MERSEN

Expertise, our source of energy

# 2017 REFERENCE DOCUMENT

# MERSEN

## 2017 Reference Document

# 1 GROUP PROFILE

# 2017 Highlights

2017 was the perfect example of Mersen's strategic importance as a global expert in electrical power and advanced materials for industry around the world.

The year was particularly strong for the Group, as measures taken over the last few years enabled it to capitalize in full from the economic improvement seen during the past year. 2017 saw the Group achieve and even surpass each of its objectives, drawing on the strong engagement of all of its teams to return to like-for-like sales growth and deliver a substantial improvement in its current operating margin.

Like-for-like [(1)] sales growth increased 8% over the year. Performance in Asia was exceptional, with growth at 20%. It also improved in North America as the year advanced, and was highly satisfactory in Europe, with both regions closing the year with like-for-like growth around 5%. These performances are the results of the Group's strong position in expanding markets and its ability to secure new customers across the globe. Growth was particularly dynamic in the electronics, aerospace and solar energy markets, but also improved in all of Mersen's segments, underpinned by strong sales teams and the Group's ability to offer new products to customers.

Mersen's ongoing competitiveness plan, combined with the positive impact of increased sales volumes, resulted in a significant improvement in its current operating margin, which reached 9.2% for the year. The Advanced Materials segment improved by 340 basis points thanks to strong growth in volumes and the sizable benefits of the competitiveness plan. The Electrical Power segment also benefited from the competitiveness plan but was penalized by a negative product mix, which left its current operating margin unchanged on 2016. All in all, the competitiveness plan made it possible to reduce gross costs by €16 million in 2017.

2017 also saw exceptional growth in net income to €40 million. As well as improving operating income, the Group significantly reduced its non-recurring expenses.

Mersen continued to optimize its product portfolio in order to focus on its core strengths, and finalized the sale of its high voltage switch business.

Lastly, Mersen improved its financial structure, reducing net debt by 12% thanks to strong operational cash flow which resulted in leverage of 1.6 and gearing of 37%. Backed by the confidence and support of its financial partners, the Group was also able to extend the maturities of its multicurrency credit lines from July 2019 to July 2022, lengthening the average maturity of Group debt to over 4.5 years.

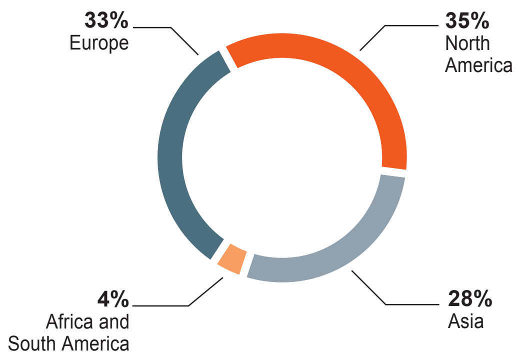
*(1) Like-for-like growth is determined by comparing revenue for the year with revenue for the previous year, restated at the current year's exchange rate, excluding acquisitions and/or disposals.*

# KEY FIGURES

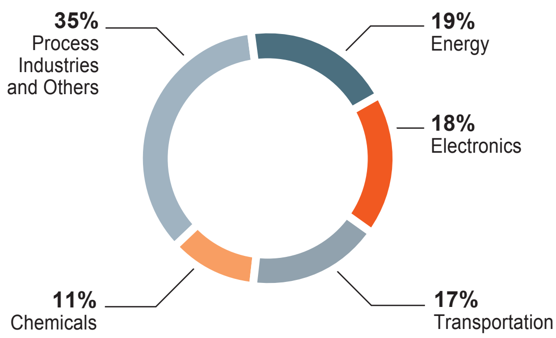
| €809m | 6,400 | 35 |
|---|---|---|
| Sales | Employees | Countries |

## 2017 SALES

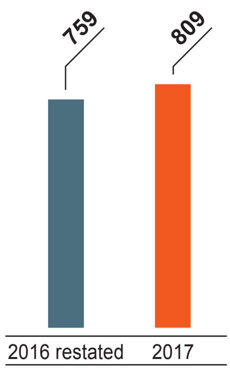
### BY GEOGRAPHIC AREA



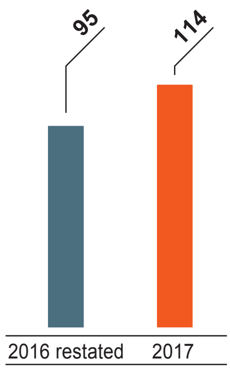

### BY MARKET



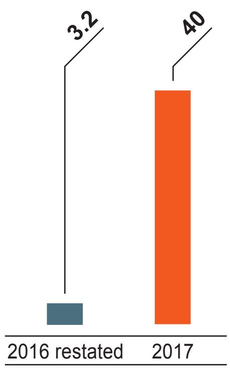

### SALES (€m)



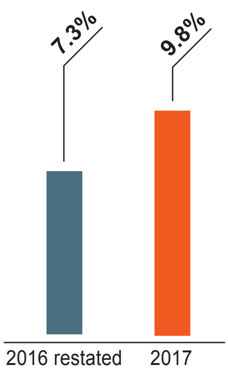

### EBITDA (€m)




### NET INCOME (€m)

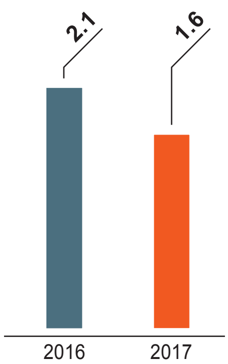



### RETURN ON CAPITAL EMPLOYED* (IN %)



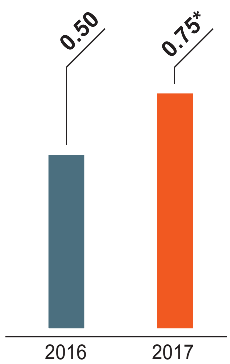

* Operating income before non-recurring items/ average capital employed (net non-current assets including goodwill + WCR).

### DEBT RATIO*




* Ratio calculated using the covenant method for Mersen's confirmed borrowings.

### DIVIDEND PER SHARE (€)




* Subject to shareholders' approval.

# Group business model

## Vision, Values and Purpose

At Mersen, our vision, values and purpose inspire the decisions and actions that drive our development.

***Our ambition is to advance technological progress across the globe***

Mersen designs innovative solutions tailored to its clients' needs that enable them to leverage their manufacturing performance in sectors such as energy, transportation, electronics, corrosive chemicals and process industries.

To achieve our vision and fulfil our purpose, the Group adheres to a set of shared values: **Excellence**, because it enhances our competitiveness and protects our flexibility and future; **Collaboration**, because the Group will only grow if we all work together; **People-Conscious**, because our people are part of our heritage; **Agility & Entrepreneurial Spirit**, because they can make difference in today's complex environment; and **Partnering our Customers**, because they are the strategic allies for whom we develop innovative products.

## Group strategy

As a global expert in electrical power and advanced materials, Mersen is a key player in manufacturing industries around the world. Its strategy is anchored by four major pillars:

1. **Developing our high value-added expertise**

   As well as being our two areas of expertise, electrical power and advanced materials are two areas in which our customers can maximize their efficiency. To meet their needs, the Group must track market trends and ensure that all the necessary resources are in place.

   To do this, Mersen works closely with major industry players around the world, developing tailored products through its 15 R&D centers. These close relationships give Mersen unique insight into the challenges facing each player and enable the Group to offer bespoke, innovative solutions that rely on advanced technology.

   In addition, the Group continues to pursue its policy of targeted acquisitions to consolidate its expertise or develop in certain geographic areas.

2. **Accelerating growth by leveraging a unique position in expanding markets**

   The Group uses its international sales and manufacturing network to strengthen its leadership positions in each of its markets. It focuses its efforts on markets with significant medium-term growth potential which contribute to the sustainable development of the planet, including: renewable energies, driven by the need to find alternative energy sources; electronics, led in particular by the boom in mobile communications, data networks and energy efficiency; and green transportation, such as railways and electric vehicles.

3. **Improving efficiency through profitable growth**

   Like its customers, Mersen also wants to gain in operational efficiency while constantly improving the security and safety of its plants and the people who work there. The Group has implemented a global operational excellence initiative for all parts of the Company, from operations through to sales. The initiative places particular emphasis on safety and is accompanied by the development of a "lean" culture which will enable the Group to improve customer service and optimize inventory levels. The aim of the new organizational structure implemented in 2016 is also to enhance intra- and inter-segment synergies.

4. **Optimizing human capital development**

   Developing Mersen's human capital is something to which all Group employees can contribute. Mersen is committed to sharing and developing its expertise, both technical and managerial, and to promoting and transferring the values that underpin its identity throughout the world while still taking care to protect local cultures. The Group also strives to strengthen synergies between segments and geographic areas.

# Markets

Mersen serves its customers in a large number of markets, which can be grouped together as follows:

- Energy
- Electronics
- Transportation
- Corrosive chemicals
- Process industries

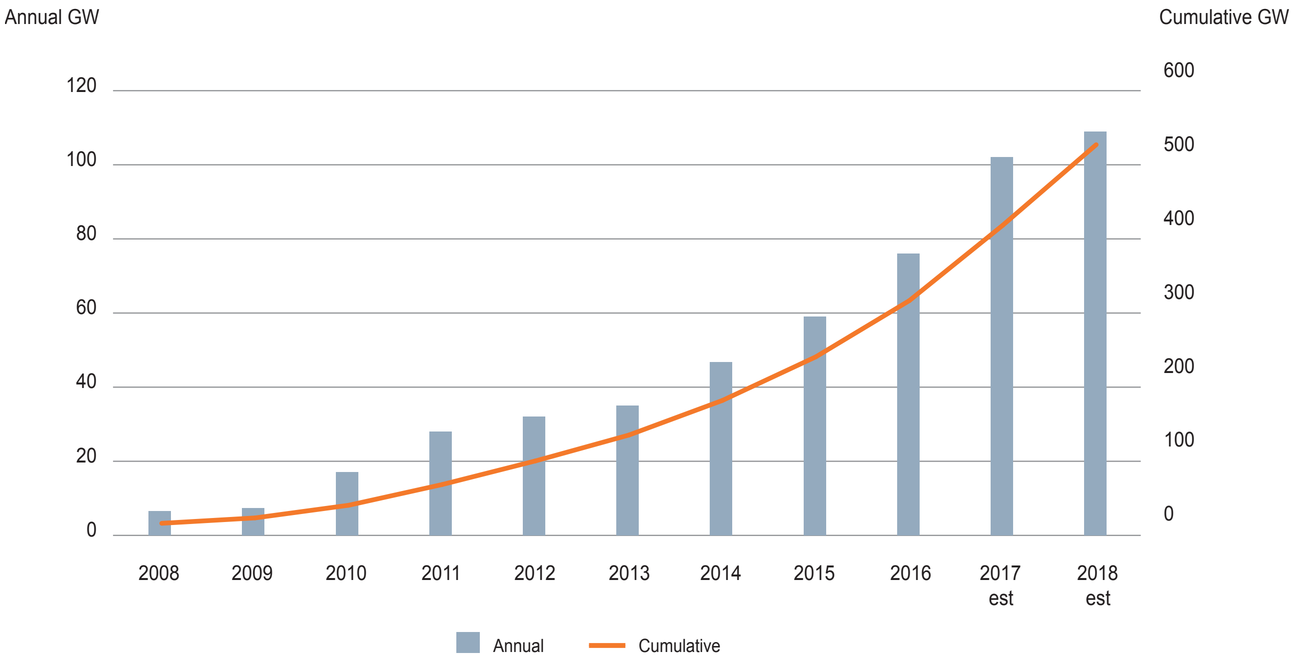
## 1. Energy

Mersen develops solutions for the world's principal energy sources and helps to preserve the planet's natural resources by developing renewable energies across the globe.

### 1.1. Solar power

After more than a decade, photovoltaic technology has demonstrated its capacity to become a major global energy source. Almost 100 GW(1) of solar power were installed in 2017, pushing global installed capacity to 400 GW. A further increase in installed capacity of 10% is expected in 2018.

**Solar power (GW)**




*Source: IHS Markit.*

Mersen offers solutions for the entire photovoltaic industry.

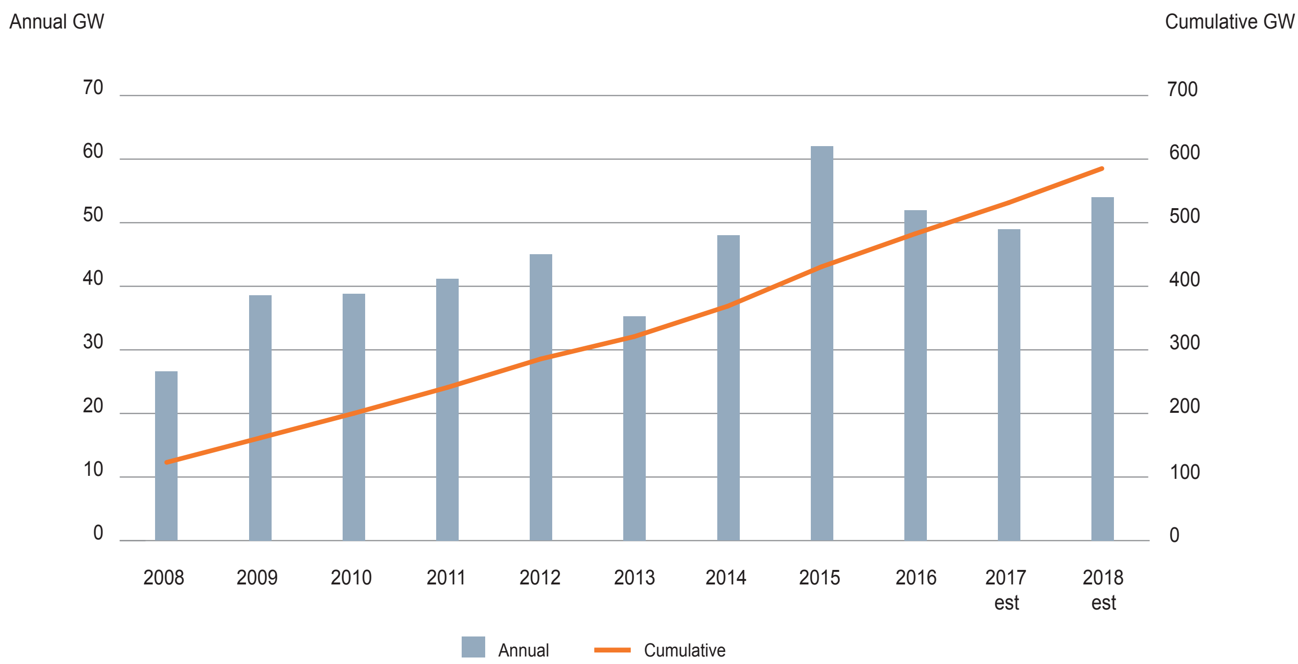
- It is a key partner for leading polysilicon manufacturers around the world for which it develops isostatic graphite machined components (purified and sometimes coated), such as ultra-pure graphite electrodes.
- It produces all the graphite components for silicon crystal growth which are needed to guarantee the purity of wafers and the temperature of hot zones during crystallization (purified graphite heater, soft felt insulation, carbon insulations, etc.).
- It offers a full range of solutions for the protection of photovoltaic installations (circuit breakers, fuses, surge protection devices, etc.).
- It delivers power electronics solutions for the conversion and distribution of solar energy (high-speed fuses, cooling devices and laminated bus bars which can be used in an integrated architecture).

*(1) Source: IHS Markit.*

## 1.2. Wind power

The installed wind power capacity reached more than 500 GW worldwide in 2017, making it a very attractive replacement market for Mersen. However, the number of wind turbines brought on stream during the year fell slightly compared to previous years, notably due to the disruption caused by the Indian wind power market coming to a standstill following a series of government decisions.

**Wind power (GW)**




*Source: Make for 2017 and 2018 estimates.*

Mersen's range of solutions ensure safe and continuous wind power generation. They are primarily aimed at wind turbine generator manufacturers, but also at wind farm managers in the replacement market.

- The Group works with leading wind turbine generator manufacturers for which it supplies carbon brushes, brush holders and slip ring assemblies.
- It offers modular solutions which provide greater flexibility to wind turbine OEMs and operators such as signal transmission systems, brushes and brush holders for yaw motors and grounding systems.
- Its full range of fuses, fusegears, fuseholders and surge protection devices protect generators and controls.
- It supplies high-speed fuses, bus bars and cooling devices for wind power electronics.

Mersen also develops maintenance services to optimize wind energy production, including technical diagnostics, equipment verification, installation and components replacement.

## 1.3. Energy storage

The energy storage market is booming, as much for energy produced by intermittent alternative energy sources as for energy used to power electric vehicles.

Mersen provides solutions for two energy storage systems:

- In redox flow batteries (energy storage), the Group offers graphite soft felts for electrodes.
- It also markets a full range of DC over-current protection solutions (monolithic or hybrid device, high-power relay) and water and air cooling devices and boasts laminated bus bar expertise to connect lithium-ion battery modules and DC-AC bidirectional power converter components.

### 1.4. Other energies

Mersen is present in other segments of the renewable energies market, including hydroelectric energy. The Group develops a broad range of solutions for hydro generators which meet both OEM and aftermarket requirements. Its offering includes brushes, brush holders and dust aspiration systems as well as on-site installation services.

In **conventional energies**, Mersen supplies an entire range of products and solutions. In particular, the Group offers power transfer (brushes, brush holders, slip ring assemblies, brushgear and monitoring solutions) and turbine sealing (carbon and graphite joints and bearings) solutions and ensures safe and continuous power management (fuses, fusegears, cooling devices, bus bars, etc.).

## 2. Electronics

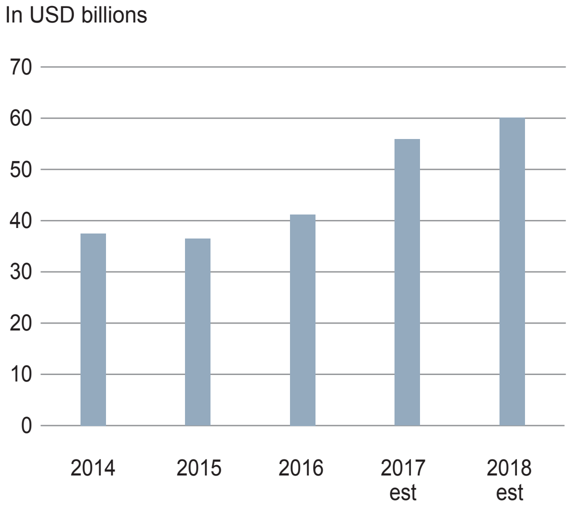
Mersen's technologies support the development of LEDs and semiconductors for new digital applications. The Group also provides the power electronics needed to convert electrical power.

### 2.1. Semiconductor manufacturing

Today's semiconductor market is driven by the boom in mobile communications, data networks and energy efficiency (LEDs, memory units, speed drives, etc.). These trends require more powerful, efficient and compact products.

Digital transformation is creating huge demand for electronic components, as evidenced by the increase in semiconductor manufacturing equipment sales, which was particularly sharp in 2017 with the opening of new production plants in Asia:

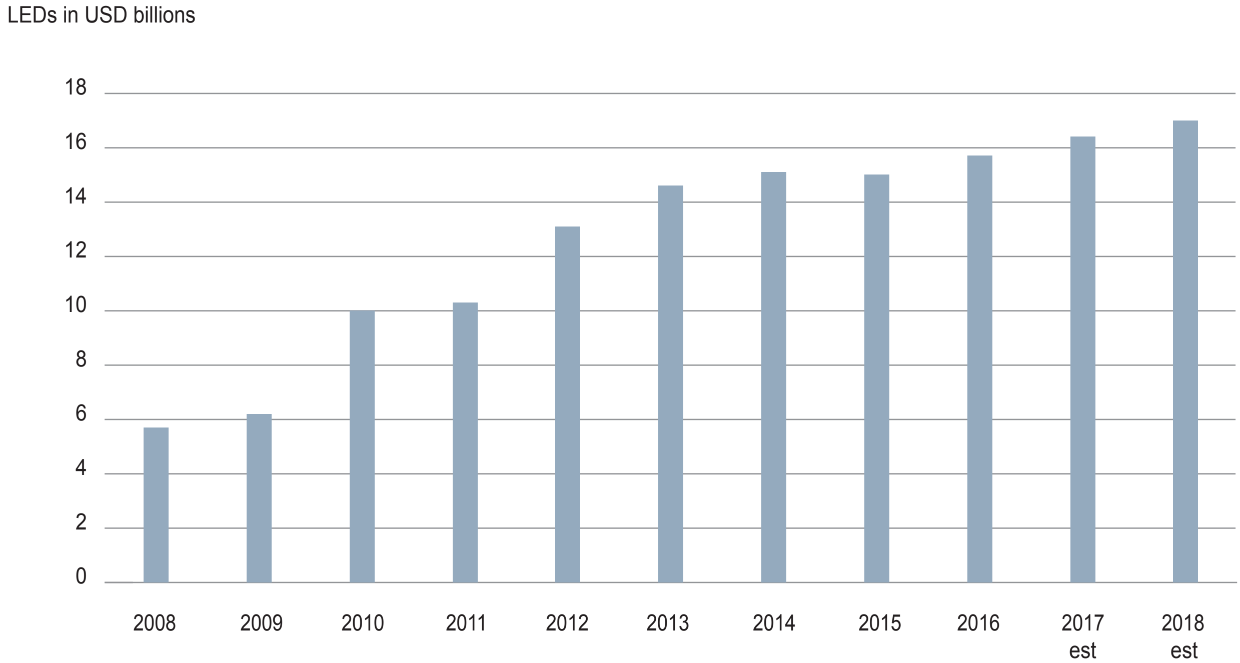
**Semiconductor manufacturing equipment sales**




*Source: Semi 2017*

The LED market continued to grow in 2017, with the value of sales up more than 4% and the volume of sales even higher.

**LEDs sales evolution**




*Source: Yole*

Mersen supplies high-grade, ultra-pure graphite for the manufacture of semiconductors. The quality of the graphite combined with Mersen's high-precision machining and coatings help to maximize the yield of the power semiconductor manufacturing process and are also well-adapted to the latest generations of components, which are increasingly miniaturized but need to handle increasingly high current and voltage requirements.

The Group meets the very specific needs of the following processes:

- Metal Organic Chemical Vapor Deposition (MOCVD), which is a corrosive chemical process that deposits thin layers at high temperatures, is used in the production of high-performance LEDs. Mersen produces coated graphite supports for this process.
- Ion implantation, which is used to locally modify the composition and physical properties of a substrate by introducing doping agents, is a technology that operates thanks to a new generation of high-energy machines. Mersen is the preferred supplier of Applied Materials, which dominates this technology.
- High-end semiconductors (high-performance LEDs, power electronics, optics, etc.): thanks to its high-performing thermal insulation solutions, Mersen is very well positioned with the main producers of silicon carbide monocrystals (SiC). Its solutions are also used in the production of other kinds of monocrystals, such as gallium arsenide and calcium fluoride.

