquisition of a 54% stake in South-Korean company PI Advanced Materials which enables to strengthen the Group's presence in Asia and in the battery and advanced electronics markets, as well as the acquisition of Polytec PT and Arc Building Products in adhesives. The presentation of the 2028 strategic plan at the CMD on 27 September 2023 was well received by investors and marked a new step in the strategic thinking towards high performance materials. At end-2023, the Specialty Materials platform continued to progress and reached 92% of Group sales;
  - regarding the operational management components, the Board recognized the consolidation of workstation safety performance with a very good TRIR level of 0.9 accident per million hours worked, as well as the process safety performance with a PSER of 2.8 incidents per million hours worked, and in cybersecurity with no notable incidents. The Board also took into account the progress of the large majority of environmental indicators, in particular the validation of the new climate plan aligned with a 1.5°C SBT trajectory by the SBTi, thus paving the way for Net-Zero by 2050, the further reduction in the Group's GHG emissions in 2023 compared with 2022, by 7% for Scopes 1 and 2 and by 9% for Scope 3, in line with medium-term objectives, the share of sales covered by a life-cycle assessment now amounting to 56% in 2023, Arkema's continued presence in the DJSI and in the CAC40 ESG index, and lastly the implementation of the new One Arkema strategy announced at the CMD. The Group's strict management to adapt to the challenging economic context led to a working capital level in line with the objective, very strong cash generation, as well as capex and fixed costs that came in below budget. On the social front, the Board also noted the Group's progress with regards to diversity with an increase of the proportion of women in senior management positions to 29% at end-2023, ahead of the 2030 roadmap, as well as the continued strengthening of talent management internal processes.

In light of all of these achievements, and also the manner in which the Group was able to adapt to the demanding and challenging operating environment of 2023, marked by macroeconomic and geopolitical tensions, the Board of Directors has set the achievement rate of these criteria at 93.33%. As a result, the amount of the variable compensation due in respect of qualitative criteria has been set at 42% of fixed annual compensation.

In total, the 2023 variable compensation amounts to €1,481,800, *i.e.*, 82.32% of the maximum. It represents 148.18% of the 2023 annual fixed compensation (*versus* 179.1% in 2022).

The payment of this annual variable compensation is subject to shareholders' approval at the annual general meeting of 15 May 2024 of the components of the Chairman and Chief Executive Officer's compensation in accordance with the conditions provided for under article L. 22-10-34, II of the French Commercial Code (*Code de commerce*) in the 9<sup>th</sup> resolution. This compensation shall only be paid after this date.

Thierry Le Hénaff's total annual gross compensation for 2023 would therefore comprise of €1,000,000 in fixed compensation and €1,481,800 in variable compensation, *i.e.*, a total amount of €2,481,800, which represents an 11.15% decrease relative to 2022.

Given the variable compensation for 2023, the component enabling the constitution of a retirement fund, in place since the supplementary defined benefit pension scheme to which the Chairman and Chief Executive Officer was entitled was terminated, and due in respect of 2023, amounts to €496,360.

## **COMPENSATION POLICY IN THE CONTEXT OF THE RENEWAL OF THE CHAIRMAN AND CEO'S TERM OF OFFICE (2024-2028)**

The compensation of the Chairman and CEO is reviewed every four years upon renewal of his term of office as a director. As a result, subject to the positive vote of the annual general meeting of 15 May 2024 on the renewal of Thierry Le Hénaff's term of office as Chairman and CEO, the Board of Directors, upon recommendation of the Nominating, Compensation and Governance Committee, decided unanimously to maintain the same compensation structure for the Chairman and CEO as follows:

- an annual fixed compensation, an annual variable compensation subject to performance conditions, and a long-term compensation through the award, as part of the Group's annual performance share plan, of an annual number of shares subject to performance conditions assessed over a 3-year period, counting respectively for around 20%, 35% and 45% of the global annual package;
- a pension benefit, the amount of which is equal to 20% of the annual fixed compensation + the annual variable compensation, enabling the Chairman and CEO to build up his supplementary retirement fund since the termination of the supplementary defined benefit pension scheme from which he had benefited until 2016;
- a commitment related to the termination of duties in case of forced departure, which entitles to a severance payment calculated based on three demanding conditions applicable over the term of the mandate, the amount of which is calculated on the basis of the sum of the fixed compensation for the year of departure and the average of the variable compensation of the last two years prior to departure, and which cannot exceed two years of the total annual gross compensation (fixed and variable);
- a non-compete commitment in case of departure, for whatever reason, during a period of one year in exchange for the payment of a monthly indemnity equal to 100% of his monthly compensation calculated on the basis of the sum of the fixed compensation of the departure year and the average of the annual variable compensation paid for the last two years prior to the departure; the cumulative amount of this indemnity and the severance payment cannot exceed two years of fixed and variable annual compensation; and
- other benefits such as a company car, corporate officer unemployment insurance and, as for all of Arkema's executives, the Company's personal risk and health insurance plan.