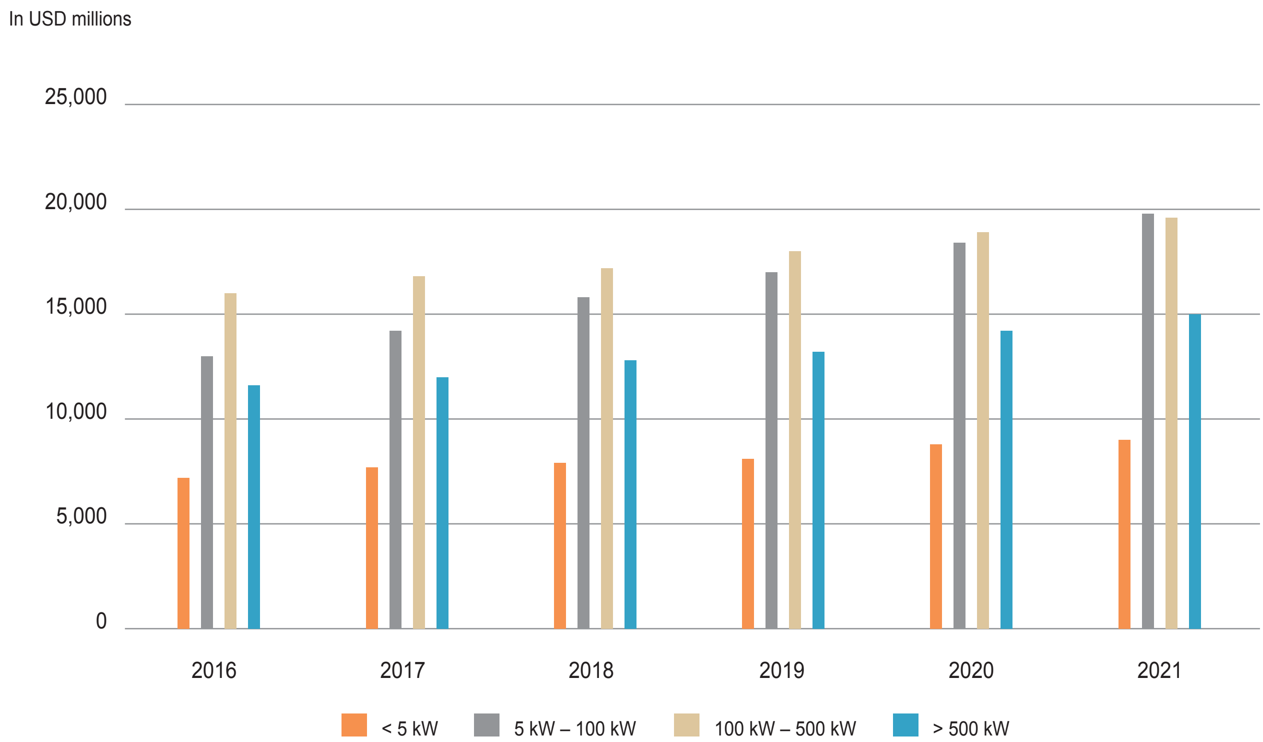
In addition, the Group is present in related markets such as optical fibers, where it offers tailored graphite and insulation products.

### 2.2. Power conversion

Power electronics convert electrical power into the energy form required for its intended use. Power converters provider greater flexibility in the way that energy is used and greater efficiency in the way that it is managed, transported and distributed.

Each year, the power conversion market grows by an average 4% to 5%, depending on the power range, mainly led by demand for electric vehicles, renewable energies and speed drives for electric motors in industrial facilities.

**Inverter market evolution per power range**




*Source: Yole 2017*

Mersen's custom-made offering for high-power applications (technical cooling, interconnection and protection systems) helps equipment suppliers to optimize the design of their power converters.

Its specialized teams and design engineers, combined with an integrated offer of components (including bus bars, high-speed fuses and cooling devices), strengthens Mersen's position as a key player in the power electronics market.

## 3. Transportation

Mersen supports the growing mobility of people and goods around the world. With its solutions for rail and electrical vehicle markets, the Group contributes to environmental protection.

### 3.1. Rail

The global rail market grows approximately 2% to 3% a year (source: UNIFE, world rail market study), with urban transit systems enjoying more robust growth of 4%. Growth in the rail market is driven by economic factors such as government modernization plans targeting both rolling stock and infrastructure, an increasingly urban global population and general environmental concerns.

Mersen offers rail manufacturers and system operators solutions to enhance the performance and reliability of their equipment.

Mersen is a recognized player in this market. This is due to its ability to meet all rail standards and certifications and to offer innovative solutions. It is also the result of a unique long-standing positioning with the major rail manufacturers, in addition to our local commercial and industrial presence, especially now that orders are increasingly subject to the requirement that products be produced or assembled locally.

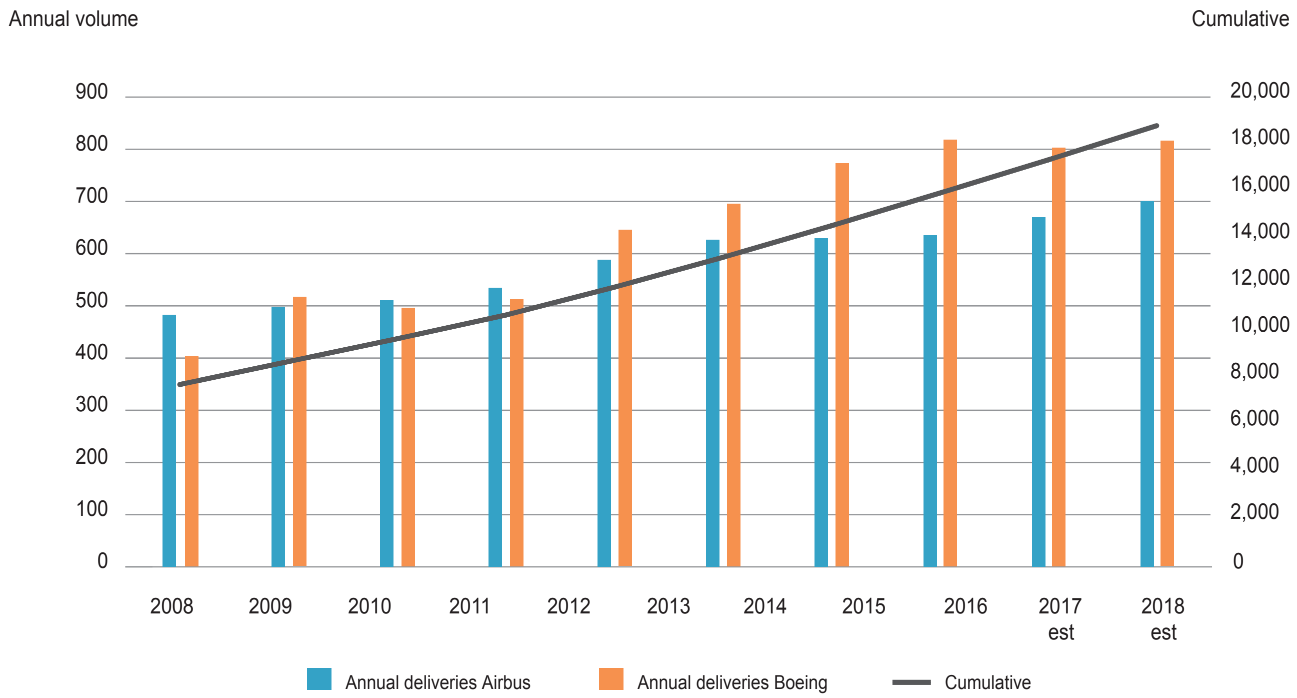
The Group's expertise also extends to railway infrastructures for rolling stock and urban and transit systems. It develops solutions for:

- Supplying energy to motors and auxiliaries via power conversion systems thanks to its offering of cooling devices, bus bars and high-speed fuses.
- Distributing energy to motors thanks to current collector devices (pantograph strips or third rail shoes), brushes and brush holders.

### 3.2. Aeronautics

With the number of new planes increasing by an estimated 8% year on year, the aeronautics market has continued to grow. Over the medium term, the civil aviation market is forecast to grow between 3% and 4% a year, according to the two largest aircraft manufacturers (Airbus and Boeing). Mersen benefits from this growth as well as from the increase in air traffic, which constitutes a potential growth area for replacement products.

**Commercial aircraft deliveries**



Mersen helps to enhance the reliability and efficiency of aircraft with solutions that offer weight, fuel and total operating costs savings.

Its range of products are designed to:

- Optimize aircraft utilization, particularly via a range of carbon-carbon composite braking disks. The Group also supplies key components for auxiliary motors, air conditioning, electrical power generation and distribution systems.
- Improve flight conditions via wear-resistant composite materials and brushes and brush holders that are adapted to aircraft pressure systems.
- Reduce energy consumption via improved electronics cooling, turbine blade positioning devices and components with lower friction rates.

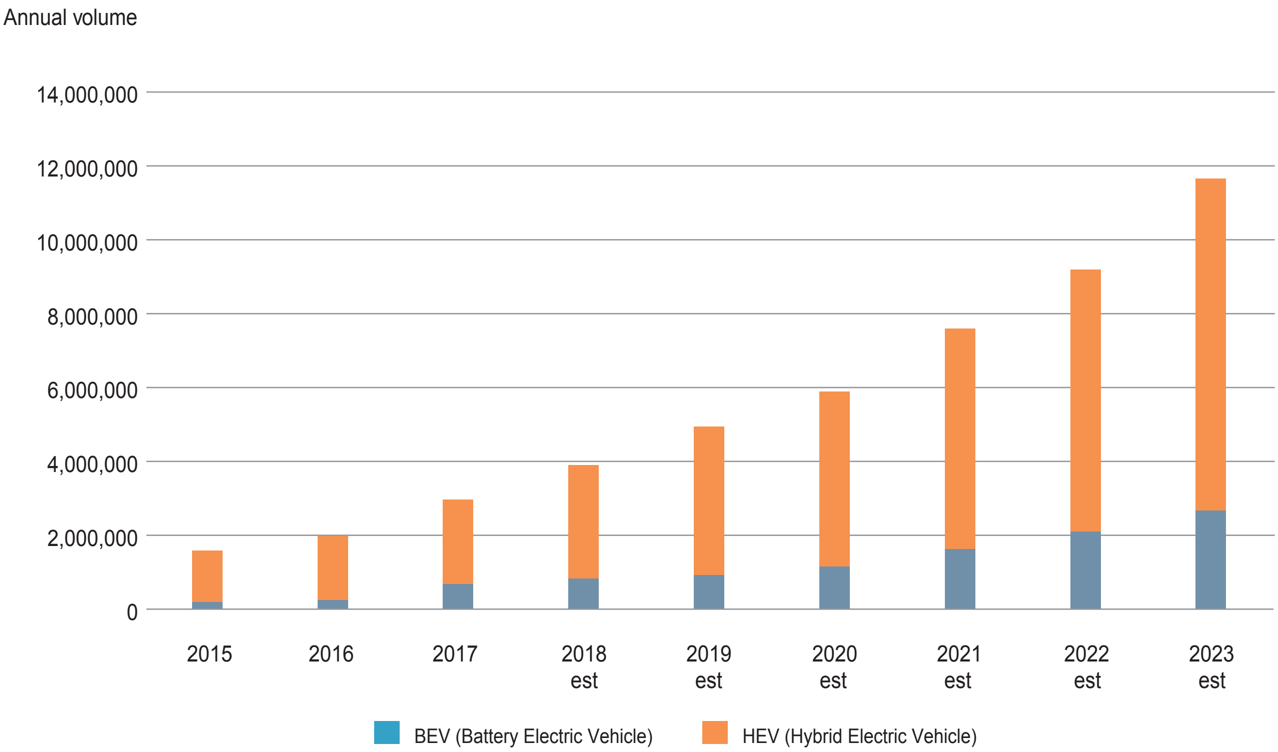
The Group's materials and heat processing solutions are also used in the manufacturing processes for special alloy reactor blades.

### 3.3. Electric vehicles

The electric vehicle (BEV, HEV or pHEV[1]) market is thriving, with both the passenger vehicle and heavy vehicle segments enjoying robust growth.

Sales in the passenger vehicle segment jumped by around 20% in 2017 to reach 3 million units at the end of the year, while sales in the heavy vehicle segment totaled somewhere in the region of 100,000 units.

**Number of electric vehicle for private individuals**




*Source: IDTechEx*

*(1) Plug-in Electric Vehicle.*

e-mobility and the supporting infrastructures use emerging technologies that benefit from Mersen's expertise in DC & AC power management. The Group's solutions are primarily aimed at the battery electric vehicle (BEV) and heavy vehicle markets:

- To protect passengers by disconnecting high voltage batteries in the event of a shock or proven electrical faults, Mersen offers a full range of solutions based on high-speed fuses and two innovative hybrid devices: Xp, based on pyro and clearing elements and Xs, a DC power relay.
- To connect battery modules, Mersen provides its expertise in laminated bus bars with embedded monitoring features.
- Finally, Mersen's water and air cooling solutions meet the thermal management needs of battery packs and power train converters.

Mersen's surge protection devices also offer the ultimate protection for EV charging stations.

### 3.4. Aerospace

Optical instruments for space exploration and ground-based observatories require precise and stable geometrics that can withstand drastic changes in temperature.

Mersen supplies silicon carbide mirrors and structures for telescopes, particularly for those used by Airbus Defense and Space in its observation satellites (e.g., Herschel, Gaia and PeruSat) as well as by the French National Space Agency (CNES) in such missions as MicroCarb. Thanks to its unique properties, such as lightness and exceptional thermomechanical stability, silicon carbide (SiC) is widely used in space applications.

## 4. Corrosive chemicals

The corrosive chemicals industry is very demanding and requires the most advanced materials and process expertise.

Tens of thousands of chemicals are present in our day-to-day environment – in PVC construction materials, in polyurethanes used in the automobile industry, in silicones for adhesive labels and in high-performance plastics used in new technologies.

All these chemicals are produced according to process using corrosive substances in high-temperature environments.

Mersen has developed advanced materials and process equipment expertise to provide customized solutions capable of handling severe corrosive chemicals processes.

The Group offers equipment designed to meet the most stringent production requirements, in particular for phosphoric acid, chlor-alkali, active pharmaceutical ingredients, isocyanates, acid processing and specialty chemicals.

Its custom-made graphite and noble metal equipment:

- Perform heat exchange and reaction functions: heat exchangers.
- Transfer highly corrosive and high-temperature fluids: columns, reactors, pressure vessels, pipings, fittings and bellows.

In addition to individual items of equipment, Mersen offers turnkey systems that combine engineering, design, equipment manufacturing, project management and on-site commissioning of equipment.

Lastly, in the pharmaceutical market Mersen provides technological solutions that meet the purity requirements of processes, with a range of equipment using silicon carbide and noble metals.

## 5. Process industries

Process industries is the Group's original market. Mersen supplies process industries with a wide range of products and purpose-built solutions. It supports the changes occurring across all of these industries, in particular changes linked to energy efficiency.

Mersen brings expertise in:

- Metallurgy: electrical solutions for foundries and furnaces, hot and cold rolling mills and galvanic lines.
- High temperature furnaces: graphite, thermal insulation and flexible graphite refractories.
- Sintering processes, which require the use of graphite refractory tools to withstand extreme pressure and temperature during processes.
- Glass, including glass molding and handling. The Group has developed grades of graphite specifically designed for this market.
- Rubber and plastic: solutions designed for very specific operations (extrusion, injection, hot temperature, constant or variable speed, etc.).
- Pulp and paper: high-performance electrical solutions (for pulping machines, winders, rollers, driers, etc.) and mechanical and sealing solutions (for pumps and other systems).

## Competitive environment and positioning

Mersen operates in cutting-edge markets where it holds leadership positions or is the joint world leader. Its competitors include several large international groups as well as smaller regional players (see below for a breakdown of competitors by segment).

The Group develops innovative solutions tailored to its customers' needs*. Its close relationships with leading industry players are therefore a major differentiating factor. Thanks to its global footprint, Mersen is in a position to support them in their international growth, but also to satisfy potential "buy local" requirements.

In the Advanced Materials segment, the Group controls the entire value chain, from manufacturing materials (graphite, silicon carbide, etc.) to designing final products aligned with its customers' needs.

In certain product lines in the Electrical Power segment, the Group stands out for its ability to offer a wide range of products which meet various regional standards (e.g., UL, IEC, BS or DIN) and are aligned with the needs of the majority of its distributor and OEM customers.

The Group leverages its knowledge of its customers' challenges to offer innovative products and solutions, which are sometimes developed jointly. It also draws upon its network of 15 R&D centers across the world. Furthermore, a corporate department was created in 2016 which aims to foster a culture of innovation within the Group, anticipate market trends and ensure that all the necessary means are in place to meet customers' expectations. It is also responsible for ensuring optimum allocation of resources to projects and accelerating time to market.

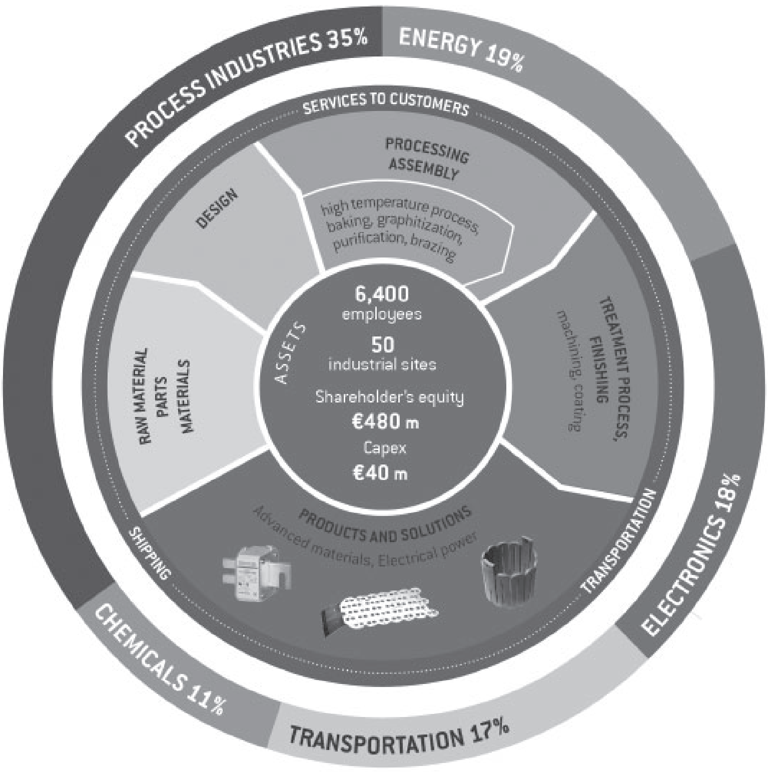
## Business model

Since its beginnings at the end of the 19th century, Mersen has gradually transformed into an industrial group with recognized expertise in two key areas – Advanced Materials and Electrical Power – where it holds leadership positions or is the joint world leader.

The Group's business model is built on a series of key stages, which are common to both segments:

- Design
- Manufacture, processing and/or assembly and machining
- Finishing and treatments
- Transportation, delivery and service

Group outsourcing in manufacturing amounted to around €100 million in 2017.




** Some of the Group's businesses are covered by the regulations on the control of exports of dual-use items and technology.*

# 1. Advanced Materials segment (AM)

- Sales of €447 million
- 35% total sales
- World no. 1-2[1] in graphite anticorrosion equipment
- World no. 1-2[1] in brushes and brush holders for industrial electric motors
- World no. 1-2[1] in high-temperature applications of isostatic graphite

*(1) Internal source*

## 1.1. Product range and applications

The Advanced Materials segment offers a range of solutions and products designed to perform the following principal functions:

- Resistance against very high temperatures: Mersen's range includes isostatic graphite equipment, carbon-carbon composites, carbon-bonded carbon fibers and silicon carbide for solar applications, semi-conductors and other refractory processes, electrodes for electrical discharge machining, and kiln linings.
- Protection against corrosion: this is provided by equipment using graphite, reactive metals (tantalum, zirconium and titanium) and fluorinated polymers (PTFE) for the chemical, pharmaceutical and metallurgy industries.
- Power supply: the Group's products and solutions provide stable and constant generation, flow and transformation of electrical current in industry (steel, mining, power plants, etc.) and transportation (rail, aeronautics, aerospace, maritime, etc.). This function is carried out with brushes, brush holders and slip rings used in generators and motors, and special collection systems for the rail sector.

## 1.2. Main competitors (in alphabetic order):

- Morgan Advanced Materials - brushes, brush holders, pantograph strips
- Schunk - Isostatic graphite, brushes, brush holders, pantograph strips
- SGL Carbon - isostatic graphite, anticorrosion systems
- Tokai Carbon - isostatic graphite
- Toyo Tanso - isostatic graphite

## 1.3. Main markets and customers (in alphabetic order):

- Energy (19%)
  - ABB
  - Siemens-Gamesa
  - GE
  - Longi
  - Nawsa
  - Vestas
  - Wacker Chemie
- Electronics (11%)
  - Applied Materials
  - Cree Research
  - Samsung
- Transportation (16%)
  - Airbus Defense & Space
  - Liebherr
  - Safran
  - Thalès
- Corrosive chemicals (19%)
  - Axiall
  - Evonik
  - OCP
  - Wanhua
- Process industries (35%)
  - Arcelor Mittal
  - International Paper
  - Owens Illinois
  - Saint-Gobain
  - Samsung
  - Voith

## 2. Electrical Power segment (EP)

- Sales of €363 million
- 45% total sales
- World no. 1(1) supplier of passive components for the power electronics market
- World no. 2(1) in industrial fuses
- World no. 1(1) in current collection for the rail market

*(1) Internal source*

### 2.1. Product range and applications

The Electrical Power segment offers a range of solutions and products designed to perform the following principal functions across the entire electrical chain:

- Equipment and people protection: prevent the destruction of industrial and commercial electrical equipment, ensure an uninterrupted power supply and help to stabilize the electrical network. This function is performed by industrial fuses and all related accessories (to prevent short circuits) and by surge protection devices (to protect against damage from power surges).
- Power conversion: change the nature, voltage, intensity or frequency of the current to meet very diverse applications, such as motor speed variation and the transformation of solar and wind energy. To perform this function, Mersen designs special cooling devices, bus bars and high-speed fuses that are integrated around power electronics components.

### 2.2. Main competitors (in alphabetic order):

- Aavid - cooling devices
- Dehn - surge protection devices
- Eaton - industrial fuses
- Littelfuse - industrial fuses
- Lytron - cooling devices
- Methode - bus bars
- Phoenix Contact - surge protection devices
- Rogers - bus bars

### 2.3. Main markets and customers (in alphabetic order):

- Energy (19%)
  - Gamesa
  - Senvion
  - Vestas
- Electronics (28%)
  - ABB
  - GE
  - Schneider
  - Rockwell
  - Siemens
  - TMEIC
- Transportation (18%)
  - Alstom
  - Bombardier
  - Safran
  - Thales
- Process industries (35%)
  - Affiliated Distributors
  - Arcelor Mittal
  - Imark Group
  - Mitsubishi
  - Rexel
  - Rockwell Automation
  - Sonepar
  - Weg

# 2 CORPORATE GOVERNANCE REPORT

# Administrative and Management Bodies

## 1. Legislative and regulatory environment

### 1.1. Legal provisions

It should be noted that Mersen has been governed by a two-tier Board of Directors since the General Meeting of May 11, 2016.

In accordance with the provisions of Articles L. 225-37-2 to L. 225-37-5 of the French Commercial Code (*Code de commerce*), the Board of Directors submits a report on corporate governance, which covers in particular the composition, preparation and organization of the Board's work. This report was prepared by the Board of Directors in respect of the fiscal year ended December 31, 2017.

Article L. 225-37-4 of the French Commercial Code also specifies that, "*where a company refers voluntarily to a corporate governance code drafted by trade associations*", this report should include *"the provisions that were excluded and the reasons for their exclusion, as well as the address where the code may be consulted."*

This report was submitted for the opinion of the Audit and Accounts Committee on March 1, 2018, and for the approval of the Board of Directors on March 6, 2018, in accordance with the aforementioned arrangements.

### 1.2. AFEP-MEDEF Corporate Governance Code: Reference code for the Mersen Group

Pursuant to Article L. 225-37-4 of the French Commercial Code, the Mersen Group refers to the AFEP-MEDEF Corporate Governance Code for listed companies (as revised in November 2016), available (in French) on the AFEP website, www.afep.com, and the MEDEF website, www.medef.com.

The Company applies all the recommendations of the AFEP-MEDEF Code.

The Group complied with all of the Code's provisions in 2017. In particular, with the appointment of Michel Crochon to the Audit and Accounts Committee at the close of the General Meeting of May 18, 2017, the number of independent members on said Committee at December 31, 2017 (four independent members out of six) is in line with the recommendations of the Code.

Finally, in accordance with legal provisions, the Group's Committee was consulted on May 11, 2017 regarding the appointment of a Director representing employees. The Committee voted in favor of this motion and appointed Pierre Creusy as Director representing employees. Pierre Creusy joined the Board at its meeting of October 12, 2017.

## 2. Board practices

### 2.1. The Board of Directors

**Assignments and duties of the Board of Directors:** The Board of Directors determines the Company's business strategies and ensures that they are implemented. To this end, at all times during the year, it conducts the verifications and checks that it deems appropriate and is entitled to request any documents it deems necessary to perform its duties. As part of its supervisory duties, the Board of Directors approves the full-year and interim financial statements, the annual budget and the medium-term Strategic Plan, as presented by the Chief Executive Officer and the Management of the Company.

The Chief Executive Officer may not make decisions, unless previously authorized to do so by the Board, in the following areas:

- issues of securities conferring rights directly or indirectly to the Company's share capital;
- funding operations likely to substantially alter the Company's financing structure;
- investments or asset disposals (excluding shareholdings) in an amount of over €10 million;
- business acquisitions or the purchase of shares, in whatever form, of which the individual price, or aggregate price for multiple shareholdings within a single entity, exceeds €3 million, inclusive of any liabilities assumed;
- strategic partnership agreements that are likely to have a substantial impact on the Company's business activities or financial results.

**The Internal Charter of the Board of Directors:** The Board of Directors adopted its Internal Charter on May 11, 2016.

The Internal Charter represents the governance charter for the Board of Directors and also governs the relationships between the latter's members and Mersen's Chief Executive Officer, in a spirit of cooperation notably intended to ensure fluid exchanges between the corporate bodies in the interest of shareholders. It is intended to give the Board of Directors the means to implement best practices in corporate governance.

It fits with the recommendations in the AFEP-MEDEF's Corporate Governance Code.

The Internal Charter was amended on October 12, 2017, to specify that the Director representing employees is not subject to minimum shareholding requirements.

The Internal Charter has seven articles:

- Article 1 defines the composition of the Board of Directors and the concept of "independent" members;
- Article 2 relates to the role and duties of the Board of Directors and indicates the lists of decisions made by the Chief Executive Officer subject to authorization or prior opinion by the Board of Directors;
- Article 3 relates to the holding and the procedures of meetings of the Board of Directors (notices of meetings, participation, majority rules, minutes, and Board secretary);
- Article 4 covers the compensation and benefits paid to members of the Board of Directors (attendance fees, compensation and benefits paid to the Chairman, and exceptional compensation and benefits);
- Article 5 covers the ethical rules applicable to members of the Board of Directors;
- Article 6 covers the self-assessment rules for the Board of Directors; and
- Article 7 governs the operating rules for the Committees set up by the Board of Directors.

The Internal Charter of the Board of Directors is available for download from the Company's website at www.mersen.com.

As part of its annual self-assessment, the Board of Directors also evaluates each of the three Committees.

## 2.2. The Chief Executive Officer

The Company is administered by a Chief Executive Officer, who performs his/her duties under the oversight of the Board of Directors. The Chief Executive Officer is eligible for reappointment and may not be more than 65 years of age. When the Chief Executive Officer reaches this age limit, s/he is deemed to have resigned as a matter of course. The Chief Executive Officer may be removed by the Board of Directors.

The Chief Executive Officer has the broadest powers to act in all circumstances in the name of the Company, within the restrictions of the corporate purpose and subject to the powers granted by law to the Board of Directors and to shareholder meetings.

In dealings with third parties, the Company is bound even by acts of the Chief Executive Officer not falling within the corporate purpose, unless it can prove that the third party knew that the act fell outside the scope of the corporate purpose or that it could not fail to know this in view of the circumstances, with mere publication of the Articles of Association not counting as evidence thereof.

The Chief Executive Officer represents the Company in its dealings with third parties. Upon the recommendation of the Chief Executive Officer, the Board of Directors may appoint one or more individuals – who need not be Board members – to assist the Chief Executive Officer. Those individuals then have the title of Deputy Chief Executive Officer.

At its meeting on May 11, 2016, the Board of Directors appointed Luc Themelin as Chief Executive Officer. No Deputy Chief Executive Officer was appointed.

## 2.3. The Executive Committee

An Executive Committee was established by the Management Board on October 14, 2011. It was maintained following the change in governance on May 11, 2016. It is responsible for managing the Mersen Group's operational affairs and meets every month to review the Group's financial performance and decide on action plans in various areas (including human resources, IT, procurement, legal affairs, and development) in line with its strategic priorities. The Executive Committee ensures that the Group's organization functions properly. As such, it is closely involved in forecasting the human resources required for the continued development of its business activities.

# 3. Composition of administrative and management bodies

## 3.1. The Board of Directors

According to the Articles of Association, the Board of Directors comprises at least three members and at most 18 members, who are appointed by the General Meeting of the shareholders on the recommendation of the Board of Directors.

Board members are appointed for a renewable term of office of four years.

The age limit applicable to the duties performed by any individual Board member and of any permanent representative of a legal entity is set at seventy-two (72) years.

As of December 31, 2017, the Board of Directors was composed of 13 members.

The following changes were made to the Board of Directors in 2017:

- Olivier Legrain, appointed as a Director at the General Meeting of May 18, 2017, was appointed Chairman by the Board at its meeting on the same day. He took over from Hervé Couffin, who did not stand for re-election.
- Fonds Nobel appointed a new female representative, Bénédicte Levinson, who joined the Board on May 18, 2017.
- Jean-Paul Jacamon resigned from his position in May 2017 and was replaced by Michel Crochon, who was appointed as a Director at the General Meeting of May 18, 2017.
- The directorships of Yann Chareton, Carolle Foissaud and Dominique Gaillard were renewed at the General Meeting of May 18, 2017.
- Lastly, in accordance with legal provisions, the Group's Committee was consulted on May 11, 2017 regarding the procedure for appointing a Director representing employees. The Committee voted in favor of this motion. Consequently, the Extraordinary General Meeting voted to amend the Articles of Association to include the procedure for appointing a Director representing employees to the Board of Directors. Pursuant to the new provisions of the Articles of Association, the Group Committee appointed Pierre Creusy as Director representing employees.

The independent members are: Michel Crochon, Catherine Delcroix, Carolle Foissaud, Fonds Nobel, Olivier Legrain, Henri-Dominique Petit and Ulrike Steinhorst. Independent members therefore make up more than 58% of the Board, in line with the recommendations of the AFEP-MEDEF Code. The Director representing employees is not taken into account for this calculation, as per §8.3 of the AFEP-MEDEF Code. To verify whether or not each member is independent, the Board, after being informed of the recommendations of the Governance and Remuneration Committee, reviews all the criteria recommended by the AFEP-MEDEF Code and set out in the Board's Internal Charter, which state that an independent member may not:

- be, or have been in the past five years, an employee or Management Board member of the Company or Group, or an employee or director of a shareholder which, alone or in concert, controls the Company within the meaning of the law, or an employee or director of a company within the Company's consolidation;
- be a corporate officer of another company in which the Company holds, directly or indirectly, a directorship, or in which an employee appointed as such or a corporate officer of the Company (currently in office or having been in office within the past five years) is a director;
- be a customer (or directly or indirectly linked to a customer), supplier, commercial banker or financial banker that is material to the Company or its Group, or that accounts for a material portion of the business of the Company or its Group; have close family ties to a corporate officer of the Company or its Group;
- be, or have been in the past five years, a statutory auditor for the Group's financial statements or for the financial statements of a Group company;
- have been a corporate officer of the Company for more than 12 years;
- receive or have received significant additional compensation from the Company or Group, aside from attendance fees and compensation paid to the Chairman or Vice Chairman.

A member who meets all the above criteria may be deemed not independent by the Board of Directors due to his or her individual circumstances or the Company's circumstances regarding its shareholders or for any other reason. Conversely, the Board may consider that a member who does not meet all of the above criteria is nevertheless independent. The Board must be able to justify such cases based on the Company's specific circumstances and the individual circumstances of the Board member in question.

Furthermore, with the appointment of Bénédicte Levinson as the permanent representative of Fonds Nobel, women now make up 42% of the Board of Directors, in line with the provisions of Article L. 225-18-1 of the French Commercial Code. The Director representing employees is not taken into account for the gender parity calculation, as per Article L. 225-27 of the French Commercial Code.

### Isabelle Azemard

Ms. Azemard is a graduate of the Institut Supérieur d'Électronique de Paris (ISEP) and the Institut des Hautes Études de la Défense Nationale. She spent her career at the Thales Group, including 20 years in sales and marketing management positions, primarily at the international level. Since 2013, she has been a consultant to business executives. Given that she is a representative of Bpifrance Investissement, a shareholder in Mersen, Ms. Azemard may not be regarded as an independent member of the Board of Directors, in the opinion of the Governance and Remuneration Committee.

### Yann Chareton

A graduate of the IEP in Paris and ESSEC, Yann Chareton also studied at the London School of Economics and the Università Commerciale Luigi Bocconi in Milan. In Italy, he was involved in transactions with the KOS, Lima, Bruni, Italmatch, Irca, and Dedalus groups. In October 2005, he joined AXA Private Equity's Mid Cap LBO team (which became Ardian in 2013), where he is Managing Director at the Milan office. Yann Chareton cannot be regarded as an independent member of the Board of Directors in the opinion of the Governance and Remuneration Committee.

### Pierre Creusy

Pierre Creusy joined Mersen in 1986 after graduating with an engineering degree from the École Nationale Supérieure des Arts et Métiers and obtaining a graduate degree at the Institut d'Administration des Entreprises in Amiens. After working in Korea, he held positions in production engineering and subsequently in product management before joining Mersen's Corporate Finance team as a financial controller.

He took on business responsibilities in Asia in 1999 and is now Director of Strategic Projects and Integrating Business Planning in the Electrical Power segment. He began serving on Mersen's Board of Directors on October 12, 2017, as Director representing employees.

### Michel Crochon

A graduate of the École Supérieure d'Électricité (Supélec) and CEDEP Executive Development, Michel Crochon has spent his entire career at Schneider Electric, where he accumulated years of experience in many different roles. In addition to managing departments and production plants, he has also worked in sales and marketing, held cross-functional roles and managed large units. He was a member of the Executive Committee for 12 consecutive years. During that time, he was Head of the Customers and Markets Division, and later Head of the Industry Business and the Energy and Infrastructure Business, before becoming Head of the Group's Corporate Strategy and Technology. Michel Crochon has experience in working abroad and facing cross-cultural challenges, having traveled and managed teams in a variety of countries. He spent three years in both China and Hong Kong.

He has been a member of Mersen's Board of Directors since May 18, 2017. On the advice of the Governance and Remuneration Committee, Michel Crochon is considered to be an independent member of the Board of Directors.

### Catherine Delcroix

Catherine Delcroix has a degree in marine engineering from the École Nationale Supérieure des Techniques Avancées, and has spent her career in engineering and industrial maintenance, primarily in the energy sector. She served as Managing Director for Energy of the CNIM Group from 2002 to 2014 and was appointed as a Management Board member and corporate secretary of the Group in 2009. On the advice of the Governance and Remuneration Committee, Catherine Delcroix is considered to be an independent member of the Board of Directors.

### Carolle Foissaud

Carolle Foissaud is a graduate of the École Polytechnique and the École Nationale Supérieure des Télécommunications. She has spent the bulk of her career with the Areva Group, primarily in operational positions within the Fuel and Reactors units and in management positions as Chair and Chief Executive Officer of STMI and its subsidiaries in the field of Cleanup and as Chair and Chief Executive Officer of Areva TA, which specializes in naval propulsion reactors and research reactors. She was also a member of the Areva Group's Executive Management Board. She joined Bouygues Energies et Services on September 1, 2017, where she is Chief Executive Officer of the Industry segment. On the advice of the Governance and Remuneration Committee, Carolle Foissaud is considered to be an independent member of the Board of Directors.

### Dominique Gaillard

A graduate of the École Polytechnique, École Nationale des Ponts et Chaussées, the IAE in Paris and the University of Berkeley, California (MSc), Dominique Gaillard began his career working for a Pechiney subsidiary as R&D director, then sales and marketing director (19881990). From 1990 to 1997, he worked at Charterhouse, during which time he arranged numerous development capital and LBO transactions. He joined AXA Private Equity (which became Ardian in 2013) in 1997 as Head of LBOs. He is now Managing Director in charge of Direct Funds (development capital, small & mid cap LBOs, co-investment, and infrastructure). Dominique Gaillard, representing Ardian France, cannot be regarded as an independent member of the Board of Directors in the opinion of the Governance and Remuneration Committee.

### Edward Koopman

Edward Koopman is a graduate of the EM Lyon Business School and holds an IAE qualification in Law and Administration from the University of Lyon III. He began his career in London in 1986 with BNP Capital Markets. In 1989, he joined Baring Brothers, where he remained until 1993. From 1993 to 1999, he worked as a manager and management consultant for Bain & Company in Paris, Dallas, Brussels and the Middle East. In 1999, he founded Electra Partners Europe/Cognetas, co-heading the Paris office until 2012. In 2012, he joined Value Ventures as an investor and independent advisor in Paris and London. In 2015, he moved to Sofina, a family-owned investment company in Brussels, where he is a member of the Executive Committee. Since Sofina is a shareholder in Mersen, Edward Koopman cannot be regarded as an independent member of the Board of Directors in the opinion of the Governance and Remuneration Committee.

### Olivier Legrain

Olivier Legrain began his career with Rhône-Poulenc, where he held executive positions in several business units. He subsequently joined the Lafarge Group as a member of its Executive Committee, in charge of specialty materials and strategy. After organizing the sale of the Lafarge Group's stake in Materis, a group specializing in materials, he became Chairman of Materis until 2015. He then changed career paths and became a therapist.

He has been Chairman of Mersen's Board of Directors since May 18, 2017. On the advice of the Governance and Remuneration Committee, Olivier Legrain is considered to be an independent member of the Board of Directors.

### Bénédicte Levinson (permanent representative of Fonds Nobel as of May 18, 2017)

Bénédicte Levinson launched her career at 3M, before joining Air Liquide, where she has held management positions in marketing and operations in France and Europe. She is currently Vice President of the Industrial Merchant for Southern Europe business line at Air Liquide.

She has been a member of Mersen's Board of Directors since May 18, 2017 as a representative of Fonds Nobel. On the advice of the Governance and Remuneration Committee, Fonds Nobel is considered to be an independent member of the Board of Directors.

### Henri-Dominique Petit

After high-level scientific training (École Supérieure de Physique et de Chimie in Paris, followed by a graduate degree in nuclear physics and a Ph.D. in particle electronics at Orsay University), Henri-Dominique Petit joined Kodak, a group with which he spent the bulk of his career. He held a wide variety of positions in France and in the rest of the world. He was appointed Group Vice President in 1992 and Senior Vice President in 2003. He served as Chairman of Sperian Protection (formerly Bacou-Dalloz) in 2004 and consolidated the group's merger and international development. He served as CEO until 2009 and Chairman until 2010. In April 2011, Mr. Petit was appointed Senior Advisor to the European corporate finance house, DC Advisory. On the advice of the Governance and Remuneration Committee, Henri-Dominique Petit is considered to be an independent member of the Board of Directors.

### Thierry Sommelet (permanent representative of Bpifrance Investissement)

A graduate of the École Nationale des Ponts et Chaussées engineering school, with an MBA from INSEAD, Thierry Sommelet began his career in capital markets at Crédit Commercial de France in 1992 in Paris and, subsequently, in New York. After holding management positions in London and Paris, he joined the Caisse des Dépôts et Consignations in 2002 as Manager of Financial Arrangements in the Digital Investments and Holdings department. He moved to the Strategic Investment Fund when it was established in 2008 and has been, and, since 2015, has been Director, member of the Executive Committee at Bpifrance Investissement Mid & Large Cap. Thierry Sommelet, as a permanent representative of Bpifrance Investissement, cannot be regarded as an independent member of the Board of Directors in the opinion of the Governance and Remuneration Committee.

### Ulrike Steinhorst

Ulrike Steinhorst began her career in France at the Ministry of European Affairs. She joined EDF's International Division in 1990 before returning to Germany, where she joined the Degussa Group in 1999. She held several positions there, first in Germany and later in France, where she managed Degussa's French subsidiary. She joined EADS in 2007 as Chief of Staff to the CEO before becoming Head of Strategy, Planning and Finance at Airbus Group's Research Directorate in 2012. A German lawyer, she is also a graduate of the French École Nationale d'Administration (International Cycle) and holds a graduate degree from Paris II – Panthéon University and an Executive MBA from HEC. Since the change in corporate governance on May 11, 2016, Ulrike Steinhorst has chaired Mersen's Governance and Remuneration Committee and is regarded as an independent director.

## 3.3. The Executive Committee

The Executive Committee is chaired by the Chief Executive Officer, Luc Themelin.

### Luc Themelin

Luc Themelin holds a Ph.D. in ceramic materials science. He began his career at Alliages Frittés Metafram, a subsidiary of the Pechiney Group, in 1988. He joined the Mersen Group in 1993 as a Research and Development engineer. He was appointed Director of the Braking Division in 1998 and Director of the High Temperatures Division in 2004. He joined the Executive Committee in 2005, while continuing to manage the Braking Division and overseeing the High Temperatures Division. On July 1, 2008, Luc Themelin was appointed as Supervisor of the Electrical Applications division and a member of the Management Board in May 2009. He was appointed as Chairman of the Management Board on August 24, 2011. His term of office as Chairman was renewed on May 16, 2013 for a period of four years. He was appointed as Chief Executive Officer on May 11, 2016.

The other members include:

**Thomas Baumgartner**
Group Vice President, Finance and Administration

**Gilles Boisseau**
Group Vice President, Electrical Power

**Christophe Bommier**
Group Vice President, Chief Technology Officer

**Thomas Farkas**
Group Vice President, Strategy and M&A

**Jean-Philippe Fournier**
Group Vice President, Operational Excellence

**Eric Guajioty**
Group Vice President, Advanced Materials

**Estelle Legrand**
Group Vice President, Human Resources

**Didier Muller**
Group Vice President, Asia & Latin America

# 4. Work of the Board of Directors

The Board of Directors met 11 times in 2017, with an average attendance rate of 91%.

| Directors | | Individual attendance rate for the term of office |
|---|---|---|
| Azemard | Isabelle | 100% |
| Delcroix | Catherine | 91% |
| Chareton | Yann | 100% |
| Couffin | Hervé (term in office expired May 18, 2017) | 100% |
| Creusy | Pierre (appointed October 12, 2017) | 100% |
| Crochon | Michel (appointed May 18, 2017) | 100% |
| Foissaud | Carolle | 100% |
| Fonds Nobel | represented by Philippe de Verdalle | 100% |
| Fonds Nobel | represented by Bénédicte Levinson | 63% |
| Gaillard | Dominique | 73% |
| Jacamon | Jean-Paul (resignation May 18, 2017) | 67% |
| SOFINA | (Edward Koopman) | 82% |
| Legrain | Olivier (appointed May 18, 2017) | 100% |
| Petit | Henri-Dominique | 100% |
| Bpifrance Investissement | represented by Thierry Sommelet | 91% |
| Steinhorst | Ulrike | 91% |

During these meetings, the Board reviewed and/or made decisions concerning the following issues:

- **January 25, 2017:** Review of a first draft of the 2016 results. Review and approval of the 2017 Budgets for business activities and the Group. Report by the Audit and Accounts Committee. Review of the Strategy Committee's program for 2017. Update on potential M&A projects. Renewal of authorizations relating to guarantees and endorsements.
- **March 7, 2017:** Review and approval of the company and consolidated financial statements for the fiscal year ended December 31, 2016. Approval of the proposed allocation of income, the draft of the financial press release with the 2017 guidance and the report of the Chairman on the work of the Board and internal control. Approval of the management projections. Update on potential M&A projects. Review of incentive schemes (bonus performance bonus and preference shares). Approval of the 2016 variable compensation and setting the rules for calculating the 2017 variable compensation for the Chief Executive Officer and members of the Executive Committee. Review of regulated agreements. Discussion of the possible appointment of two new directors and the renewal of directorships.
- **March 31, 2017:** Approval in principle of the proposal to appoint two new directors and approval of the draft agenda and resolutions to be submitted to the General Meeting of May 18, 2017.
- **May 18, 2017:** Appointment of the Chairman. Composition of the Committees and their Chairs. Setting of the compensation paid to the Chairman of the Board of Directors. Information about the Company's business. Update on Operational Excellence and Group safety. Update on restructuring operations in France. Update on M&A proposals. Report by the Strategy Committee. Approval of the 2017 bonus performance share and preference share allotment plans. Discussion of the Board's functioning. Update on the appointment of the Director representing employees.
- **July 5, 2017:** Update on a marketing study carried out on several Electrical Power product lines. Review and approval of the Group's 2017-2021 strategic plans and activities. Update on the proposed acquisitions. Company business review. Approval of the refinancing of the syndicated loan. Extension of the syndicated loan's maturity.
- **July 19, 2017:** Approval of the proposal to review the 2017 guidance, submitted by the Chief Executive Officer.
- **July 28, 2017:** Approval of the interim company and consolidated financial statements at June 30, 2017. Approval of the management projections. Review of the financial press release on the financial statements.
- **October 12, 2017:** Presentation of the Director representing employees. Business update. Update on proposed acquisitions and recap of past acquisitions.

- **October 23, 2017:** Approval of the proposal to review the 2017 guidance, submitted by the Chief Executive Officer.
- **November 16, 2017:** Presentation of a study on the Group's overall strategy and business activity. Update on the solar energy market in China. Business update.
- **December 12, 2017:** Update on the electric vehicle market outlook. Update on an acquisition project. Report by the Audit and Accounts Committee, including in particular an update on risk mapping. Report by the Governance and Remuneration Committee, including the organization of an assessment of the work of the Board of Directors.

## 4.1. Work performed by the Board of Directors' three committees

In its Internal Charter, the Board of Directors defined the functions, duties, and resources of its three committees: the Audit and Accounts Committee, the Governance and Remuneration Committee and the Strategy Committee. As far as possible and depending on the applicable circumstances, all decisions by the Board of Directors concerning an area of a Committee's jurisdiction will have to be preceded by a consultation of the relevant Committee and may be made only after the relevant Committee has issued its recommendations and proposals.

When performing its duties, each of the Committees may:

(i) have the Company communicate any document that it deems useful for the performance of its duties;

(ii) interview some or all members of the Executive Committee or any person that the Committee deems useful to interview;

(iii) have any third parties of its choosing (expert, advisor or Statutory Auditor) attend Committee meetings.

However, this consultation of the Committees should not serve to delegate the powers conferred upon the Board of Directors by law or in the Articles of Association or have the effect of reducing or restricting the Chief Executive Officer's powers.

### 4.1.1. Audit and Accounts Committee

The Internal Charter of the Board of Directors states that the Audit and Accounts Committee must comprise at least three and at most six members, two-thirds of them independent. The Internal Charter also stipulates that members of the Audit and Accounts Committee are selected on account of their expertise in accounting and financial matters. Given their training and professional experience, the Committee members satisfy this competency criterion. The Audit and Accounts Committee meets at least three times per year and whenever it deems necessary, and in advance of meetings of the Board of Directors for which the agenda includes a review of an issue related to its area of expertise. The Committee meets approximately one week before the Board of Directors to review the annual financial statements. The Group's Financial Director is responsible for making the presentations. The Director of Risk, Internal Audit and Safety attends these meetings at least once a year, as does the Director of Management Control and the Director of Treasury and Financing.

At December 31, 2017, the Audit and Accounts Committee had six members appointed from among the members of the Board of Directors, four of them independent: Yann Chareton, Michel Crochon(1), Catherine Delcroix(1), Carolle Foissaud(1), Henri-Dominique Petit(1) and Bpifrance Investissement, represented by Thierry Sommelet. Henri-Dominique Petit acts as Chairman of the Committee.