Within this compensation structure, the Board of Directors, unanimously, decided to modify some of the components of the Chairman and Chief Executive Officer's compensation as outlined above. The following changes will take effect from the general meeting of 15 May 2024, for the duration of the new term of office, *i.e.* 4 years:

- an increase in the annual gross fixed compensation to €1,150,000 (compared to the previous €1,000,000, unchanged since 2020). This corresponds to an average annual increase of 3.56% over the 4-year period;
- an increase in the quantifiable portion within the qualitative criteria of the annual variable part related to financial and operational management, which now constitutes the majority of this criterion;
- an increase in the number of performance shares allocated annually to the Chairman and CEO in conjunction with the aforementioned raise in the annual fixed compensation. This adjustment aims to maintain the balance of the overall compensation structure emphasizing both variable and long-term components. The new allocation will be 33,000 shares per year, up from the previous 30,000 shares, which remained unchanged since 2016. This represents an annual increase of 1% over the period; keeping a consistent number of shares each year helps mitigate the impact of share price volatility and helps support sustained value creation over time;
- the increased difficulty of the conditions applicable for calculating the severance payment in the event of forced departure, and the alignment of the objectives of these conditions with those defined during the 2023 CMD as follows:

- the annual variable compensation: on average, the annual variable compensation paid during the three years preceding departure would have to be at least 80% of the target variable amount (compared to the previous 75%);
- TRIR (Total Recordable Injury Rate): average TRIR over the three years preceding the departure would have to be less than or equal to 1.1 accident per million hours worked (compared to the previous 1.4), positioning Arkema among the best in the industry; and
- the operating cash flow conversion rate (defined as free cash flow before capital expenditure divided by EBITDA) must be equal to or greater than 70%. The operating cash flow conversion rate will be determined using the average conversion rates from the three years preceding the departure date.

Furthermore, the weight of each of these components in the calculation of the severance payment will now be 70% for the criterion of the annual variable compensation and 15% for each of the other two criteria.

These changes, decided by the Board of Directors and presented above, were developed with the help of international firms specializing in executive compensation, on the one hand, and in governance, on the other hand, ensuring that this compensation policy is aligned with the Group's strategic and operational priorities in the short and long-term, taking into account the economic, financial and non-financial performance of the Group, as well as the personal performance of the Chairman and CEO and his responsibilities, and aiming for it to contribute to the business strategy, as well as to the sustainability of the Company and the Group, thus ensuring respect for the social interest of the Company. A comparison with the level of fixed and variable compensation of executives of companies included in the following two panels was carried out in this context:

- 15 French industrial companies from the CAC 40 and Next 20: Alstom, Bouygues, Bureau Veritas, Eiffage, Faurecia, Imerys, Legrand, Michelin, Rexel, Saint-Gobain, Solvay/Syensqo, Technip Energies, Thalès, Valeo, and Veolia Environnement; this panel was defined taking into account the companies closest to Arkema in terms of market capitalization and turnover; and
- 8 companies from the international chemicals sector: AkzoNobel, Clariant, Covestro, Evonik, Lanxess, Solvay/Syensqo, Umicore and Wacker.

The terms and conditions of the other components of the compensation structure mentioned above remain unchanged. Furthermore, the currently applicable conditions under which the Board of Directors could decide (i) to modify certain performance criteria attached to the annual variable compensation or to the long-term compensation in performance shares of the Chairman and CEO and/or to modify, upwards or downwards, one or more of the parameters attached to these criteria (weight, triggering thresholds, objectives, targets...) or (ii) to grant exceptional compensation in the event of the appointment of a new executive corporate officer following an external recruitment, are also maintained.

For 2024, concerning the qualitative criteria of the annual variable compensation, the Board of Directors will focus in particular on:

- in terms of long-term strategy: the continuation of the Group's profile transformation in accordance with the 2028 strategy published at the CMD in September 2023, focusing on innovation areas targeting major sustainable development themes (new energies, advanced electronics, bio-based and recycled polymers, additives integrated into solutions that contribute to the energy transition, high-performance adhesives and sealants, pressure sensitive adhesives, medical applications, low-carbon HF integration in the United States, etc.), with the consolidation of industrial start-ups or progress in Singapore, at Nutrien, in Calvert-City, Changshu and Beaumont, the progression of the One Arkema concept around accelerator markets and key technologies, the integration and development of PIAM, the continuation of synergies from Ashland's adhesives, the confirmation of the battery plan in the US; and
- in terms of operational management of the company (with a majority of quantifiable elements): the consolidation of the safety and environmental performance in line with the various 2030 targets and the implementation of the SBTi-approved carbon trajectory, the monitoring and optimization of new business developments, the dynamic pricing management in a context of evolving raw materials, the implementation of new legal and regulatory provisions, particularly environmental ones, the continuation of talent management on a global scale and medium-term succession plans for key executives, as well as strict control of fixed and variable costs, capex and working capital within the allocated budgets.

All the precise conditions and justification of this compensation policy that have led to the decisions of the Board of Directors to propose the above-mentioned evolutions in the context of the renewal of Thierry Le Hénaff's term of office as director and Chairman and CEO will be set out in the compensation report included in Arkema's 2023 Universal Registration Document in paragraph 3.4.2.1.

Lastly, the Board of Directors approved the terms of the draft resolutions on the components of the Chairman and Chief Executive Officer's compensation, which will be submitted to shareholders' approval at the annual general meeting to be held on 15 May 2024. All of the reports, summary tables and draft resolutions thus approved will appear in Arkema's 2023 Universal Registration Document.

\*\*\*