The Committee met five times in 2017, with an attendance rate of 86%.

| Members of the Audit and Accounts Committee | | Individual attendance rate for the term of office |
|---|---|---|
| Chareton | Yann | 60% |
| Crochon | Michel (appointed May 18, 2017) | 100% |
| Delcroix | Catherine | 100% |
| Foissaud | Carolle | 80% |
| Petit | Henri-Dominique | 100% |
| Bpifrance Investissement | represented by Thierry Sommelet | 80% |

*(1) Independent member.*

During these meetings, the Committee reviewed and/or made decisions concerning the following issues:

- **January 20, 2017:** Review of a first draft of the 2016 results, especially non-recurring items. Draft charter for non-audit services of the Statutory Auditors. Committee agendas for 2017.
- **March 1, 2017:** Review, in the presence of the Statutory Auditors, of the proposed 2016 annual financial statements. Presentation of the audit engagement by the Statutory Auditors. Discussion with the Statutory Auditors, in the absence of Management, concerning the financial statements and their audit findings. Presentation and approval of the accounting rules for non-recurring expenses. Update on changes to accounting standards and tax regulations. Review of the reference document.
- **June 1, 2017:** Update on the Group's tax arrangements. Update on pension plans in the United Kingdom and the United States. Update on the Cash Initiative program.
- **July 28, 2017:** Review, in the presence of the Statutory Auditors, of the draft interim financial statements for the six months ended June 30, 2017, as well as the draft interim report. Presentation of the audit engagement by the Statutory Auditors. Discussion, in the absence of Management, concerning the financial statements and their audit findings.
- **December 5, 2017:** Update on accounting matters prior to the end of the reporting period. Changes to accounting standards, particularly initial estimates of the impacts of IFRS 16. Update on the budget procedure and sales forecast procedure. Presentation of the results of the internal audits conducted in 2017 and validation of the audit schedule proposed for 2018. Review and approval of the three-yearly revision of the risk mapping and update on the implementation of the action plans as defined in the 2016 mapping. Update on the Group's cyber-crime prevention policy. Update on disputes and the cost of the competitiveness plan.

### 4.1.2. Governance and Remuneration Committee

The Internal Charter of the Board of Directors states that the Governance and Remuneration Committee must comprise at least three and at most six members (not including the Director representing employees), with independent members accounting for the majority. The Committee meets at least twice a year and, in any event, in advance of Board of Directors' meetings, for which the agenda includes the review of an issue related to its area of expertise.

At December 31, 2017, the Committee had seven members appointed from among the members of the Board of Directors, four of them independent: Isabelle Azemard, Pierre Creusy[(1)], Dominique Gaillard, Fonds Nobel represented by Bénédicte Levinson[(2)], Olivier Legrain[(2)], Henri-Dominique Petit[(2)] and Ulrike Steinhorst[(2)].

In accordance with §8.4 of the AFEP-MEDEF Code, the Director representing employees is not taken into account in the calculation of the proportion of independent members. A majority of the Committee's members are independent (4), in line with the recommendations of the AFEP-MEDEF Code.

Ulrike Steinhorst has acted as Chair since May 18, 2017. Note that Jean-Paul Jacamon was a member of the Committee until May 18, 2017.

During this period the Governance and Remuneration Committee met on three occasions, with an attendance rate of 88%.

| Members of the Governance and Remuneration Committee | | Individual attendance rate for the term of office |
|---|---|---|
| Azemard | Isabelle | 100% |
| Creusy | Pierre (appointed October 12, 2017) | 100% |
| Fonds Nobel | represented by Bénédicte Levinson | 100% |
| Gaillard | Dominique | 100% |
| Jacamon | Jean-Paul (resignation May 18, 2017) | 50% |
| Legrain | Olivier (appointed May 18, 2017) | 0% |
| Petit | Henri-Dominique | 100% |
| Steinhorst | Ulrike | 100% |

*(1) Director representing employees appointed by the Group Committee at its meeting on June 7, 2017.*
*(2) Independent member.*

During these meetings, the Committee reviewed and/or made decisions concerning the following issues:

- **February 17, 2017:** Review of the 2016 bonuses (Group and individual targets) for the Chief Executive Officer and members of the Executive Committee. Update on setting the rules determining the 2017 bonuses for the Chief Executive Officer and members of the Executive Committee. Pay and bonus structure proposal for the Chief Executive Officer and the Executive Committee. Compliance review of the Chief Executive Officer's regulated agreement. Review of the *ex ante* draft resolution regarding the Chief Executive Officer's compensation to be submitted to the General Meeting. Review of the 2017 long-term incentive schemes. Review of the renewal of certain directorships.
- **March 1, 2017:** Approval of the bonuses payable to the members of the Executive Committee with respect to 2016. Proposal of individual targets for 2017. Review of the "say on pay" plan regarding the Chief Executive Officer's compensation. Review of the Chief Executive Officer's regulated agreement regarding the renewal of his term. Review of the chapter "Compensation and benefits in kind" in the 2016 draft reference document. Review of the long-term incentive plan for 2017. Review of the profiles of potential new directors.
- **November 21, 2017:** Review of Mersen's compensation system, in particular the compensation of the Chief Executive Officer including Long-term Incentives, competitiveness survey, top-up pension plans. Review of the main executive officers' succession and development plan. Update on the Board's Governance, particularly the self-assessment process. Review of the current rules on the awarding of bonuses.

### 4.1.3. Strategy Committee

The Internal Charter of the Board of Directors stipulates that the Strategy Committee should have at least three and no more than eight members, the majority of them independent. The Strategy Committee meets at least twice per year and whenever it deems necessary, and in advance of Board of Directors' meetings for which the agenda includes the review of an issue in its area of expertise.

At December 31, 2017, the Committee was composed of eight members appointed from among the members of the Board of Directors, four of them independent: Pierre Creusy(2), Michel Crochon(1), Catherine Delcroix(1), Dominique Gaillard, Edward Koopman, Olivier Legrain(1), Bpifrance Investissement represented by Thierry Sommelet and Ulrike Steinhorst(1).

Olivier Legrain acted as Chairman of the Committee until December 31, 2017. At the Board of Directors' meeting on December 12, 2017, with the agreement of the Chair of the Governance and Remuneration Committee, he proposed the appointment of Michel Crochon as Chairman of the Strategy Committee as from 2018.

Note that Hervé Couffin and Jean-Paul Jacamon were members of the Committee until May 18, 2017.

The Strategy Committee met twice in 2017, with an attendance rate of 93%.

*(1) Independent member.*
*(2) Director representing employees appointed by the Group Committee at its meeting on June 7, 2017.*

| Members of the Strategy Committee | | Individual attendance rate for the term of office |
|---|---|---|
| Bpifrance Investissement | represented by Thierry Sommelet | 100% |
| Couffin | Hervé (term in office expired May 18, 2017) | 100% |
| Creusy | Pierre (appointed October 12, 2017) | 100% |
| Crochon | Michel (appointed May 18, 2017) | 100% |
| Delcroix | Catherine | 100% |
| Gaillard | Dominique | 100% |
| SOFINA | (Edward Koopman) | 100% |
| Jacamon | Jean-Paul (resignation May 18, 2017) | 0% |
| Legrain | Olivier (appointed May 18, 2017) | 100% |
| Steinhorst | Ulrike | 100% |

- **April 21, 2017:** Update on the electronics market for the Specialty Graphite business. Update on strategic distribution priorities for the Electrical Protection and Control business unit.
- **November 16, 2017:** Review of the Mersen Group's overall strategy and business activity.

# 5. Other positions held by members of the administrative and management bodies

| Members of the Board of Directors | Date of first appointment to the Board | Date of re-election as director | End of term of office |
|---|---|---|---|
| **Isabelle AZEMARD**<br>Born 02/27/1952<br>Member of the Governance and Remuneration Committee<br>**Business address:**<br>3 bd Pershing – Paris, France | 05/15/2014 | 05/11/2016 | Annual General Meeting to be called to vote on the 2017 financial statements |
| **Bpifrance Investissement**<br>represented by:<br>**Thierry SOMMELET**<br>Born 12/10/1969<br>Member of the Audit and Accounts Committee<br>Member of the Strategy Committee<br>**Business address:**<br>6-8 Boulevard Haussmann – Paris, France | 10/30/2013 (co-opted) | 05/11/2016 | Annual General Meeting called to vote on the 2018 financial statements |
| **Yann CHARETON**<br>Born 01/08/1978<br>Member of the Audit and Accounts Committee<br>**Business address:**<br>Piazza San Fedele 2 – Milan, Italy | 05/19/2009 | 05/18/2017 | Annual General Meeting to be called to vote on the 2020 financial statements |
| **Hervé COUFFIN**<br>Born 10/26/1951<br>**Business address:**<br>12 place Victor Hugo – Paris, France | 05/19/2009 | 05/11/2016 | 05/18/2017 |
| **Pierre CREUSY**<br>Born 09/27/1962<br>Member of the Governance and Remuneration Committee<br>Member of the Strategy Committee<br>Director representing employees<br>**Business address:**<br>Tour Eqho, 2 avenue Gambetta, 92066 – La Défense, France | 10/12/2017 | | 10/12/2021 |
| **Michel CROCHON**<br>Born 10/14/1951<br>Member of the Audit and Accounts Committee,<br>Chairman of the Strategy Committee (i)<br>Independent director*<br>**Business address:**<br>Tour Eqho, 2 avenue Gambetta, 92066 – La Défense, France | 05/18/2017 | | Annual General Meeting to be called to vote on the 2020 financial statements |
| **Catherine DELCROIX**<br>Born 09/19/1951<br>Member of the Audit and Accounts Committee<br>Member of the Strategy Committee<br>Independent director*<br>**Business address:**<br>25 rue Cino Del Duca – Paris, France | 03/10/2015 (co-opted) | 05/11/2016 | Annual General Meeting to be called to vote on the 2018 financial statements |
| **Carolle FOISSAUD**<br>Born 09/02/1966<br>Member of the Audit and Accounts Committee<br>Independent director*<br>**Business address:**<br>Bouygues Energies et Services, 19 rue Stephenson, Saint Quentin en Yvelines – France | 05/16/2013 | 05/18/2017 | Annual General Meeting to be called to vote on the 2020 financial statements |

* *According to AFEP-MEDEF criteria.*
** *Listed company.*
(i) *From January 1, 2018.*

| Number of shares held in Mersen's share capital | Other positions held |
|---|---|
| 800 | **Director of:**<br>AXA mutuelle IARD and mutuelle Vie,<br>Latécoère**, Majencia |
| 2,242,770 | **Member of the Supervisory Board or of the Board of Directors (permanent representative of Bpifrance) of:**<br>Soitec**, Talend, Technicolor**<br>**Chairman of the Supervisory Board of:** Soitec**<br>**Chairman of the Supervisory Board of:** Greenbureau SA |
| 920 | **Member of the Board of Managers of:** ACF I Investment<br>**Chairman of the Board of Directors of:** Italmatch Chemicals<br>**Director of:** Calimax 1 SA, Calimax 2 SA, NHV Holding, PhotoTechLuxco 1 SA, PhotoTechLuxco 2 SA, Dedalus SpA, Dedalus Holding SpA, Dedalus Holding 2 SpA, Mikrolux 1 SA, Mikrolux 2 SA, Mikrolux 3 SA until February 2017 |
| 56,667 | **Chief Executive Officer of:** Callisto<br>**Managing Partner of:** HC Conseil<br>**Director of:** Antargaz, Ipsen**<br>**Member of the Supervisory Board of:** Gerflor |
| N/A | |
| 800 | |
| 800 | |
| 823 | **Chief Executive Officer of the Industry segment at Bouygues Energies et Services**<br>**Director of:** GFI** |

| Members of the Board of Directors | Date of first appointment to the Board | Date of re-election as director | End of term of office |
|---|---|---|---|
| **Dominique GAILLARD**<br>Born 02/17/1960<br>Member of the Governance and Remuneration Committee and the Strategy Committee<br>**Business address:**<br>20 place Vendôme – Paris, France | 05/19/2009 | 05/18/2017 | Annual General Meeting to be called to vote on the 2020 financial statements |
| **Edward KOOPMAN**<br>Born 02/09/1962<br>Member of the Strategy Committee<br>**Business address:**<br>31 rue de l'Industrie – Brussels, Belgium<br>Nationality: Dutch | | 07/07/2016<br>(co-opted) | Annual General Meeting to be called to vote on the 2018 financial statements |
| **Olivier LEGRAIN**<br>Born 09/30/1952<br>Chairman of the Board<br>Chairman of the Strategy Committee (i)<br>Member of the Governance and Remuneration Committee<br>Independent director*<br>**Business address:**<br>Tour Eqho, 2 avenue Gambetta, 92066 – La Défense, France | 05/18/2017 | | Annual General Meeting to be called to vote on the 2020 financial statements |
| **Henri-Dominique PETIT**<br>Born 07/03/1948<br>Chairman of the Audit and Accounts Committee<br>Member of the Governance and Remuneration Committee<br>Independent director*<br>**Business address:**<br>1 bis avenue de Lowendal – Paris, France | 05/19/2009 | 05/11/2016 | Annual General Meeting to be called to vote on the 2018 financial statements |
| **Fonds NOBEL**<br>Represented by Philippe de Verdalle until 05/18/2017<br>As of 05/18/2017, represented by<br>**Bénédicte LEVINSON**<br>Born 10/23/1963<br>Member of the Governance and Remuneration Committee,<br>Independent director*<br>**Business address:**<br>Tour Eqho, 2 avenue Gambetta, 92066 – La Défense, France | 05/11/2016 | | Annual General Meeting to be called to vote on the 2019 financial statements |
| **Ulrike STEINHORST**<br>Born 12/02/1951<br>Chair of the Governance and Remuneration Committee<br>Member of the Strategy Committee<br>Independent director*<br>**Business address:**<br>3, Villa du Coteau – Clamart, France<br>Nationality: German | 05/16/2013 | 05/18/2017 | Annual General Meeting to be called to vote on the 2020 financial statements |

* *According to AFEP-MEDEF criteria.*
** *Listed company.*
(i) *Chairman until December 31, 2017. Member as from 2018.*

| Number of shares held in Mersen's share capital | Other positions held |
|---|---|
| 790 | **Member of the Board of Managers of:** ACF I Investment Sarl<br>**Chairman of the Board of Directors of:** Ardian Italy Srl, Ardian Spain SL<br>**Chairman of the Management Board of:** Ardian France<br>**Chairman of the Supervisory Board of:** Ardian Germany GmbH<br>**Vice Chairman and member of the Supervisory Board of:** Fives, Collecte Localisation Satellites<br>**Managing Director of:** APEP GmbH<br>**Chief Executive Officer of:** Ardian, Ardian Holding<br>**Member of the Board of Directors of:** Ardian Investment UK Limited, Ardian Investment Switzerland Holding AG, RPAX One SA<br>**Director and Managing Director of:** Penfret SA<br>**Member of the Supervisory Committee of:** Ardian US LLC<br>**Member of the Supervisory Board of:** Novafives<br>**Vice Chairman of:** AXA CDP Co-Investment Fund LLC, AXA Co-Investment II LLC, AXA PE FS LLC<br>**Director of:** AXA CEE Management Ltd, AXA Co-Investment II Ltd<br>**Member of the AESF V Committee of:** Ardian Investment UK Limited<br>**Member of the ASF V Committee of:** Ardian Investment UK Limited<br>**Member of the ASF VI Committee of:** Ardian Investment UK Limited<br>**Chairman, Member of the Management Committee and Coordination Committee of:** AXA Infrastructure Investissement<br>**Non-voting director of:** Club Med Holding |
| 1,679,852<br>(shares held by Sofina) | **Director of:**<br>The Hut Group (UK), Polygone SA, Laurence Dumont, GL Events** |
| 1,000 | **Director of:**<br>Kiloutou, Minasin, Astrance, Parex<br>Member of the Governance Committee of:<br>Balas |
| 832 | **Senior Advisor** to the European investment bank DC Advisory<br>Non-voting director of: Ipackchem |
| 575,556 | |
| 800 | **Member of the Board of Directors of:**<br>Valeo**<br>Albioma**<br>École des Mines de Paris<br>Franco-German Chamber of Commerce and Industry |

"Date of first appointment to the Management Board" refers to the date of appointment to the Supervisory Board for directors who were members of the Supervisory Board before the Company's governance changed on May 11, 2016.

In regards to "Most recent renewal date", please note that the General Meeting of May 11, 2016 appointed directors who were members of the Supervisory Board before the Company's governance changed for a term equivalent to their remaining term as members of the Supervisory Board.

Directors whose nationality is not specified in the table are of French nationality.

| Name | Date of first appointment to the Management Board | Most recent renewal date* | End of term of office | Number of shares held in Mersen's share capital | Other positions held |
|---|---|---|---|---|---|
| **Luc THEMELIN**<br>Born 02/23/1961<br>Chief Executive Officer<br>(since May 11, 2016) | 05/19/2009 | 05/11/2016 | | 11,776 | Chairman and/or director of various Mersen Group subsidiaries |

** Corresponding to the date of appointment as Chief Executive Officer once the Company's governance changed*

## 6. Conflicts of interest involving administrative and management bodies

As far as the Company is aware on the date this document was drawn up:

- there are no family ties between the members of the Board of Directors and Executive Management;
- no members of the Board of Directors or Executive Management have been convicted of fraud for at least the past five years;
- no members of the Board of Directors or Executive Management have been involved in any insolvency, receivership or liquidation proceedings for at least the past five years;
- no members of the Board of Directors or Executive Management have been charged with any offense or had any official public disciplinary action taken against them for at least the past five years;
- no members of the Board of Directors or Executive Management have been prevented by a court from acting as a member of an administrative, management or supervisory body or from participating in a company's management or business operations for at least the past five years;
- there are no conflicts of interest between the private interests and/or other duties of any of the members of the Board of Directors or Executive Management with respect to Mersen;
- no arrangements or agreements have been entered into between the main shareholders, customers or suppliers under which any member of the Board of Directors or Executive Management has been appointed as such;
- there is no restriction to which the members of the Board of Directors and Executive Management have agreed concerning the sale of their interest in the Company's share capital.

As regards the prevention and management of conflicts of interest, Article 5 of the Internal Charter states that the Directors "*shall inform the Board of Directors concerning any conflict of interest in which they may be involved. In such case, they shall refrain from taking part in deliberations and any decisions relating to the matters concerned.*"

The members of the Board of Directors, the Chief Executive Officer and the Group's key management personnel have undertaken to refrain from using or disclosing the inside information that they have for the purpose of buying or selling the Company's shares and, in particular, not to carry out any transaction of this type. As part of the effort to prevent insider trading, the Directors have undertaken to not enter into any share transactions during black-out periods. For fiscal 2018, the black-out periods are:

- **from January 14 to January 29, 2018 inclusive:** owing to the announcement of fourth-quarter 2017 sales on January 29, 2018.
- **from February 5 to March 6, 2018 inclusive:** owing to the announcement of the 2017 annual financial statements on March 7, 2018.
- **from April 10 to April 25, 2018 inclusive:** owing to the announcement of first-quarter 2018 sales on April 25, 2018.
- **from June 30 to July 30, 2018 inclusive:** owing to the announcement of half-year results on July 30, 2018.

- **from October 9 to October 24, 2018 inclusive:** owing to the announcement of third-quarter 2018 sales on October 24, 2018.

The black-out periods specified above are set notably in accordance with AMF recommendations (AMF Recommendation Position No. 2016-08) and the Market Abuse Regulation of July 16, 2014, which call for two black-out periods:

- a period of at least **30 calendar days** prior to the publication of the annual, interim and, where appropriate, full quarterly financial statements; and
- a period of at least **15 calendar days** prior to the publication of quarterly earnings.

As far as the Company is aware on the date this document was drawn up, there is no service agreement between members of the administrative or management bodies and Mersen or any of its subsidiaries providing for the grant of future benefits.

# Compensation and benefits in kind

## 1. Approval of the principles and criteria for setting, allocating and awarding the various components making up the compensation packages of corporate officers

The following information, which forms an integral part of the Board of Directors' report on corporate governance, has been prepared in accordance with Articles L.225-37-2 and R.225-29-1/L.225-82-2 and R.225-56-1 of the French Commercial Code.

### General principles for determining the compensation policy for corporate officers

As part of the process for setting the corporate officers' compensation packages, acting on the recommendations of the Governance and Remuneration Committee, the Board of Directors took into account the following principles as prescribed in Article 24-1 of the November 2016 version of the AFEP/MEDEF Corporate Governance Code for listed companies in France:

- Comprehensiveness: compensation packages must be set in a comprehensive manner, with all of the various components of compensation taken into account when assessing the overall amount.
- Balance between the various components of compensation: each compensation component must be clearly substantiated and must be in the Company's best interests.
- Comparability: the compensation awarded must be in line with business and market practices for peer companies. However, market practices must not be the only basis of comparison as a corporate officer's compensation depends on the level of responsibilities assigned to that officer as well as the actual results achieved and work performed. It also depends on the nature of the tasks entrusted to the corporate officer concerned or specific situations (e.g., turning around a company in difficulty).
- Consistency: the corporate officer's compensation package must be consistent with the packages set for the Company's other officers and employees.
- Clarity: the rules for setting the compensation amounts should be straightforward, stable and transparent. The performance criteria used must correspond to the Company's objectives, and be exacting, explicit and, to the extent possible, long-lasting.
- Proportionality: the components of compensation packages must be set in a well-balanced manner and take into account the Company's best interests, market practices, the performance of the corporate officer concerned and the interests of the Company's other stakeholders.

The compensation policy determined based on the above principles takes into account the Group's medium/long-term interests and is intended to apply over the long term.

### 1.1. Approval of the principles and criteria for setting, allocating and awarding the various components making up the compensation package of the Chief Executive Officer *(10th resolution)*

These principles and criteria, as set by the Board of Directors acting on the recommendations of the Governance and Remuneration Committee, are as follows:

**1. Fixed compensation**

The Chief Executive Officer receives fixed compensation whose amount is set based on an in-depth analysis of market practices. The amount set also factors in the Chief Executive Officer's skills and experience and his past individual salary levels, the tasks and responsibilities assigned to him and the difficulties of his post, and is consistent with the Group's fair pay policy.

The Chief Executive Officer's fixed compensation may be increased if the Group's defined benefit supplementary pension plan is replaced by a defined contribution plan, in order to offset the amount of any additional fees or costs incurred as a result of this replacement.

The Chief Executive Officer's fixed compensation is generally only reviewed after a period of several years, apart from in exceptional circumstances, such as following a major transaction resulting in a change in the Company's size.

**2. Annual variable compensation**

The Chief Executive Officer's annual variable compensation is subject to performance conditions that are in line with the Group's underlying business strategy. He is not guaranteed a minimum amount of variable compensation and his total amount of variable compensation is capped at 112% of his annual fixed compensation.

The criteria that must be met in order for the Chief Executive Officer to be paid his annual variable compensation are based on both quantitative and qualitative objectives (with the quantitative objectives making up the largest proportion), as follows:

- The achievement targets for the quantitative objectives are set by the Board of Directors based on the recommendations of the Governance and Remuneration Committee but, for reasons of confidentiality, are not necessarily disclosed.
- The qualitative objectives are set by the Board of Directors based on the recommendations of the Governance and Remuneration Committee but, for reasons of confidentiality, are not disclosed.

**3. Multi-annual variable compensation**

As part of the Company's long-term compensation policy, the Chief Executive Officer may be awarded multi-annual variable compensation whose payment is contingent on the achievement of objectives related to the Group's medium/long-term strategy.

**4. Stock option grants**

As part of an overall strategy to motivate and retain the Chief Executive Officer over the long term, the Board of Directors may grant him stock options that will vest only if certain pre-defined performance objectives are met. The Chief Executive Officer must not be the only beneficiary of a stock option plan and he may not receive more than 20% of all the options granted under that plan. The number of options allocated to him will be set by the Board of Directors in line with the recommendations in the AFEP/MEDEF Corporate Governance Code.

**5. Free share grants**

As part of an overall strategy to motivate and retain the Chief Executive Officer over the long term, the Board of Directors may grant him ordinary or preferred shares free of consideration that will vest only if certain pre-defined performance objectives are met ("performance shares") The Chief Executive Officer must not be the only beneficiary of a performance share plan and he may not receive more than 20% of all the free shares granted under that plan. The number of free shares allocated to him will be set by the Board of Directors in line with the recommendations in the AFEP/MEDEF Corporate Governance Code.

**6. Exceptional compensation**

Acting on the recommendation of the Governance and Remuneration Committee, the Board of Directors may decide to grant Luc Themelin exceptional compensation under special circumstances. This type of compensation must be substantiated by an event such as carrying out a major transaction for the Company or the Group, etc. The amount of such exceptional compensation may not represent more than 50% of Luc Themelin's annual fixed compensation.

**7. Directors' fees**

If the Chief Executive Officer is a director of the Company he may be awarded directors' fees in the same way as the other Board members, based on the same allocation rules. These rules take into account the amount of time devoted to directorship work, whether the director is a member of a Board committee and his attendance rate at Board meetings.

**8. Benefits in kind**

The Chief Executive Officer may be entitled to certain benefits in kind, such as the use of a company car, directors' and officers' insurance, health and welfare insurance and a pension plan. He is also eligible to be a beneficiary of the employee profit-sharing plans set up at Company and/or Group level.

Payment of Luc Themelin's variable compensation components and any exceptional compensation awarded for 2018 for his duties as Chief Executive Officer is contingent on the shareholders' approval of the components of his compensation paid or awarded for that year (ex post vote).

### Commitments given to the Chief Executive Officer subject to paragraphs 1 and 6 of Article L.225-42-1 of the French Commercial Code

- Severance payment

  If the Company terminated the Chief Executive Officer's term of office, he would be entitled to a severance payment that would only be paid if certain performance conditions were met.

- Non-compete/non-solicitation covenant

  The Chief Executive Officer is bound by a non-compete and non-solicitation covenant, in return for which he may receive an indemnity.

- Pension plan

  The Chief Executive Officer is a member of a defined benefit supplementary pension plan which may in the future be replaced by a defined contribution supplementary pension plan.

The Group's commitments to Luc Themelin – i.e. relating to his severance payment, non-compete/non-solicitation indemnity and supplementary pension plan – are described in section 6 of this Chapter.

#### *Signing bonus*

In order to facilitate the recruitment of corporate officers, the Board of Directors may, on the recommendation of the Governance and Remuneration Committee, grant a signing bonus. The amount of this bonus may not exceed the amount of the corporate officer's compensation package that he gives up when accepting the corporate officer position.

#### *Deputy Chief Executive Officer(s)*

If the Board of Directors decides to appoint one or more Deputy Chief Executive Officers, the principles and criteria relating to the Chief Executive Officer's compensation package would also apply to the Deputy Chief Executive Officer(s), adapted as required.

#### *Change in governance structure*

If the Board of Directors decides to combine the roles of Chairman and Chief Executive Officer, the principles and criteria relating to the Chief Executive Officer's compensation package would apply to the Chairman and Chief Executive Officer, adapted as required.

## 1.2. Approval of the principles and criteria for setting, allocating and awarding the various components making up the compensation package of the Chairman of the Board of Directors *(9th resolution)*

These principles and criteria, as set by the Board of Directors acting on the recommendations of the Governance and Remuneration Committee, are as follows:

#### 1. Fixed compensation

The Chairman of the Board receives fixed compensation, the amount of which is set based on:

- The Chairman's profile, notably his experience and seniority and the level of difficulty of his responsibilities.
- The Company's operating environment and notably the practices of peer companies.

#### 2. Annual variable compensation

The Chairman of the Board does not receive any annual variable compensation.

#### 3. Multi-annual variable compensation

The Chairman of the Board does not receive any multi-annual variable compensation.

#### 4. Stock option grants

The Chairman of the Board does not receive any stock options.

#### 5. Free share grants

The Chairman of the Board does not receive any free shares.

#### 6. Exceptional compensation

Acting on the recommendation of the Governance and Remuneration Committee, the Board of Directors may decide to grant the Chairman of the Board exceptional compensation under special circumstances. This type of compensation must be substantiated by an event such as carrying out a major transaction for the Company or the Group, etc. As permitted under Article L.225-46 of the French Commercial Code, the Chairman of the Board may also be awarded exceptional compensation for specific tasks or assignments entrusted to him by the Board.

The amount of any exceptional compensation awarded may not represent more than 50% of the Chairman's annual fixed compensation.

#### 7. Directors' fees

The Chairman of the Board receives directors' fees, for which the allocation rules are primarily based on actual attendance at meetings.

### 8. Benefits in kind

The Chairman may claim expenses incurred in connection with his duties, subject to proof of receipt.

Payment of the Chairman's variable compensation and any exceptional compensation awarded for 2018 is contingent on the shareholders' approval of the components of Olivier Legrain's compensation paid or awarded for that year (ex post vote).

### Commitments given to the Chairman of the Board of Directors subject to paragraphs 1 and 6 of Article L.225-42-1 of the French Commercial Code

None.

## 2. Compensation of corporate officers

The aggregate amount of total compensation and benefits of any kind paid during fiscal 2017 to Mersen's corporate officers, namely the members of the Board of Directors and the Chief Executive Officer, came to €1,173,536, broken down into:

- compensation payable to Management Board members as presented in the summary tables on the following pages;
- compensation paid to members of the Board of Directors. Attendance fees for 2017 are paid in early 2018, divided among the members of the Board of Directors, as follows:

| **Amounts payable in respect of the fiscal year** *(in euros)* | **2017** | **2016** |
|---|---|---|
| Isabelle Azemard | 20,532 | 19,522 |
| Bpifrance Investissement | 23,790 | 25,116 |
| Yann Chareton | 20,458 | 18,649 |
| Hervé Couffin(2) | 6,902 | 28,571 |
| Pierre Creusy | | |
| Michel Crochon(1) | 17,230 | |
| Catherine Delcroix | 25,794 | 22,415 |
| Carolle Foissaud | 21,188 | 21,263 |
| Dominique Gaillard | 20,587 | 22,447 |
| Jean-Paul Jacamon(3) | 7,196 | 24,446 |
| Olivier Legrain(1) | 15,222 | |
| Fonds Nobel | 16,017 | 9,858 |
| Henri-Dominique Petit | 29,907 | 30,226 |
| Sofina (Edward Koopman as of 07/07/2016) | 13,480 | 17,336 |
| Ulrike Steinhorst | 25,697 | 24,151 |
| **TOTAL** | **264,000** | **264,000** |

*(1) Appointed by the GM of May 18, 2017.*
*(2) Member did not stand for re-election.*
*(3) Member resigned on May 18, 2017.*

At its March 10, 2015 meeting, the Supervisory Board modified the rules governing the payment of attendance fees to its members to comply with the relevant recommendations of the AFEP-MEDEF Code. The change of governance adopted on May 11, 2016 had no impact on the rules governing the payment and/or calculation of the attendance fees paid to the members of the Board.

The applicable rules are therefore as follows.

With regard to the total overall attendance fees authorized:

- Two-thirds are allocated based on membership on the Board of Directors; it being specified Directors, it being specified that of this two-thirds, 45% is reserved for membership, strictly speaking, of the Board and is divided equally among the members, and 55% is reserved, on a pro rata basis, for actual participation of the members at Board meetings.
- One-third is allocated based on membership of a specialized committee; it being specified committee, it being specified that onethird shall be distributed based on the same breakdown between membership and actual presence, and that this one-third shall be distributed as follows: 13.3% for the Audit and Accounts Committee, 10% for the Governance and Remuneration Committee, and 10% for the Strategy Committee.
- Lastly, the compensation of each Committee Chairman is equal to 1.5 times a member's compensation, both for membership and actual attendance.

The calculation of the attendance rate is based exclusively on the meetings scheduled on the annual agenda of Board of Directors' meetings and committee meetings drawn up at the beginning of the year.

Therefore, in line with the recommendations of the AFEP-MEDEF Code, the variable portion of attendance fees has a heavier weighting than the fixed portion.

From its first meeting on May 19, 2009, the Supervisory Board decided to allocate a fixed annual compensation package to the Chairman of the Supervisory Board. This compensation remained unchanged until the change of Governance on May 11, 2016.

On appointing Olivier Legrain as its Chairman on May 18, 2017, the Board of Directors decided to award him a fixed annual compensation package of €80,000.

The compensation paid to the Chief Executive Officer is approved by the Board of Directors on the recommendation of the Governance and Remuneration Committee.

On May 18, 2017, the Board of Directors decided to maintain the components of Luc Themelin's compensation package for 2017 such as the Supervisory Board had approved it on March 8, 2016, consisting of fixed compensation together with the conditions of the Chief Executive Officer's variable compensation for fiscal 2016, as described below:

- annual gross compensation of €440,000, plus incentives. Since 2015, the fixed portion of the compensation paid to Management Board members has been reviewed exclusively on a multi-annual basis, in accordance with the AFEP-MEDEF Code;
- a variable portion of between 0% and up to 100% of fixed compensation; An outperformance clause corresponding to a bonus of up to 12% of fixed compensation applies in the event that the Group's operating margin outperforms the maximum target approved by the Board.
- bonus preference shares with a holding period of two years.

The bonus system for the Chief Executive Officer in 2017 was based on the following achievements:

- for 35%, related to the Group's ROCE objectives (calculated on the basis of current operating income after taxes) for the fiscal year;
- for 35%, related to the Group's operating cash flow generation targets;
- for 30%, related to individual objectives set at the beginning of the year by the Board of Directors.

The personal and financial objectives are reviewed every year by the Governance and Remuneration Committee, based on the Group's strategic priorities.

The 2017 financial objectives were based on the Group's annual budget.

For 2017, the personal objectives related to the following themes, *inter alia*: (i) growth in sales; (ii) implementing the commercial effectiveness business efficiency plan in Germany; (iii) stabilizing TF1 and TG occupational accident rates; (iv) continuing to actively publish financial communication in order to reach a target share price; (v) productivity gains in 2017; and (vi) reducing fixed costs in the 2017 budget as per the plan presented in 2016. Details of certain personal objectives are not made public for confidentiality purposes.

At present the Chief Executive Officer receives the benefit of a top-up pension plan. Provided that the relevant person is still employed by the Group upon his/her retirement, this regime guarantees top-up pension income of 10%-20%, depending on length of service, of the basic reference salary during the final three years prior to retirement plus flat-rate compensation of 50% of the maximum bonus.

## 2.1. Summary of the compensation and benefits, options and shares granted to each Management Board member

### Luc Themelin, Chief Executive Officer

| *(in euros)* | 2017 | 2016 |
|---|---|---|
| Compensation and benefits payable in respect of the fiscal year (broken down below)(1) | 949,274 | 842,088 |
| Value of free shares granted during the fiscal year(2)(3) | 161,954 | 50,873 |
| **TOTAL** | **1,111,228** | **892,961** |

*(1) Compensation includes the incentive payment in respect of 2016 paid in 2017.*
*(2) For 2016, bonus preference shares subject to performance criteria are valued at €2.46 per share (French tax residents). This value was calculated assuming 100% achievement of performance criteria.*
*(3) For 2017, bonus preference shares subject to performance criteria are valued at €7.79 per share (French tax residents). This value was calculated assuming 100% achievement of performance criteria.*

### Hervé Couffin, Chairman of the Board of Directors (until May 18, 2017)

| *(in euros)* | 2017 | 2016 |
|---|---|---|
| Compensation and benefits payable in respect of the fiscal year (broken down below) | 37,226 | 108,571 |
| Value of free shares granted during the fiscal year | N/A | N/A |
| **TOTAL** | **37,226** | **108,571** |

### Olivier Legrain, Chairman of the Board of Directors (since May 18, 2017)

| *(in euros)* | 2017 | 2016 |
|---|---|---|
| Compensation and benefits payable in respect of the fiscal year (broken down below) | 65,406 | N/A |
| Value of free shares granted during the fiscal year | N/A | N/A |
| **TOTAL** | **65,406** | **N/A** |

## 2.2. Summary of the compensation payable to each Management Board member

### Luc Themelin, Chief Executive Officer

| (in euros) | 2017 | | 2016 | |
|---|---|---|---|---|
| | Amounts payable for 2017 | Amounts paid in 2017 | Amounts payable for 2016 | Amounts paid in 2016 |
| Fixed compensation | 440,000 | 440,000 | 440,000 | 440,000 |
| Annual variable compensation | 466,400 | 358,402 | 358,402 | 117,404 |
| Incentives | 19,866 | 19,555 | 20,992 | 17,762 |
| Benefits in kind | 23,008 | 23,008 | 22,694 | 22,694 |
| TOTAL | 949,274 | 840,965 | 842,088 | 597,860 |

*Note 1: The bonus is paid in Year Y +1.*
*Note 2: Benefits in kind include contributions toward the corporate executives' social guarantee, as well as a company car.*

### Hervé Couffin, Chairman of the Board of Directors (until May 18, 2017)

| (in euros) | 2017 | | 2016 | |
|---|---|---|---|---|
| | Amounts payable for 2017 | Amounts paid in 2017* | Amounts payable for 2016 | Amounts paid in 2016 |
| Fixed compensation | 30,324 | 40,000 | 80,000 | 80,000 |
| Attendance fees | 6,902 | 28,571 | 28,571 | 26,417 |
| Benefits in kind | 0 | 0 | 0 | 0 |
| TOTAL | 37,226 | 68,571 | 108,571 | 106,417 |

** Amounts payable in respect of 2017 will be paid in 2018.*

### Olivier Legrain, Chairman of the Board of Directors (since May 18, 2017)

| (in euros) | 2017 | |
|---|---|---|
| | Amounts payable for 2017 | Amounts paid in 2017* |
| Fixed compensation | 49,676 | 0 |
| Attendance fees | 15,222 | 0 |
| Benefits in kind | 0 | 0 |
| TOTAL | 64,898 | 0 |

** Amounts payable in respect of 2017 will be paid in 2018.*

The amounts stated above include all the compensation and benefits of any kind received by the corporate officers of companies controlled by Mersen within the meaning of Article L. 233-16 of the French Commercial Code.

## 3. Compensation and benefits payable in respect of 2017 to senior managers (Executive Committee, excluding corporate officers)

The compensation and benefits paid to the members of the Executive Committee are approved by the Board of Directors on the recommendation of the Governance and Remuneration Committee.

The bonus system is based on the following achievements:

For the Chief Financial Officer:

- for 35%, related to the Group's ROCE objectives (calculated on the basis of current operating income after taxes) for the fiscal year;
- for 35%, related to the Group's operating cash flow generation targets;
- for 30%, related to certain individual objectives set at the beginning of the year by the Board of Directors.

For the other members of the Executive Committee (excluding Chief Executive Officer and Chief Financial Officer):

- for 30%, related to the Group's operating cash flow generation targets;
- for 30%, related to the Group's or Segment's current operating margin;
- for 40%, related to certain individual objectives set at the beginning of the year by the Board of Directors.

| *(Gross amounts in euros)* | 2017 |
|---|---|
| Basic salaries | 1,637,035 |
| Performance-related bonuses | 944,664 |
| Benefits in kind | 31,131 |
| **TOTAL** | **2,612,830** |

*Note 1: The bonus, varying between 0% and up to 60% of basic salary, not including the outperformance clause for the Chief Financial Officer which corresponds to a bonus of up to 12% of the fixed salary.*
*Note 2: Benefits in kind correspond to a company car.*

## 4. Summary of commitments given to Management Board members

| | Employment contract | Supplementary pension scheme | Compensation and benefits payable or likely to be payable owing to the termination or change in duties | Indemnity relating to a non-compete clause |
|---|---|---|---|---|
| **Olivier Legrain**<br>Chairman of the Board of Directors since May 18, 2017 | NO | NO | NO | NO |
| **Luc Themelin**<br>Chief Executive Officer since May 11, 2016 | NO | YES(1) | YES(2) | YES |

*(1) Luc Themelin is eligible for a supplementary pension plan pursuant to his employment contract, the terms of which are described below (Agreements referred to in Article L. 225-38 of the French Commercial Code).*
*(2) Compensation and benefits payable or likely to be payable owing to the termination or change in duties are described below (Agreements referred to in Article L. 225-38 of the French Commercial Code).*

## 5. Shares in the Company's capital held by senior managers

Number of shares held directly by members of the Board of Directors and the Chief Executive Officer: 4,517,519 (of which 2,242,770 held by Bpifrance Investissement, 1,679,852 by Sofina and 575,556 by Fonds Nobel).

Number of shares held by the Chief Executive Officer: 11,776.

In accordance with Article 6 of the Internal Charter, each member of the Board of Directors must hold at least 800 shares for the entire duration of his or her term of office. These shares must be held in registered form.

# 6. Agreements regulated by Article L. 225-42-1 of the French Commercial Code

## 6.1. Review of agreements

On March 6, 2018, the Board of Directors re-examined the agreements referred to below, in accordance with the provisions of Article L. 225-40-1 of the French Commercial Code, and decided to maintain the agreements in their entirety in the interests of the Company.

## 6.2. Severance payment for Luc Themelin

By a decision dated March 6, 2018, the Board of Directors decided to maintain for Luc Themelin the benefits that would be granted should his term as Chief Executive Officer end, in accordance with the provisions of Article L. 225-42-1 of the French Commercial Code, under the following conditions:

Non-compete and non-solicitation clause

Should his term of office as Chief Executive Officer end, and in return for signing a non-compete and non-solicitation undertaking for one year from the date on which his duties cease, Luc Themelin will receive a monthly payment equivalent to 50% of the gross fixed monthly compensation that he received immediately prior to termination of his term of office. The Company may decide to forgo this non-compete and non-solicitation clause and thus free itself from its obligation of making this monthly payment, by informing Luc Themelin of its decision within a notice period of two months of the termination of his term of office.

The non-compete undertaking referred to above will cover all of the Group's business activities and will be applicable in all of the countries in which Mersen is active (whether it has a physical presence there or whether it operates from a base in another country). At the Company's discretion, the non-compete and non-solicitation undertaking will be laid down and structured as a no-compete undertaking, if necessary.

Termination of his term of office:

Should the Mersen Group terminate, in any manner and for any reason whatsoever (barring gross or willful misconduct, retirement, enforced retirement or resignation), Luc Themelin's term of office as Chief Executive Officer (notably by dismissal, non-renewal of the term of office for any reason whatsoever or the elimination of the duties following the conversion or merger of the Company, except for a change in corporate governance leading to his appointment as Chairman of the Management Board of a limited company with a Supervisory Board or a Management Board), a lump sum payment will be made to Luc Themelin, calculated as stated below in the applicable performance conditions (the "Severance Payment") when this departure is required and related to a change of control or strategy. The Severance Payment will exclude payment of any other indemnity (of any type whatsoever, including compensation and interest).

In the event that Luc Themelin's responsibilities and/or compensation and benefits are altered substantially following a takeover of the Company and that he thus decides to leave the Company, he would receive the same severance payment.

The Severance Payment is calculated as follows:

I = 0.5 x R x P

where

- I is the amount of the Severance Payment;
- R is the gross total compensation (basic compensation and bonus, excluding benefits in kind and incentives) paid to Luc Themelin during the 36 months prior to termination (including the portion of variable pay due in respect of the year in progress at termination), whether this compensation and benefits have been paid to him in respect of his duties as Chief Executive Officer or as an employee; and
- P is Luc Themelin's performance as measured in line with the criteria defined below.

Payment of the aforementioned severance indemnity will be contingent upon attainment of the performance targets under the following conditions:

- Performance metric (P):

P = the average performance of Luc Themelin in the three calendar years preceding his departure (as Chief Executive Officer or employee).

$$P = \frac{\text{performance (Y-1)} + \text{performance (Y-2)} + \text{performance (Y-3)}}{3}$$

Performance in year Y is equal to the percentage achievement of objectives for the target bonus. P may vary from 0% to 200%.

The average performance rate P will be observed by the Board of Directors.

- Performance conditions:

If **P** >= 100%, 100% of the payment will be made;

If **P** >= 90% and < 100%, 80% of the payment will be made;

If **P** >= 70% and < 90%, 60% of the payment will be made;

If **P** >= 50% and < 70%, 40% of the payment will be made;

If **P** < 50%, no payment will be made.

Stock subscription options – Performance shares

The Board decided that should Luc Themelin's term of office as Chief Executive Officer be terminated in any manner and for any reason whatsoever (barring termination following the acquisition of control of the Company, retirement or enforced retirement), he will automatically lose his entitlement to all the stock options granted to him prior to the end date of his term of office where the conditions of grant (condition related to continued presence and performance conditions) have not been satisfied by the end date of his term of office. He will also automatically lose his entitlement to all the shares granted to him, irrespective of whether they are subject to a performance condition, in accordance with the provisions of Articles L. 225-197-1 to L. 225-197-5 of the French Commercial Code, prior to the end date of his term of office, where the grant of these shares had not been made definitive by the end date of his term of office.

However, it is stipulated that the Board of Directors reserves the right to decide, where appropriate, to leave in place some or all of the stock options and bonus shares, subject to satisfaction of the corresponding performance conditions.

The benefit of the stock options and bonus shares referred to above will be maintained should Luc Themelin's responsibilities and/or compensation and benefits be modified substantially following the acquisition of control of the Company causing him to decide to the leave the Company.

### 6.3. Pension plan for Luc Themelin

By a decision dated March 6, 2018, the Board of Directors decided to maintain the supplementary pension plan of which Luc Themelin is a beneficiary.

Under this scheme, Luc Themelin will receive a supplementary pension corresponding to 20% of the amount of his average fixed compensation for the past three years and 50% of his maximum variable compensation, given his length of service with the Group. The purpose of this scheme is to enable Mersen to reward its Chief Executive Officer for his loyalty.

To date, Luc Themelin has 29 years of seniority with Mersen, of which 24 as an employee. The potential future pension rights of Luc Themelin have therefore been capped for nine years and may no longer be increased. This pension commitment is a significant tool to reward the loyalty of the Chief Executive Officer and enable him to achieve at retirement a replacement rate close to that which applies to the Company's employees. It does not represent an undue financial burden on the Company. The estimated amount of the annuity under the supplementary pension scheme paid to Luc Themelin would amount to €132,000, before tax and social security contributions.

Luc Themelin is also eligible for a basic corporate officers' unemployment benefit (*Garantie Sociale des Chefs d'Entreprises* – GSC) for up to 24 months. The annual cost of this benefit depends on the previous year's net taxable income of the party concerned and the length of the period in which the benefit is paid. The Company pays 40% of the contribution and Luc Themelin pays 60%. This arrangement includes a waiting period of 30 days of continuous unemployment.

## 7. Employee incentive agreements

Employee incentive agreements related to the Group's earnings are in place at most of its French subsidiaries, as well as in certain subsidiaries in the United States, Canada and Australia. The methods used to calculate incentives vary by company and country. They include both financial criteria (operating income and EBIT) and, in some cases, technical criteria, such as safety improvements, customer service and scrap rates, etc.

| *(in € thousands)* | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Amounts allocated to employees | 3,609 | 2,701 | 3,433 | 3,656 | 2,956 |
| Number of beneficiaries | 1,720 | 1,827 | 1,919 | 2,159 | 2,172 |

## 8. Employee profit-sharing

Profit-sharing agreements are in place at certain Group's subsidiaries.

| *(in € thousands)* | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Amounts allocated to employees | 1,840 | 2,367 | 1,496 | 1,031 | 1,075 |
| Number of beneficiaries | 1,170 | 1,237 | 1,259 | 778 | 1,173 |

# 9. Corporate savings plan

Since 1995, financial authorizations to develop stock ownership among employees through a Group Investment Plan, stock subscription option plans and bonus share allotment plans have been granted on a regular basis by shareholders at the Extraordinary General Meeting.

## 9.1. Group Savings Plan

At the General Meeting on May 11, 2016, shareholders delegated authority to the Chief Executive Officer, subject to the prior approval of the Board of Directors, to increase the share capital on one or more occasions at his sole discretion, through the issue of shares in cash reserved for employees participating in the Group Savings Plan. These increases in capital entail the waiver of shareholders' preferential subscription rights. The nominal amount of the capital increases that may be carried out pursuant to this delegation may not exceed €300,000, i.e., approximately 0.7% of the Company's share capital. This delegation is valid for a period of 26 months. It replaces and supersedes the previous delegation of authority granted by the General Meeting of May 15, 2014.

At the General Meeting on May 18, 2017, shareholders delegated authority to the Chief Executive Officer, subject to the prior approval of the Board of Directors, to issue shares or securities conferring rights to employees of Mersen Group companies whose headquarters are not located in France and are not members of a company savings plan. These increases in capital entail the waiver of shareholders' preferential subscription rights. The nominal amount of the capital increases that may be carried out pursuant to this delegation may not exceed €300,000, i.e., approximately 0.7% of the Company's share capital. The maximum nominal amount will be included in the aggregate nominal limit of €300,000 provided for in the twentieth resolution approved by the General Meeting of May 11, 2016. This delegation is valid for a period of 26 months.

To date, the Board of Directors has not made use of these delegations.

# 10. Stock subscription options

At the Extraordinary General Meetings since 1995, shareholders have authorized the Company to grant, on one or more occasions, stock subscription options to some or all of the Company's senior managers or those of affiliated companies. The employee categories benefiting from these options are to be determined by the Board of Directors each time that it makes use of the authorization.

All stock subscription plans are subject to performance conditions.

The total number of stock subscription options still outstanding stands at 274,881, i.e., 1.3% of the share capital. Members of the Management Board have no options to purchase or to subscribe for shares in subsidiaries of the Group.

## 10.1. Stock subscription options: previous grants

| | 2007 plan Tranche 11 | 2009 plan Tranche 12 | 2014 plan Tranche 13 | Total |
|---|---|---|---|---|
| Date of Board of Directors'/Management Board meeting | July 25, 2007 | Jan 22, 2009 | May 21, 2014 | |
| Total number of shares available for subscription | 177,876 | 366,582 | 150,000 | 694,458 |
| *- o/w corporate officers:* | | | | |
| *Luc Themelin (not a corporate officer until May 19, 2009)* | *10,780** | *32,345* | *30,000* | *73,125* |
| *- o/w corporate officers at the allotment date, who have since left the Company* | *26,950* | *53,908* | *18,000* | *98,858* |
| *- including corporate officers at the allotment date who were no longer corporate officers on the date of publication* | *14,391* | *35,580* | *54,000* | *103,971* |
| *- o/w top 10 allottees* | *77,885* | *140,163* | *150,000* | *368,048* |
| Subscription price | 53.10 | 17.53 | 22.69 | |
| Start of option exercise period | July 11 | Feb. 13 | May 16 | |
| Expiration date | July 17 | Feb. 19 | May 21 | |
| Total number of shares subscribed at Dec. 31, 2017 | 0 | 180,660 | 17,850 | 198,510 |
| Options canceled at Dec. 31, 2017 | 177,876 | 5,391 | 37,800 | 221,067 |
| *- o/w canceled in 2017* | *86,344* | *0* | *0* | *86,344* |
| **OPTIONS THAT MAY STILL BE EXERCISED** | **0** | **180,531** | **94,350** | **274,881** |

** Options allotted prior to the appointment of the beneficiary as a corporate officer.*

## 10.2. Performance conditions and holding requirements attached to stock subscription plans

### 10.2.1. 2007 plan

Performance conditions:

The possibility of exercising the options was contingent on growth in consolidated net income per share (basic earnings) from fiscal 2007 to 2010. 100% of the shares were granted if net income per share grew by 40% compared with 2006 (€2.53/share). If at the end of fiscal 2010, net income per share had risen by 30% but less than 40%, four-fifths of the options were granted. If the increase was less than 30%, three-fifths were granted. The Board of Directors reserved the right to restate net income per share to adjust for any exceptional items that occurred during the period for the comparison with the objective set.

Based on the performance recorded, three-fifths of the shares were granted. The plan expired in July 2017 and the remaining options not taken up were canceled.

Holding requirements: none

### 10.2.2. 2009 plan

Performance conditions:

The performance conditions were defined as follows when the plan was established.

The percentage of options granted to each beneficiary that may be exercised will be determined by reference to the following two criteria, with the more favorable one being applied:

| | 100% | 75% to 100%** | 35% to 75% | 0% |
|---|---|---|---|---|
| CRITERION 1 | If EPS > or = 2x its 2007 value* | If EPS > or = 1.5x and < 2x its 2007 value* | If EPS < 1.5x and > or = 1x its 2007 value* | If EPS < 1x its 2007 value* |
| | **100%** | **50% to 100%** ** | **0%** | |
| CRITERION 2 | If Mersen's EPS growth > or = to average EPS growth of the panel by at least 20 percentage points | If Mersen's EPS growth > or = to average EPS growth of the panel and < this growth plus 20 percentage points | If Mersen's EPS growth < average EPS growth of the SBF 120 companies | |

* *Adjusted for the impairment in EMC (business sold in May 2009). Based on comparable IFRSs.*
** *Smoothed based on EPS obtained.*

The achievement of the performance objectives under this plan was determined based on the 2007 and 2011 financial statements. These calculations were audited by the statutory auditor.

Based on the performance recorded, 100% of the shares were granted. The more favorable calculation was that associated with criterion 2. The panel of French companies chosen includes groups listed in France: Air Liquide, ArcelorMittal, Bic, Bongrain, Ciments Français, Derichebourg, Essilor, Faiveley, Gemalto, Haulotte, Imerys, Ingenico, Lafarge, LDC, Legrand, Lisi, Manitou, Nexans, Norbert Dentressangle, Renault, Rexel, Saft, Schneider, Séché, Stef, Toupargel, Valeo, Veolia, Vicat and Zodiac.

The panel was drawn up by the Management Board and approved by the Appointments and Remuneration Committee. Only companies from the 2007 panel still listed in 2011 were retained for measurement.

Holding requirements:

Only the Chief Operating Officer, serving at the date of the plan, was obliged to retain the options until the total number of shares held in registered form was equivalent to one year's compensation.

### 10.2.3. 2014 plan

Performance conditions:

The possibility of exercising the options was contingent on growth in the Group's 2013 net profit per share (adjusted for exceptional charges of €55 million, including depreciation of deferred tax assets, recognized in the second half of 2013, i.e., an "adjusted 2013 EPS" of 1.27) in relation to the average EPS for 2014 and 2015 (adjusted for costs related to the Transform Plan) (the "adjusted 2014 and 2015 EPS"). The percentage of options granted to each beneficiary that may be exercised will be determined by application of the following two criteria, with the more favorable one being applied. The calculation of the percentages of options will be based on the financial statements published by the Company. In the event of abnormal variations during the period or of significant exceptional transactions (specifically, change of scope by acquisitions or disposals) occurring after the May 21, 2014 Management Board meeting, the Chief Executive Officer may, after obtaining the opinion of the new GRC and the approval of the Board of Directors, adjust the financial statements for the impacts of these transactions to calculate the option allotment percentages. The panel of comparable companies used to calculate criterion 2 was approved by the Supervisory Board on May 15, 2014, based on the recommendation of the Appointments and Remuneration Committee. For the purpose of calculating the allotment percentage, the GRC may withdraw from the panel those companies that have recorded excessive or abnormal fluctuations in their EPS over the period. This includes the following companies listed on the Paris Stock Exchange: Air Liquide, Alstom, ArcelorMittal, Areva, Arkema, Ciments Français, EDF Energies Nouvelles, Essilor, Faiveley, Imerys, Ingenico, Lafarge, Nexans, Rexel, Saft, Saint-Gobain, Schneider, Sechilienne, Soitec, ST Micro, Vicat and Zodiac.

#### Criterion 1

- 0% if the average of the adjusted 2014 and 2015 EPS is below 1.27.
- 30% if the average of the adjusted 2014 and 2015 EPS is equal to 1.27.
- 100% if the average of the adjusted 2014 and 2015 EPS is equal to or greater than 1.75.
- The achievement objective is calculated at between 30% and 100% by linear interpolation if the average of the adjusted 2014 and 2015 EPS is between 1.27 and 1.75.

#### Criterion 2

- 0% if the growth of the Company's EPS (between the adjusted 2013 EPS and the average of the adjusted 2014 and 2015 EPS) is less than the average growth of the Panel of Companies' EPS over the same period.
- 50% if the growth of the Company's EPS (between the adjusted 2013 EPS and the average of the adjusted 2014 and 2015 EPS) is equal to the average growth of the Panel of Companies' EPS over the same period.
- 100% if the growth of the Company's EPS (between the adjusted 2013 EPS and the average of the adjusted 2014 and 2015 EPS) is 15 percentage points greater than the average growth of the Panel of Companies' EPS over the same period.
- The achievement percentage is calculated between 50% and 100% by linear interpolation if the growth of the Company's EPS (between the adjusted 2013 EPS and the average of the adjusted 2014 and 2015 EPS) exceeds the average growth of the Panel of Companies' EPS by less than 15 percentage points over the same period.

Based on the performance recorded, 85% of the shares were granted.

Holding requirements: Two years, i.e., until May 21, 2016

Pursuant to Article L. 225-185 of the French Commercial Code, the Supervisory Board also decided that each member of the Management Board must hold the equivalent of 30% of the shares acquired upon the exercise of stock subscription options after the immediate sale of the shares necessary to finance the acquisition of the shares and the payment of taxes, social security contributions and payroll charges in respect of this resale of securities. This obligation has been restricted to the Chief Executive Officer since May 11, 2016.

## 10.3. Stock subscription options: Management Board members

Options granted in 2017 to each Management Board member:

| | Number of options granted | Exercise price | Valuation (method used in the consolidated financial statements) | Exercise period |
|---|---|---|---|---|
| Chairman of the Board: Olivier Legrain | 0 | | | |
| Chief Executive Officer: Luc Themelin | 0 | - | - | |

Options exercised in 2017 by each Management Board member:

| | Number of options exercised | No. and date of the plan | Exercise price |
|---|---|---|---|
| Chairman of the Board: Olivier Legrain | 0 | | |
| Chief Executive Officer: Luc Themelin | 0 | | - |

The Management Board agreed that until the dissolution of the Management Board on May 11, 2016, its members may not participate in risk hedging transactions, either with regard to the subscription options or the shares from the exercise of the options. This obligation has been restricted to the Chief Executive Officer since May 11, 2016.

## 10.4. Stock subscription options: top 10 employees (non-corporate officers)

| | Number of options granted/exercised | Weighted average exercise price |
|---|---|---|
| Options granted in 2017 to the 10 employees who received the largest number | 0 | |
| Options exercised in 2017 by the 10 employees who received the largest number | 82,878 | 18.17 |

## 10.5. Redeemable stock subscription and/or acquisition warrants (BSARs)

BSARs, or redeemable stock subscription warrants, were acquired by members of the Board of Directors, directors, and certain managers of the Group against payment of the subscription price. No BSARs had been exercised at their expiration date on July 16, 2017. On this date, Euronext published an information note indicating that Mersen's BSARs had been withdrawn from the market.

| | **2010 plan** |
|---|---|
| Date of Board of Directors' meeting | July 15, 2010 |
| Total number of shares available for subscription | 103,331 |
| *- o/w corporate officers:* | |
| *Luc Themelin* | *4,000* |
| *- o/w corporate officers at the allotment date, who have since left the Company* | *9,700* |
| *- including corporate officers at the allotment date who were no longer corporate officers on the date of publication* | *4,100* |
| *- o/w top 10 allottees* | *39,900* |
| Subscription price | 1 2007 BSAR(1) + €1.5 |
| Start of exercise period | 07/17/2012 |
| Expiration date | 07/16/2017 |
| Total number of shares subscribed at Dec. 31, 2017 | 0 |
| BSARs canceled by Dec. 31, 2017 | 103,331 |
| *- o/w canceled in 2017* | *103,331* |
| **BSARS THAT MAY STILL BE EXERCISED** | **0** |

*(1) The 2007 BSARs resulted in a subscription price of €12.*

# 11. Bonus shares

At the General Meeting of May 18, 2017, the shareholders authorized the Board of Directors to allot existing or new shares at no cost to employees, or to certain categories of employees, of the Company and those of affiliated companies. The total number of shares that may be thus allotted may not exceed 84,000, representing around 0.4% of the capital on the day of the Meeting. This authorization provides that the Board of Directors will determine the identity and categories of the beneficiaries of the share allotment referred to, as well as the performance and share allotment conditions and criteria. This authorization invalidates the previous authorization granted by the General Meeting of May 19, 2015. This authorization is valid for 38 months.

At its meeting of May 18, 2017, the Board of Directors made use of this authorization and empowered the Chief Executive Officer to implement the performance-based bonus share plan and the allotment of said shares. The Chief Executive Officer implemented this delegation by allotting, at no cost, 84,000 Company shares to 121 Mersen Group employees and managerial staff according to the related performance conditions, i.e., a 2018 EBITDA to sales ratio criterion, or one based on change in the EBITDA to sales ratio between 2016 and 2018, compared to a panel of comparable French companies (whichever is the more favorable). Neither the Chief Executive Officer nor any member of the Executive Committee was a beneficiary of this plan.

## 11.1. Bonus share allotments: previous grants

| | **2015 plan* Tranche 9 (with performance conditions)** | **2016 plan* Tranche 10 (with performance conditions)** | **2017 plan* Tranche 11 (with performance conditions)** | **Total** |
|---|---|---|---|---|
| Date of allotment decision | July 9, 2015 | May 11, 2016 | May 18, 2017 | |
| Total number of shares allotted | 65,000 | 84,000 | 84,000 | 233,000 |
| *- o/w corporate officers:* | | | | |
| *Luc Themelin* | *0* | *0* | *0* | *0* |
| *- o/w top 10 allottees* | *11,000* | *11,000* | *10,100* | *32,100* |
| Share price at allotment date *(€)* | 18.71 (French tax residents)(1) | 12.12 | 23.69 | |
| Definitive allotment date (end of the vesting period) | July 9, 2017 (French tax residents)(2) | May 11, 2018 | May 18, 2019 | |
| End of lock-up period | July 10, 2019 | May 12, 2018 | May 19, 2019 | |
| Allotments canceled at Dec. 31, 2017 | 65,000 | 1,200 | 0 | 66,200 |
| *o/w canceled in 2017* | *64,200* | *1,200* | *0* | *65,400* |
| Number of shares vested definitively, non-transferable | 0 | 0 | 0 | 0 |
| **BALANCE AT DECEMBER 31, 2017** | **0** | **82,800** | **84,000** | **166,800** |

** Plans reserved for employees of the Group who are not members of the Management Board (before the change of governance) or the Executive Committee.*
*(1) For beneficiaries who are non-French tax residents, the valuation is €18.53.*
*(2) For beneficiaries who are not tax residents, the allotment date is July 9, 2019.*

## 11.2. Performance conditions and holding requirements attached to bonus share plans allotted to the Group's employees since 2015

### 11.2.1. 2015 plan (Tranche 9)

Performance conditions:

The percentage of bonus shares allotted to each of the beneficiaries will be determined based on the most favorable of the following criteria. The calculations will be based on the Group's financial statements. However, in the event of abnormal variations during the period or of significant exceptional transactions (specifically, change of scope by acquisitions or disposals) occurring after the meeting of the Management Board at which these bonus shares are allotted, the Chief Executive Officer may, after obtaining the opinion of the Governance and Remuneration Committee (GRC) and the approval of the Board of Directors, adjust the financial statements for the calculation of the allotment percentages. The panel of comparable companies used to calculate criterion 2 had been approved by the Supervisory Board on May 19, 2015, based on the recommendation of the Appointments and Remuneration Committee. The GRC modified the panel. It is made up of the following companies listed on Euronext Paris: Air Liquide, ArcelorMittal, Arkema, Essilor, Imerys, Ingenico, Legrand, LISI, Manitou, Nexans, Rexel, Saint-Gobain, SEB, Schneider, Somfy, ST Micro, Tarkett, Vicat and Zodiac.

#### Criterion 1

- 100% if the 2016 EBITDA[1] to sales ratio is equal to or higher than 15.5%.
- 30% if the 2016 EBITDA[1] to sales ratio is equal to 13.7%.
- Between these two limits, the allotment percentage will be calculated on a straight-line basis.
- 0% if the 2016 EBITDA[1] to sales ratio is less than 13.7%.

#### Criterion 2

- 100% if the change in the EBITDA[1] to sales ratio between 2014 and 2016 is at least 10 percentage points higher than the change in the average EBITDA[1] to sales ratio of the Panel of Comparable Companies over the same period.
- 35% if the change in the EBITDA[1] to sales ratio between 2014 and 2016 is equal to the change in the average EBITDA[1] to sales ratio of the Panel of Comparable Companies over the same period.
- Between these two limits, the allotment percentage will be calculated on a straight-line basis.
- 0% if the change in the EBITDA[1] to sales ratio between 2014 and 2016 is less than the change in the average EBITDA[1] to sales ratio of the Panel of Comparable Companies over the same period.

Based on the performance recorded, no shares were definitively allotted.

### 11.2.2. 2016 plan (Tranche 10)

Performance conditions:

Bonus shares may only be allotted to the beneficiary at the end of the vesting period if the performance conditions defined below are met.

The percentage of bonus shares allotted to each of the beneficiaries will thus be determined based on the most favorable amount of the following two criteria.

#### Criterion 1

- 100% if the 2017 EBITDA[1] to sales ratio is equal to or higher than 15.5%.
- 30% if the 2017 EBITDA[1] to sales ratio is equal to 13.5%.
- Between these two limits, the allotment percentage will be calculated on a straight-line basis.
- 0% if the 2017 EBITDA[1] to sales ratio is less than 13.5%.

#### Criterion 2

- 100% if the change in the EBITDA[1] to sales ratio between 2015 and 2017 is at least 10 percentage points higher than the change in the average EBITDA[1] to sales ratio of the Panel of Comparable Companies over the same period.
- 35% if the change in the EBITDA[1] to sales ratio between 2015 and 2017 is equal to the change in the average EBITDA[1] to sales ratio of the Panel of Comparable Companies over the same period.
- Between these two limits, the allotment percentage will be calculated on a straight-line basis.
- 0% if the change in the EBITDA[1] to sales ratio between 2015 and 2017 is less than the change in the average EBITDA[1] to sales ratio of the Panel of Comparable Companies over the same period.

*(1) EBITDA = Operating income before non-recurring items + depreciation and amortization.*

### Criteria calculation method

The calculations will be based on Mersen's published financial statements. However, in the event of abnormal variations during the period or of significant exceptional transactions (specifically, change of scope by acquisitions or disposals) occurring after May 11, 2016, the Board of Directors may, after obtaining the opinion of the Governance and Remuneration Committee (GRC), adjust the financial statements for changes in scope of consolidation when calculating the allotment percentages.

The Panel of Comparable Companies used to calculate criterion 2 was approved by the Board of Directors on May 11, 2016, on the recommendation of the Governance and Remuneration Committee.

The Panel of Comparable Companies comprises the following companies: Arkema, SA Vicat, STMicroelectronics NV, SEB SA, Manitou BF, Zodiac Aerospace, Nexans SA, Rexel SA, Saft Groupe SA, Ingenico, Essilor International, Air Liquide SA, Imerys SA, Schneider Electric SA, Arcelor Mittal, St Gobain, Tarkett, Lisi, Somfy and Legrand.

For the purpose of calculating the allotment percentage, the Governance and Remuneration Committee may withdraw from the sample companies that have recorded manifestly wild or abnormal fluctuations in their EBITDA margin over the period.

The definitive percentage achieved may not be known at present, as some groups in the panel are awaiting the publication of their financial results.

## 11.2.3. 2017 plan (Tranche 11)

<u>Performance conditions:</u>

Bonus shares may only be allotted to the beneficiary at the end of the vesting period if the performance conditions defined below are met.

The percentage of bonus shares allotted to each of the beneficiaries will thus be determined based on the most favorable amount of the following two criteria.

### Criterion 1

- 100% if the 2018 EBITDA[1] to sales ratio is equal to or higher than 14.5%.
- 30% if the 2018 EBITDA[1] to sales ratio is equal to 13%.
- Between these two limits, the allotment percentage will be calculated on a straight-line basis.
- 0% if the 2018 EBITDA[1] to sales ratio is less than 13%.

### Criterion 2

- 100% if the change in the EBITDA[1] to sales ratio between 2016 and 2018 is at least 10 percentage points higher than the change in the average EBITDA[1] to sales ratio of the Panel of Comparable Companies over the same period.
- 35% if the change in the EBITDA[1] to sales ratio between 2016 and 2018 is equal to the change in the average EBITDA[1] to sales ratio of the Panel of Comparable Companies over the same period.
- Between these two limits, the allotment percentage will be calculated on a straight-line basis.
- 0% if the change in the EBITDA[1] to sales ratio between 2016 and 2018 is less than the change in the average EBITDA[1] to sales ratio of the Panel of Comparable Companies over the same period.

### Criteria calculation method

The calculations will be based on Mersen's published financial statements. However, in the event of abnormal variations during the period or of significant exceptional transactions (specifically, change of scope by acquisitions or disposals) occurring after May 18, 2017, the Board of Directors may, after obtaining the opinion of the Governance and Remuneration Committee (GRC), adjust the financial statements for changes in the scope of consolidation when calculating the allotment percentages.

The Panel of Comparable Companies used to calculate criterion 2 was approved by the Board of Directors on May 18, 2017, on the recommendation of the Governance and Remuneration Committee.

The Panel of Comparable Companies comprises the following companies: Arkema, SA des ciments Vicat, STMicroelectronics NV, SEB SA, Manitou BF, Nexans SA, Rexel SA, Ingenico, Essilor International, Air Liquide SA, Imerys SA, Schneider Electric SA, ArcelorMittal, Saint-Gobain, Tarkett, Lisi, Somfy and Legrand.

For the purpose of calculating the allotment percentage, the Governance and Remuneration Committee may withdraw from the sample companies that have recorded manifestly wild or abnormal fluctuations in their EBITDA margin over the period.

*(1) EBITDA = Operating income before non-recurring items + depreciation and amortization.*

# 12. Bonus preference shares

Preference shares are shares of a specific category, allotted freely subject to performance conditions. They can be converted into a number of ordinary shares, said number depending on the increase in the share price (on average, over a predetermined period) in relation to the share price expected at the outset. Preference shares thereby incentivize certain managers by giving them a long-term stake in the growth of the share price and through their achievement of certain financial criteria.

## 12.1. Bonus preference shares: previous grants

| | 2015 plan | | | |
|---|---|---|---|---|
| | Preference shares | Minimum equivalent ordinary shares(1) | Maximum additional equivalent ordinary shares | Maximum total equivalent ordinary shares |
| Date of allotment decision | July 9, 2015 | | | |
| Total number of shares available for subscription | 902 | 9,020 | 90,200 | 99,220 |
| *- o/w corporate officer: Luc Themelin* | *183* | *1,830* | *18,300* | *20,130* |
| *- o/w top 10 allottees* | *902* | *9,020* | *90,200* | *99,220* |
| Initial share price *(in euros)* | 22.09 | | | |
| Value of preference shares(1) on the allotment date *(in euros)* | | 17.73 (French tax residents)(2) | 4.92 (French tax residents)(3) | |
| Definitive allotment date (end of the vesting period) | July 9, 2017 (French tax residents)(4) | | | |
| Date of transferability (automatic conversion of preference shares into ordinary shares) | July 9, 2019 | | | |
| Allotments canceled at Dec. 31, 2017 | 585 | 5,850 | 58,500 | 64,350 |
| *- o/w canceled in 2017* | *506* | 5,060 | 50,600 | 55,660 |
| Number of shares vested definitively, non-transferable | 0 | | | |
| **BALANCE AT DECEMBER 31, 2017** | **317** | **3,170** | **31,700** | **34,870** |

*(1) 10% of preference shares are not linked to share price trends and are thus automatically convertible into ordinary shares, subject to the achievement of performance criteria regarding change in earnings per share.*
*(2) For beneficiaries who are non-French tax residents, the value is €18.53.*
*(3) For beneficiaries who are non-French tax residents, the value is €5.14.*
*(4) Non-French tax residents are subject to an additional period of two years.*

| | 2016 plan | | | |
|---|---|---|---|---|
| | **Preference shares** | **Minimum equivalent ordinary shares[1]** | **Maximum additional equivalent ordinary shares** | **Maximum total equivalent ordinary shares** |
| Date of allotment decision | May 11, 2016 | | | |
| Total number of shares available for subscription | 1,172 | 11,720 | 117,200 | 128,920 |
| *- o/w corporate officers:* | | | | |
| *Luc Themelin* | *188* | *1,880* | *18,800* | *20,680* |
| *- o/w top 10 allottees* | *936* | *9,360* | *93,600* | *102,960* |
| Initial share price *(in euros)* | 17.00 | | | |
| Value of preference shares[1] on the allotment date *(in euros)* | | 10.92 (French tax residents)[2] | 1.52 (French tax residents)[3] | |
| Definitive allotment date (end of the vesting period) | May 11, 2018 (French tax residents)[4] | | | |
| Date of transferability (automatic conversion of preference shares into ordinary shares) | May 11, 2020 | | | |
| *Allotments canceled at Dec. 31, 2017* | *0* | | | |
| Number of shares vested definitively, non-transferable | 0 | | | |
| **BALANCE AT DECEMBER 31, 2017** | **1,172** | **11,720** | **117,200** | **128,920** |

*(1) 10% of preference shares are not linked to share price trends and are thus automatically convertible into ordinary shares, subject to the achievement of performance criteria regarding change in earnings per share.*
*(2) For beneficiaries who are non-French tax residents, the value is €11.41.*
*(3) For beneficiaries who are non-French tax residents, the value is €1.59.*
*(4) Non-French tax residents are subject to an additional period of two years.*

| | 2017 plan | | | |
|---|---|---|---|---|
| | **Preference shares** | **Minimum equivalent ordinary shares[1]** | **Maximum additional equivalent ordinary shares** | **Maximum total equivalent ordinary shares** |
| Date of allotment decision | May 18, 2017 | | | |
| Total number of shares available for subscription | 1,172 | 11,720 | 117,200 | 128,920 |
| *- o/w corporate officers:* | | | | |
| *Luc Themelin* | *189* | *1,890* | *18,900* | *20,790* |
| *- o/w top 10 allottees* | *936* | *9,360* | *93,600* | *102,960* |
| Initial share price *(in euros)* | 26.06 | | | |
| Value of preference shares[1] on the allotment date *(in euros)* | | 21.35 (French tax residents)[2] | 6.44 (French tax residents)[3] | |
| Definitive allotment date (end of the vesting period) | May 18, 2019 (French tax residents)[4] | | | |
| Date of transferability (automatic conversion of preference shares into ordinary shares) | May 19, 2021 | | | |
| *Allotments canceled at Dec. 31, 2017* | *0* | | | |
| Number of shares vested definitively, non-transferable | 0 | | | |
| **BALANCE AT DECEMBER 31, 2017** | **1,172** | **11,720** | **117,200** | **128,920** |

*(1) 10% of preference shares are not linked to share price trends and are thus automatically convertible into ordinary shares, subject to the achievement of performance criteria regarding change in earnings per share.*
*(2) For beneficiaries who are non-French tax residents, the value is €22.31.*
*(3) For beneficiaries who are non-French tax residents, the value is € 6.73.*
*(4) Non-French tax residents are subject to an additional period of two years.*

## 12.2. 2015 plan

### 12.2.1. Description

At the General Meeting of May 19, 2015, the shareholders authorized the Management Board, subject to the prior approval of the Supervisory Board, to allot, on one or more occasions, except during a public offer for the shares of the Company, Company bonus preference shares conferring the right to convert them into new or existing ordinary Company shares to certain categories of employees and corporate officers, it being specified that the rights attached to the preference shares were established by the Company's Articles of Association. The maximum number of ordinary shares that may result from the conversion of the preference shares may not exceed 129,872 shares, or 0.63% of the Company's share capital. This authorization provides that the Management Board will determine the criteria and conditions for allotting these preference shares, the identity of the beneficiaries, the number of preference shares allotted, and the performance conditions and criteria. This authorization is valid for 38 months.

At its meeting of July 9, 2015, the Management Board decided, after obtaining the approval of the Supervisory Board, to make use of this authorization to allot, at no cost, 902 preference shares to Group corporate officers and senior managers, according to the performance criteria linked to change in earnings per share between 2014 and 2016. This number corresponds to a maximum total of 99,220 ordinary shares after conversion, or 0.5% of the Company's share capital.

The General Meeting of May 19, 2015 approved the creation of two categories of shares and amended the Articles of Association accordingly. Thus, the amended Article 6 of the Articles of Association provides for two categories of shares: the A shares are ordinary shares, and the B shares are preference shares issued pursuant to Article L. 228-11 *et seq.* of the French Commercial Code.

A shares are freely negotiable; B shares are transferable under the terms and conditions set forth in Article 15 of the Articles of Association.

At the end of the vesting period, each B share shall confer the right, in the ownership of the Company's assets and the sharing of the profits and the liquidation surplus, to a dividend, per B share, equal to 10% of the dividend per share allotted to A shares. All B shares shall confer the right, during the Company's lifetime and in the event of liquidation, with an equal par value and, taking into account, where necessary, the date of entitlement, to payment of the same net amount, equal to 10% of any amount paid to each A share, for any allocation or redemption, pursuant to Section I (Rights attached to shares) of Article 15 of the Articles of Association.

B shares may be converted into ordinary shares at the end of the period established in the category B bonus share allotment plan, according to a conversion parity based on share price trends. Preference shares confer the same rights as ordinary shares, except when it comes to dividends.

At the end of the Holding Period for B shares (the "Holding Period" – the "Holding Period Expiration Date"), as set forth in the category B bonus share allotment plan determining their allotment, each B shareholder may convert some or all of the B shares held into A shares, under the terms and conditions set forth in Section II, paragraphs 4 to 5 of Article 15 of the Articles of Association.

At the end of the Holding Period, B shares are fully transferable by B shareholders. B shares may be converted into A shares during a 30-day period, according to the terms and conditions in the plan and to a parity defined by the percentage difference between the Initial Share Price and the Final Share Price. A specific rule shall be defined if the end of the conversion period falls during a period restricting the sale or purchase of Company shares. The "Initial Share Price" is equal to the volume-weighted average of the opening prices of the A shares for the last 20 trading days prior to the Allotment Date. The "Final Share Price" is equal to the average opening prices of the A shares between the second anniversary of the Allotment Date (included) and the beginning of the Conversion Period during which the B shareholders requested the conversion to A shares (excluded). The Conversion Parity will be equal to:

- If the Final Share Price is less than 150% of the Initial Share Price (the "Maximum Final Share Price"): N= 10 + 300 (CF-CI)/CF

Where:

"N" is the number of A shares to which each B share is entitled, it being specified that in the case of a fraction (or decimal quotient), the number of A shares allotted to a B shareholder will be rounded down to the lower unit; "CF" is the Final Share Price; "CI" is the Initial Share Price; and, "CFMax" is the Maximum Final Share Price.

- If the Final Share Price is greater than the Maximum Final Share Price: N= 10 + (CFMax x 100)/CF
- If the Final Share Price is less than the Initial Share Price: N= 10

In addition, if conversion takes place at the end of the periods set forth in Sections II, paragraphs 4 to 5 of Article 15 of the Articles of Association, the B shares will be converted automatically into A shares.

### 12.2.2. Performance conditions and holding requirements

Apart from the condition that the member must be present in the Group at the end of the vesting period, performance conditions are attached for the calculation of the percentage of category B bonus shares allotted based on the two criteria defined below, whichever is more favorable. The calculations will be based on the Group's financial statements. However, in the event of abnormal variations during the period or of significant exceptional transactions (specifically, change of scope by acquisitions or disposals) occurring after the meeting of the Management Board at which these bonus shares are allotted, the Chief Executive Officer may, after obtaining the opinion of the Governance and Remuneration Committee (GRC) and the approval of the Board of Directors, adjust the financial statements for the calculation of the allotment percentages. The panel of comparable companies used to calculate criterion 2 had been approved by the Supervisory Board on May 19, 2015, based on the recommendation of the Appointments and Remuneration Committee. The GRC modified the panel. It is made up of the following companies listed on Euronext Paris: Air Liquide, ArcelorMittal, Arkema, Essilor, Imerys, Ingenico, Legrand, LISI, Manitou, Nexans, Rexel, Saint-Gobain, SEB, Schneider, Somfy, ST Micro, Tarkett, Vicat and Zodiac.

#### Criterion 1

- 0% if the average of the 2015 and 2016 earnings per share (EPS) is less than 1.30.
- 30% if the average of the 2015 and 2016 EPS is equal to 1.30.
- 100% if the average of the 2015 and 2016 EPS is equal to or greater than 1.80.

#### Criterion 2

- 0% if the growth of EPS (between the 2014 EPS and the average of the 2015 and 2016 EPS) is less than the average growth of the Panel of Companies' EPS.
- 50% if the growth of EPS (between the 2014 EPS and the average of the 2015 and 2016 EPS) is equal to the average growth of the Panel of Companies' EPS.
- 100% if the growth of EPS (between the 2014 EPS and the average of the 2015 and 2016 EPS) is 15% greater than the average growth of the Panel of Companies' EPS.

The achievement percentage is calculated between 50% and 100% by linear interpolation if the growth of EPS (between the 2014 EPS and the average of the 2015 and 2016 EPSs) is less than 15% greater than the average growth of the Panel of Companies' EPS.

The reference 2013 EPS is the EPS published by the Group, adjusted for exceptional charges of €55 million, including impairment of deferred tax assets, recognized in the second half of 2013, i.e., an "adjusted 2013 EPS" of 1.27 rounded to 1.30.

The reference 2014 EPS is the EPS published by the Group, adjusted for exceptional charges related to the Transform Plan and the costs of settling civil proceedings in Great Britain, or an adjusted 2014 EPS of 1.44.

The reference 2015 EPS is the EPS published by the Group, adjusted for non-recurring expenses related to the impairment of goodwill and assets, and deferred tax assets from operations held for sale, and expenses related to the Transform 2015 plan, or an adjusted 2015 EPS of 1.32.

The reference 2016 EPS is the EPS published by the Group, adjusted for non-recurring expenses related to the operational excellence plan, net of tax, and for non-recurring expenses related to discontinued operations, or an adjusted 2016 EPS of 1.41.

Based on the performance recorded, 39% of the shares were granted.

Holding requirements:

Pursuant to the provisions of sub-paragraph 7 of Article L. 225-197-1 of the French Commercial Code, the holding period is set at two years for beneficiaries who are French tax residents. No holding obligations and holding periods will be imposed at the end of the vesting period for beneficiaries who are not French tax residents.

The Board of Directors has decided that the Chief Executive Officer must retain 30% of shares arising from the conversion into ordinary shares.

## 12.3. 2016 plan

### 12.3.1. Description

At the General Meeting of May 11, 2016, the shareholders authorized the Board of Directors to allot, on one or more occasions, except during a public offer for the shares of the Company, Company bonus preference shares conferring the right to convert them into new or existing ordinary Company shares to certain categories of employees and corporate officers, it being specified that the rights attached to the preference shares were established by the Company's Articles of Association. The maximum number of ordinary shares that may result from the conversion of the preference shares may not exceed 129,000 shares, or 0.63% of the Company's share capital. This authorization provides that the Board of Directors will determine the criteria and conditions for allotting these preference shares, the identity of the beneficiaries, the number of preference shares allotted, and the performance conditions and criteria. This authorization invalidates the previous authorization granted by the General Meeting of May 19, 2015 and any similar delegation. This authorization is valid for 38 months.

At its meeting of May 11, 2016, the Board of Directors made use of this authorization and empowered the Chief Executive Officer to implement the bonus preference share plan and the allotment of said shares. The Chief Executive Officer implemented this delegation by allotting 1,172 bonus preference shares to the members of the Executive Committee (including the Chief Executive Officer) and to the Group's managerial staff. This number corresponds to a maximum total of 128,920 ordinary shares after conversion.

The definitive allotment of preference shares is subject to performance conditions associated with the achievement of earnings per share (EPS) criteria or change in the EPS compared to that of comparable companies.

The General Meeting also amended Article 6 of the Articles of Association to create three categories of shares: A shares, which are ordinary shares, and B and C shares, which are preference shares issued pursuant to Article L. 228-11 *et seq.* of the French Commercial Code.

The General Meeting amended Article 11 of the Articles of Association, specifying that fully-paid A shares may be held in registered or bearer form, at the shareholder's discretion. Fully-paid B and C shares are registered.

The General Meeting amended Article 13 of the Articles of Association, specifying that A shares are freely negotiable. B and C shares are transferable under the terms and conditions set forth in Article 15.

The General Meeting amended Article 15 of the Articles of Association to define:

I) the rights attached to A, B and C shares (participation in meetings, voting on resolutions, right to communication, subscription and allotment rights in the event of a rights issue); and

II) the specific rights and restrictions attached to B and C shares and, specifically, the rules for participating in the sharing of profits, liquidation bonus, etc., the holding period, and the rules for converting B and C shares into A shares based on share price movements.

The total maximum number of A shares that may result from the conversion of C shares may not exceed 128,920; this number does not take into account any adjustments made to protect, in accordance with legal and regulatory provisions and, where necessary, contractual stipulations, the rights of C share beneficiaries.

The C shares shall have the same rights and obligations as those set forth in Section II of Article 15 of the Articles of Association relating to B shares, which shall apply *mutatis mutandis*, subject to the following changes:

- The **"Allotment Date"** is defined as the date on which a bonus share allotment plan is adopted by the Board of Directors.
- The **"Initial Share Price"** is 17 euros: it corresponds to the higher amount of either (i) 17 (seventeen) euros or (ii) the volumeweighted average of the opening prices of A shares over a period preceding the Allotment Date by twenty (20) trading days.
- The total maximum number of A shares that may result from the conversion of C shares may not exceed 128,920; this number does not take into account any adjustments made to protect, in accordance with legal and regulatory provisions and, where necessary, contractual stipulations, the rights of C share beneficiaries.
- The conversion rate between C shares and A shares is determined on the basis of share price movements according to the same terms and conditions as those described for the conversion of B shares into A shares.

### 12.3.2. Performance conditions and holding requirements

Apart from the condition that the member must be present in the Group at the end of the vesting period, performance conditions are attached for the calculation of the percentage of category C bonus shares allotted based on the two criteria defined below, whichever is more favorable.

#### Criterion 1:

- 0% if the average of the 2016 and 2017 earnings per share (EPS) is less than 1.32.
- 30% if the average of the 2016 and 2017 EPS is equal to 1.32.
- 100% if the average of the 2016 and 2017 EPS is equal to or greater than 1.50.

The achievement objective is calculated at between 30% and 100% by linear interpolation if the average of the 2016 and 2017 EPS (adjusted if necessary) is between 1.32 and 1.50.

#### Criterion 2:

- 0% if the growth of EPS (between the 2015 EPS and the average of the 2016 and 2017 EPS) is less than the average growth of the Panel of Companies' EPS.
- 50% if the growth of EPS (between the 2015 EPS and the average of the 2016 and 2017 EPS) is equal to the average growth of the Panel of Companies' EPS.
- 100% if the growth of EPS (between the 2015 EPS and the average of the 2016 and 2017 EPS) is 15% greater than the average growth of the Panel of Companies' EPS.

The achievement percentage is calculated between 50% and 100% by linear interpolation if the growth of EPS (between the 2015 EPS and the average of the 2016 and 2017 EPSs) is less than 15% greater than the average growth of the Panel of Companies' EPS.

The reference 2015 EPS is the EPS published by the Group adjusted for exceptional charges, i.e., an adjusted 2015 EPS of 1.32.

The 2016 and 2017 EPS may be adjusted for exceptional items (see criteria calculation methods).

#### Criteria calculation method

The calculations will be based on Mersen's published consolidated financial statements. However, in the event of abnormal variations during the period or of significant exceptional transactions (specifically, change of scope by acquisitions or disposals) occurring after the meeting of the Board of Directors on May 11, 2016, the Board of Directors may, after obtaining the opinion of the Governance and Remuneration Committee (GRC), adjust the financial statements for these exceptional items when calculating the allotment percentages.

The Panel of Comparable Companies used to calculate criterion 2 was approved by the Board of Directors on May 11, 2016, on the recommendation of the Governance and Remuneration Committee.

Panel of Comparable Companies: Arkema, SA VICAT, STMicroelectronics NV, SEB SA, Manitou BF, Zodiac Aerospace, Nexans SA, Rexel SA, Saft Groupe SA, Ingenico, Essilor International, Air Liquide SA, Imerys SA, Schneider Electric SA, Arcelor Mittal, St Gobain, Tarkett, Lisi, Somfy and Legrand.

For the purpose of calculating the allotment percentage, the Governance and Remuneration Committee may withdraw from the sample companies that have recorded manifestly wild or abnormal fluctuations in EPS over the period.

The companies withdrawn from the panel above may be replaced, where necessary, by other companies chosen by the Governance and Remuneration Committee.

In the event of a change of control occurring before the performance condition can be observed, the performance condition shall be deemed to have been fully satisfied, thus entitling the holder to delivery of all C shares at the end of the Vesting Period.

The definitive percentage achieved may not be known at present, as some groups in the panel are awaiting the publication of their financial results.

Holding requirements:

The Board of Directors has decided that the Chief Executive Officer must retain 30% of shares arising from the conversion into ordinary shares.

## 12.4. 2017 plan

### 12.4.1. Description

At the General Meeting of May 18, 2017, the shareholders authorized the Board of Directors to allot, on one or more occasions, except during a public offer for the shares of the Company, Company bonus preference shares conferring the right to convert them into new or existing ordinary Company shares to certain categories of employees and corporate officers, it being specified that the rights attached to the preference shares were established by the Company's Articles of Association. The maximum number of ordinary shares that may result from the conversion of the preference shares may not exceed 129,000 shares, or 0.6% of the Company's share capital. This authorization provides that the Board of Directors will determine the criteria and conditions for allotting these preference shares, the identity of the beneficiaries, the number of preference shares allotted, and the performance conditions and criteria.

At its meeting of May 18, 2017, the Board of Directors made use of this authorization and empowered the Chief Executive Officer to implement the bonus preference share plan and the allotment of said shares. The Chief Executive Officer implemented this delegation by allotting 1,172 bonus preference shares to the members of the Executive Committee (including the Chief Executive Officer) and to the Group's managerial staff. This number corresponds to a maximum total of 128,920 ordinary shares after conversion.

The definitive allotment of preference shares is subject to performance conditions associated with the achievement of earnings per share (EPS) criteria or change in the EPS compared to that of comparable companies.

The General Meeting also amended Article 6 of the Articles of Association to create four categories of shares: A shares are ordinary shares and B, C and D shares are preference shares issued pursuant to Article L. 228-11 *et seq.* of the French Commercial Code.

The General Meeting amended Article 11 of the Articles of Association, specifying that fully-paid A shares may be held in registered or bearer form, at the shareholder's discretion. Fully-paid B, C and D shares are registered.

The General Meeting amended Article 13 of the Articles of Association, specifying that A shares are freely negotiable. B, C and D shares are transferable under the terms and conditions set forth in Article 15.

The General Meeting amended Article 15 of the Articles of Association to define:

I) the rights attached to A, B, C and D shares (participation in meetings, voting on resolutions, right to communication, subscription and allotment rights in the event of a rights issue); and

II) the specific rights and restrictions attached to B, C and D shares and, specifically, the rules for participating in the sharing of profits, liquidation bonus, etc., the holding period, and the rules for converting B, C and D shares into A shares based on share price movements.

The total maximum number of A shares that may result from the conversion of D shares may not exceed 128,920; this number does not take into account any adjustments made to protect, in accordance with legal and regulatory provisions and, where necessary, contractual stipulations, the rights of D share beneficiaries.

The D shares shall have the same rights and obligations as those set forth in Section II of Article 15 of the Articles of Association relating to B shares, which shall apply *mutatis mutandis*, subject to the following changes:

- The **"Allotment Date"** is defined as the date on which a bonus share allotment plan is adopted by the Board of Directors.
- The **"Initial Share Price"** refers to the volume-weighted average of the opening prices of A shares over a period preceding the Allotment Date by twenty (20) trading days.
- The total maximum number of A shares that may result from the conversion of D shares may not exceed 128,920; this number does not take into account any adjustments made to protect, in accordance with legal and regulatory provisions and, where necessary, contractual stipulations, the rights of D share beneficiaries.
- The conversion rate between D shares and A shares is determined on the basis of share price movements according to the same terms and conditions as those described for the conversion of B shares into A shares.

### 12.4.2. Performance conditions and holding requirements

Bonus share allotment is subject to the beneficiary maintaining his or her status as a Company employee or corporate officer until the end of the vesting period. Performance conditions are attached for the calculation of the percentage of category D bonus shares allotted based on the two criteria defined below, whichever is more favorable.

#### Criterion 1:

- 0% if the average of the 2017 and 2018 earnings per share (EPS) is less than 1.40.
- 30% if the average of the 2017 and 2018 EPS is equal to 1.40.
- 100% if the average of the 2017 and 2018 EPS is equal to or greater than 1.80.

The achievement objective is calculated at between 30% and 100% by linear interpolation if the average of the 2017 and 2018 EPS (adjusted if necessary) is between 1.40 and 1.80.

#### Criterion 2:

- 0% if the growth of the Company's EPS (between the adjusted 2016 EPS and the average of the 2017 and 2018 EPS, adjusted if necessary) is less than the average growth of the Panel of Companies' EPS (see below for the list of companies on the panel).
- 50% if the growth of the Company's EPS (between the adjusted 2016 EPS and the average of the 2017 and 2018 EPS, adjusted if necessary) is equal to the average growth of the Panel of Companies' EPS.
- 100% if the growth of the Company's EPS (between the adjusted 2016 EPS and the average of the 2017 and 2018 EPS, adjusted if necessary) is 15 percentage points greater than the average growth of the Panel of Companies' EPS.

The achievement percentage is calculated between 50% and 100% by linear interpolation if the growth of the Company's EPS (between the adjusted 2016 EPS and the average of the 2017 and 2018 EPS, adjusted if necessary) exceeds the average growth of the Panel of Companies' EPS by less than 15 percentage points.

The adjusted 2016 EPS is the EPS published by the Group, adjusted for exceptional charges, or 1.41.

#### Criteria calculation method

The calculation of the percentages will be based on Mersen's published consolidated financial statements. However, in the event of abnormal variations during the period or of significant exceptional transactions occurring after allotment, the Board of Directors may, after obtaining the opinion of the Governance and Remuneration Committee (GRC), adjust the financial statements for these exceptional items when calculating the allotment percentages.

The Panel of Comparable Companies used to calculate criterion 2 was approved by the Board of Directors on May 18, 2017, on the recommendation of the Governance and Remuneration Committee.

Panel of Comparable Companies:

Arkema, SA des Ciments Vicat, STMicroelectronics NV, SEB SA, Manitou BF, Nexans SA, Rexel SA, Ingenico, Essilor International, Air Liquide SA, Imerys SA, Schneider Electric SA, ArcelorMittal, Saint-Gobain, Tarkett, Lisi, Somfy and Legrand.

For the purpose of calculating the allotment percentage, the Governance and Remuneration Committee may withdraw from the sample companies that have recorded manifestly wild or abnormal fluctuations in EPS over the period.

In the event of a change of control occurring before the performance condition can be observed, the performance condition shall be deemed to have been fully satisfied, thus entitling the holder to delivery of all D shares at the end of the vesting period.

Holding requirements:

The Board of Directors has decided that the Chief Executive Officer must retain 30% of shares arising from the conversion into ordinary shares.

## 12.5. Bonus preference shares granted to Management Board members

| Beneficiary | Bonus preference shares granted in 2017 to each Management Board member | | | | | |
|---|---|---|---|---|---|---|
| | No. and date of plan | Number of shares granted during the fiscal year | Value of shares according to the method used in the consolidated financial statements | Definitive vesting date | Availability date | Performance conditions |
| Luc Themelin Chief Executive Officer | 2017 plan 05/18/2017 | 189 (bonus preference shares) equivalent to at least 1,890 ordinary shares and at most 20,790 ordinary shares See section 12.1 | €161,954 | 05/18/2019 | 05/19/2021 | See section 12.4.2 |

| Beneficiary | Bonus preference shares granted that vested in 2017 for each Management Board member* | | |
|---|---|---|---|
| | No. and date of plan [(1)] | Number of shares that vested during the fiscal year | Vesting conditions [(2)] |
| None | | | |

* *On July 9, 2017, Luc Themelin was granted 71 preference shares resulting from the plan. These shares will be converted into ordinary shares on July 9, 2019 based on a rule relating to the share price (see section 12.2.1.). They will not exceed 7,810.*

# 13. Components of compensation paid or granted to Luc Themelin (Chief Executive Officer) in respect of the fiscal year ended December 31, 2017 submitted to vote by the General Meeting of May 17, 2018

With regards to the eighth resolution submitted to the General Meeting of May 17, 2018, we invite you to vote on the following fixed, variable and exceptional components making up the total compensation and benefits of any kind paid or granted to Luc Themelin, Chief Executive Officer, in respect of the past fiscal year:

| | Amounts or accounting valuation | Observations |
|---|---|---|
| Fixed compensation | €440,000 (amount paid) | Luc Themelin's 2017 fixed compensation is the same as in 2016. |
| Annual variable compensation (*amount payable in respect of 2017, to be paid in 2018 after the approval of the General Meeting of May 17, 2018*) | €466,400 | The variable portion is between 0% and 100% of the fixed compensation. The maximum threshold of 100% may be increased to 112% in the event that the Group's operating margin outperforms the maximum target approved by the Board.<br>The variable portion is composed of financial objectives for 70% (35% based on the Group's ROCE, calculated on the basis of current operating income after taxes, and 35% on operational cash flow) and personal objectives for 30%.<br>The 2017 financial objectives were based on the Group's annual budget.<br>The personal and financial objectives evaluated are reviewed every year by the Governance and Remuneration Committee, based on the Group's strategic priorities.<br>Details of certain personal objectives are not made public for reasons of confidentiality.<br>The variable compensation for 2017 represents 106% of the fixed compensation and is broken down as follows: the portion linked to the financial objectives was 100% based on the Group's operational cash flow and 100% based on the Group's ROCE. The portion linked to the personal objectives was 80%.<br>The outperformance clause relating to the Group's operating margin before non-recurring items reached its maximum limit corresponding to a 12% increase in variable compensation (see below). |
| Deferred variable compensation | N/A | There is no deferred variable compensation mechanism. |
| Multi-annual variable compensation | N/A | There is no multi-annual variable compensation mechanism. |
| Exceptional compensation | N/A | No exceptional compensation was granted in respect of 2017. |
| Incentives | €19,866 | |
| Share options, performance shares or any other long-term element of compensation | Allotments (2017 Plan): 189 preference shares, which may correspond to a maximum of 20,790 ordinary shares<br>Accounting valuation: €161,954 | On May 18, 2017, the Combined General Meeting of Mersen shareholders authorized the Board of Directors to set up bonus preference share allotment plans for certain employees and corporate officers of the Company and of affiliated companies.<br>Pursuant to this resolution, at its meeting on May 18, 2017, the Board of Directors set the conditions for the bonus share allotment and designated the beneficiaries. Luc Themelin received 189 preference shares subject to performance conditions. These preference shares may be converted into ordinary shares after a period of four years, according notably to a conversion ratio based on share price trends. The terms and performance criteria required are described in detail on pages 44 to 57 of the reference document. |
| Attendance fees | N/A | Luc Themelin does not receive attendance fees. |

| | Amounts or accounting valuation | Observations |
|---|---|---|
| Benefits of any kind | €23,008 (accounting valuation) | Benefits in kind include the use of a company car, an annual medical examination and contributions paid to an external organization in respect of company executives' social guarantee. |
| Severance payment | €0 received | No amount is payable in respect of 2017. By a decision dated March 7, 2017, the Board of Directors decided to maintain the benefits that would be granted to Luc Themelin should his term as Chief Executive Officer end. |
| Non-compete payment | €0 received | No amount is payable in respect of 2017. At its May 11, 2016 meeting, the Board of Directors decided to maintain the same non-compete payment as that which was granted to him during his prior term of office. |
| Supplementary pension scheme | €0 received | No amount is payable in respect of 2017. Luc Themelin is eligible for a defined benefit supplementary pension scheme if he is present and ends his career in the Mersen Group on the date on which he may claim his base social security pension. Under this scheme, Luc Themelin will receive a supplementary pension. Based on length of service and calculated using the average of all basic salaries over the past three years of employment leading up to retirement, plus 50% of the maximum bonus amount, the pension thus granted would not exceed 20% of the sum of these two items. This percentage is capped, given Luc Themelin's length of service (29 years).<br>The theoretical calculation of the annuity paid to Luc Themelin would amount to €132,000, before tax and social security contributions. |
| Compensation, indemnities or benefits for taking up office | N/A | |
| Components of compensation and benefits of any kind in respect of the term as Chief Executive Officer pursuant to agreements entered into with the Company, any company controlled by the Company, any company that controls the Company or any other company under the same control as the Company | N/A | |
| Other components of compensation granted in respect of the term as Chief Executive Officer | N/A | |

# 14. Components of compensation paid or granted to Olivier Legrain (Chairman of the Board) in respect of the fiscal year ended December 31, 2017 submitted to vote by the General Meeting of May 17, 2018

With regards to the seventh resolution submitted to the General Meeting of May 17, 2018, we invite you to vote on the following fixed, variable and exceptional components making up the total compensation and benefits of any kind paid or granted to Olivier Legrain, Chairman of the Board since May 18, 2017, in respect of the past fiscal year:

| | Amounts or accounting valuation | Observations |
|---|---|---|
| Fixed compensation | €49,676 | Amount calculated pro rata temporis. Olivier Legrain's fixed compensation for 2017 is based on annual compensation of €80,000. |
| Annual variable compensation | N/A | |
| Deferred variable compensation | N/A | |
| Multi-annual variable compensation | N/A | |
| Exceptional compensation | N/A | |
| Incentives | N/A | |
| Share options, performance shares or any other long-term element of compensation | N/A | |
| Attendance fees | €15,222 | Amount to be paid in 2018 in respect of 2017 |
| Benefits of any kind | 0 | |
| Severance payment | N/A | |
| Non-compete payment | N/A | |
| Supplementary pension scheme | N/A | |
| Compensation, indemnities or benefits for taking up office | N/A | |
| Components of compensation and benefits of any kind in respect of the term as Chairman of the Board pursuant to agreements entered into with the Company, any company controlled by the Company, any company that controls the Company or any other company under the same control as the Company | N/A | |
| Other components of compensation granted in respect of the term as Chairman of the Board | N/A | |

# 15. Components of compensation paid or granted to Hervé Couffin (former Chairman of the Board) in respect of the fiscal year ended December 31, 2017 submitted to vote by the General Meeting of May 17, 2018

With regards to the sixth resolution submitted to the General Meeting of May 17, 2018, we invite you to vote on the following fixed, variable and exceptional components making up the total compensation and benefits of any kind paid or granted to Hervé Couffin, Chairman of the Board until May 18, 2017, in respect of the past fiscal year:

| | Amounts or accounting valuation | Observations |
|---|---|---|
| Fixed compensation | €30,324 | Amount calculated pro rata temporis, based on annual compensation of €80,000. |
| Annual variable compensation | N/A | |
| Deferred variable compensation | N/A | |
| Multi-annual variable compensation | N/A | |
| Exceptional compensation | N/A | |
| Incentives | N/A | |
| Share options, performance shares or any other long-term element of compensation | N/A | |
| Attendance fees | €6,902 | Amount to be paid in 2018 in respect of 2017 |
| Benefits of any kind | 0 | |
| Severance payment | N/A | |
| Non-compete payment | N/A | |
| Supplementary pension scheme | N/A | |
| Compensation, indemnities or benefits for taking up office | N/A | |
| Components of compensation and benefits of any kind in respect of the term as Chairman of the Board pursuant to agreements entered into with the Company, any company controlled by the Company, any company that controls the Company or any other company under the same control as the Company | N/A | |
| Other components of compensation granted in respect of the term as Chairman of the Board | N/A | |

# OTHER DISCLOSURES REQUIRED FOR THE CORPORATE GOVERNANCE REPORT

## 1. Summary of delegations regarding share capital increases at December 31, 2017

| Type of delegation/authorization | Date of the General Meeting | Duration | Initial limit | Use in FY 2016 | Use in FY 2017 |
|---|---|---|---|---|---|
| Delegation to increase share capital through the capitalization of reserves, profits and/or premiums with preferential subscription rights for shareholders | 05/11/2016 *(Fourteenth resolution)* | 26 months | Maximum nominal amount of capital increases: €15m Maximum nominal amount of debt securities: €200m | None | None |
| Delegation to increase share capital to pay contributions in kind | 05/11/2016 *(Sixteenth resolution)* | 26 months | Limited to 10% of the share capital applied to the abovementioned ceilings for the delegation with preferential subscription rights | None | None |
| Delegation to increase share capital for the benefit of employees participating in the Company Savings Plan | 05/11/2016 *(Twentieth resolution)* | 26 months | €300,000 | None | None |
| Delegation to increase share capital for the benefit of Group employees outside of France who are not members of a Company Savings Plan | 05/18/2017 *(Twenty-second resolution)* | 26 months | €300,000 Applied to the Company Savings Plan, 2016 GM | N/A | None |
| Authorization to allot bonus shares to employees | 05/18/2017 *(Eighteenth resolution)* | 38 months | 84,000 shares | N/A | Allocation of 84,000 shares |
| Authorization to allot bonus preference shares to employees and corporate officers | 05/18/2017 *(Nineteenth and twentieth resolutions)* | 38 months | 129,000 ordinary shares | N/A | 1,172 bonus preference shares that may confer the right to a maximum of 128,920 ordinary shares |
| Delegation to grant stock subscription warrants to shareholders at no cost in the event of a public offer | 05/18/2017 *(Twenty-third resolution)* | 18 months | 25% of the share capital at date of issuance | N/A | None |

## 2. Items likely to have an impact in the event of a public offer

Pursuant to Article L. 225-37-5 of the French Commercial Code, we hereby inform you of the following points which are likely to have an impact in the event of a public offer:

- the capital structure as well as any direct or indirect shareholdings of which the Company is aware and all related information are described in chapter 5 of this document;
- the Articles of Association do not provide for any restrictions to the exercise of voting rights, except for the request to strip shares of voting rights that may be made by one or more shareholders holding at least 1% of the share capital or voting rights if a shareholder fails to declare having crossed the statutory threshold of 1% (Article 11ter of the Articles of Association) (see chapter 5, section 4.1);
- in regards to special control rights that may be attached to shares, it is specified that:
  - double voting rights are attached to fully paid-up shares that have been held in registered form for at least two years (see chapter 5, section 1.12),
  - specific rights are attached to preference shares, as described in particular in Article 15 of the Articles of Association and in the paragraph on compensation in section 2.12 of this corporate governance report.

    In particular, preference shares confer the right to a dividend equal to 10% of the dividend per share allotted to ordinary shares and, generally, to the payment of 10% of the amount paid in respect of each ordinary share during the Company's lifetime and in the event of liquidation.

    As of the end of their holding period, preference shares:

    - are fully transferable between shareholders with the same category of preference shares,
    - may be converted into ordinary shares during certain set conversion periods and according to a fixed conversion parity. If the shares are not converted during these periods, they will be converted automatically at the end of the second conversion period;
- the Articles of Association do not provide for any restrictions to the transfer of shares, except for the above-mentioned preference shares, which may only be transferred between shareholders with the same category of preference shares (Article 15 of the Articles of Association);
- as far as the Company is aware, no agreements or other commitments have been signed between shareholders;
- voting rights attached to Mersen shares held by employees via the Mersen FCPE (corporate mutual fund) shall be exercised by a representative appointed by the FCPE's supervisory board to represent the employees at the General Meeting;
- the rules for appointing and removing members of the Board of Directors shall be those provided for by law and the Articles of Association. The Director representing employees shall be appointed by the Group Committee;
- as regards the powers of the Board of Directors, current delegations are described in chapter 5 of this document relating to the share buyback program and in the table summarizing delegations regarding share capital increases in the section above, it being understood that authorization to buy back shares and the various financial authorizations and delegations are suspended during a public offer for the Company's shares. Powers are delegated to the Board to issue stock subscription warrants to shareholders at no cost in the event of a public offer, it being understood that the total nominal amount of the capital increase resulting from the exercise of these subscription warrants may not exceed 25% of the nominal amount of the share capital at the date of issuance;
- amendments to the Company's Articles of Association shall be made in accordance with legal and regulatory provisions, it being understood that any amendment relating to the rights attached to preference shares must also be submitted for approval by the Special Meeting of shareholders with the category or categories of preference shares affected by the amendment (Article L. 22599 of the French Commercial Code and Article 26 of the Articles of Association);
- financial contracts entered into by the Company may be amended or terminated in the event of a change of control of the Company. Certain business contracts may also be affected;
- certain Group businesses are subject to export controls governing dual-use items and technologies as well as to the US International Traffic in Arms Regulations (ITAR);
- certain Group businesses are subject to controls governing sensitive technologies in France (Security and Defense);
- agreements providing for compensation to be paid to members of the Board of Directors in the event of termination of their duties are described in paragraph 6 of the section relating to compensation above; there are no specific agreements providing for compensation for employees in the event of their resignation or dismissal without fair cause or if their term of employment is ended due to a public tender or exchange offer.

## 3. Terms of shareholder participation in General Meetings

The terms of shareholder participation in General Meetings are governed by the applicable regulations.

The right to participate in General Meetings is therefore subject to the shares having been registered by book entry in the shareholder's name or in the name of the intermediary appointed on his or her behalf no later than midnight, Paris time, two working days prior to the General Meeting. The entry must have been made either in the registered share accounts held by the Company or in the bearer share accounts held by the authorized intermediary.

Book entry in bearer share accounts must be justified by a shareholding certificate issued by the authorized intermediary.

If shareholders are unable to personally attend the meeting, they may choose an alternative from the following three options: (i) appoint a natural or legal person of their choice as a proxy under the conditions laid out in Article L. 225-106 of the French Commercial Code; (ii) send a proxy form to the Company without appointing a specific proxy representative; or (iii) vote by mail.

## 4. Agreements entered into between (i) a corporate officer or a shareholder with more than 10% of the voting rights and (ii) a subsidiary

N/A

# Statutory Auditors' special report on related-party agreements and commitments

## Annual General Meeting called to approve the financial statements for the year ended December 31, 2017

*This is a free translation into English of the Statutory Auditors' special report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Shareholders,

In our capacity as Statutory Auditors of your company, we hereby report to you on related-party agreements and commitments.

It is our responsibility to report to shareholders, based on the information provided to us, on the main terms and conditions of, and the reasons for, the agreements and commitments that have been disclosed to us or that we may have identified as part of our engagement, without commenting on their relevance or substance or identifying any undisclosed agreements or commitments. Pursuant to Article R.225-31 of the French Commercial Code, it is the responsibility of the shareholders to determine whether the agreements and commitments are appropriate and should be approved.

Where applicable, it is also our responsibility to provide shareholders with the information required by Article R.225-31 of the French Commercial Code (*Code de commerce*) in relation to the implementation during the year of agreements and commitments already approved by the General Meeting.

We performed the procedures that we deemed necessary in accordance with professional standards applicable in France to such engagements. These procedures consisted in verifying that the information given to us is consistent with the underlying documents.

## Agreements and commitments submitted for the approval of the General Meeting

### Agreements and commitments authorized during the year

We were not informed of any agreement or commitment authorized during the year to be submitted for approval at the General Meeting in accordance with article L.225-38 of the French Commercial Code.

## Agreements and commitments already approved by the General Meeting

### Agreements and commitments approved in previous years which remained in force during the year

In accordance with Article R.225-30 of the French Commercial Code, we were informed that the following agreements and commitments, approved by the General Meeting in previous years, remained in force during the year ended December 31, 2017.

**With Luc Themelin, Chief Executive Officer**

**A. No-compete and non-solicitation clause**

Type and motive:

In the event of the termination of his term in office as Chief Executive Officer and, in return for his no-compete and non-solicitation undertaking, Luc Themelin will receive monthly indemnity payment for a one-year period from the cessation date of his duties. The Company may decide to forgo this no-compete and non-solicitation clause and thus free itself from its obligation of making this monthly payment, by informing Luc Themelin of its decision within a notice period of two months with effect from termination of the term in office.

Specific arrangements:

The amount of the indemnity payment to be paid to Luc Themelin in return for the no-compete and non-solicitation undertaking will be equal to 50% of the final monthly gross fixed compensation and benefits that he received immediately prior to termination of his term in office.

### B. Termination of the corporate office

Type and motive:

- Should the Mersen Group terminate, in any way whatsoever and for any reason whatsoever (except for severe misconduct or gross negligence, retirement, early retirement or resignation) the term of office of Chief Executive Officer of Luc Themelin (in particular by removal, non-renewal of the term of office irrespective of the reason or elimination of duties following a transformation or a merger, except for a modification of the governance which would result in appointing the Chairman of the Management Board of a French limited liability company with a Supervisory Board and a Management Board (*société anonyme à conseil de surveillance et directoire*), a lump-sum payment will be paid to Luc Themelin (the "Severance Pay"), as soon as this departure is compulsory. Payment of the severance pay excludes any other termination payments (irrespective of the type, including damages).
- Should the responsibilities and/or remuneration of Luc Themelin be modified substantially following a take-over of the Company, and if as a result, he decides to leave the Company, he would be entitled to the same Severance Pay.
- The Severance Pay is moreover subject to performance conditions.

Specific arrangements:

The amount of the Severance Pay is calculated as follows:

S = 0.5 x R (Remuneration) x P (Performance)
where
S is the amount of the Severance Pay;

R is total gross remuneration (basic remuneration and bonus, excluding benefits in kind and profit-sharing) which will have been paid to Luc Themelin in respect of the thirty-six months preceding the termination (including the variable component of remuneration paid in respect of the current fiscal year at the time of termination) and provided that this remuneration has been paid in respect of his duties as Chief Executive Officer or in his capacity as employee; and

P is Luc Themelin's performance as measured in line with the criteria defined below.

Payment of the Severance Pay referred to above will be subject to the attainment of performance objectives (P) under the following conditions:

- Performance measurement (P):

  **P** = average of the performance of Luc Themelin during the 3 calendar years preceding his departure as Chief Executive Officer or employee.

  $$P = \frac{\text{performance (Y-1)} + \text{performance (Y-2)} + \text{performance (Y-3)}}{3}$$

  Performance in year Y is equal to the percentage of attainment of the objectives set in the target bonus. **P** may vary from 0 to 200%.

  The average performance rate **P** will be determined by the Board of Directors.

- Performance conditions:
  - If **P** ≥ 100%, 100% of Severance Pay will be paid
  - If **P** ≥ 90% and < 100%, 80% of the Severance Pay will be paid
  - If **P** ≥ 70% and < 90%, 60% of the Severance Pay will be paid
  - If **P** ≥ 50% and < 70%, 40% of the Severance Pay will be paid
  - If **P** < 50%, no Severance Pay will be paid

### C. Stock subscription options - Performance shares

Type and motive:

- Should Luc Themelin's term in office as Chairman and Member of the Management Board be terminated in any manner and for any reason whatsoever (barring termination following the acquisition of control of the Company, retirement or enforced retirement), he will automatically lose his entitlement to ail the stock options granted to him prior to the end date of his term in office where the conditions of grant (condition related to continued presence and performance conditions) have not been satisfied by the end date of his term in office. He will also automatically lose his entitlement to all the shares, irrespective of whether they are subject to a performance condition, granted to him, in accordance with the provisions of Article L. 225-197-1 to L. 225-197-5 of the French Commercial Code, prior to the end date of his term in office, where the grant of these shares had not been made definitive by the end date of his term in office.
- Even so, it is stipulated that the Supervisory Board reserves the right to decide, where appropriate, to leave in place some or all of the stock options and bonus shares, subject to satisfaction of the corresponding performance conditions. The benefit of the stock options and bonus shares referred to above will be maintained should Luc Themelin's responsibilities and/or compensation and benefits be modified substantially following the acquisition of control of the Company causing him to decide to leave the Company.

### D. Pension plan for Luc Themelin

Type and motive:

Luc Themelin, Chief Executive Officer, is eligible for the supplementary pension plan set up by Mersen representing a defined benefit pension plan meeting the criteria provided for in Article L. 137-11 of the French Social Security Code.

Specific arrangements:

Pursuant to this pension plan, Luc Themelin would benefit from a supplementary pension calculated based on the following items:

- The pension calculation base corresponds to the average of all basic wages for the last three years of activity preceding retirement, plus 50% of the maximum bonus, with the maximum bonus corresponding to the maximum of his basic wages, and the amount of the pension paid cannot exceed 20% of the amount of these two items;
- The amount of the pension is capped at a maximum seniority of 20 years.

As of the date hereof, Luc Themelin has 29 years of seniority with the company. The potential future pension rights of Luc Themelin have therefore been capped since 9 years and can no longer be increased.

**E. Commitments related to the Senior Executive Insurance Policy of Luc Themelin**

Type and motive:

Luc Themelin benefits, since October 2011, from the basic unemployment insurance for corporate officers (Senior Executive Insurance Policy), for a period of twenty-four (24) months. The annual cost of this insurance depends on the net taxable income of Luc Themelin and the duration of the unemployment insurance.

Specific arrangements:

The company pays 40% of the contributions and Luc Themelin pays 60%.

This arrangement includes a waiting period of 30 days of continuous unemployment.

Paris La Défense and Neuilly-sur-Seine, March 6, 2018

The Statutory Auditors

| | |
|---|---|
| KPMG Audit | Deloitte & Associés |
| *Department of KPMG SA* | |
| Philippe Cherqui | Laurent Odobez |
| *Partner* | *Partner* |

# 3 MANAGEMENT REPORT

# Introduction

In 2017, the Group achieved and even surpassed its objectives, returning to like-for-like sales growth and substantially improving current operating margin.

Like-for-like sales growth grew 8% over the year, well above early forecasts. Sales performance in Asia was particularly strong, the situation in North America improved as the year progressed, and Europe experienced highly satisfactory activity as well. Overall, the Group benefited from a healthy economy in the three areas.

The ambitious measures taken by the Group over the last few years to improve competitiveness, joined with the positive impact from sales volume, resulted in current operating margin of 9.2% for the year, 170 basis points better than in 2016.

Finally, net income increased significantly in 2017, as a result of growth in operating income and lower non-recurring expenses.

The Group also extended the maturities of its multi-currency lines of credit from July 2019 to July 2022, lengthening the average maturity of Group debt to roughly 4.5 years, as further proof of the confidence and support of the Group's financial partners.

# Consolidated results

In October 2017, Mersen sold its high voltage switch and contactor business. The financial statements thus show this business on a separate line of the Group's income statement and consolidated balance sheet, under "operations held for sale", in accordance with IFRS 5.

In addition, the Group decided to reclassify the amortization of revalued intangible assets into operating income before non-recurring items as from January 1, 2017 so as to provide more accurate comparisons with other companies in the same sector.

The 2016 financial statements have thus been restated for these items.

## 1. Sales

Mersen generated consolidated sales of €809 million in 2017, representing strong like-for-like growth of 8% year on year. The currency effect was a negative €10.7 million during the year with half of the total due to the depreciation of the US dollar against the euro. It was a positive €5 million in the first half of 2017. The scope effect was a positive €1 million and corresponds to revenue from the Chinese joint venture established in early 2017 with Harbin Carbon.

Growth breaks down as follows:

- Total growth: +6.6 %
- Currency effect: -1.4%
- Scope effect: +0.1%
- Like-for-like growth: +8.0%

| | 2017 | 2016[(2)] | Total growth | Like-for-like growth[(1)] |
|---|---|---|---|---|
| *Advanced Materials* | 446.6 | 411.8 | 8.4% | 9.6% |
| *Electrical Power* | 362.6 | 347.2 | 4.4% | 6.1% |
| **GROUP TOTAL** | **809.2** | **759.0** | **6.6%** | **8.0%** |
| Europe | 263.1 | 254.4 | 3.5% | 4.6% |
| Asia-Pacific | 228.7 | 193.9 | 17.9% | 19.9% |
| North America | 282.4 | 273.4 | 3.3% | 5.1% |
| Rest of the world | 35.0 | 37.3 | -6.1% | -8.7% |
| **GROUP TOTAL** | **809.2** | **759.0** | **6.6%** | **8.0%** |

*(1) At constant scope of consolidation and exchange rates. Like-for-like growth is determined by comparing the year's revenue with revenue from the previous year, restated at the current year's exchange rate, excluding acquisitions and/or disposals.*

*(2) Restated to reflect the reclassification of operations held for sale.*

**Advanced Materials** sales totaled €447 million, representing like-for-like growth of close to 10% over the year. Growth in electronics, aeronautics and solar power was particularly robust and process industries also remained buoyant throughout the year. After the cyclical trough bottoming out in 2016, the chemicals market has returned to growth.

**Electrical Power** sales climbed 6% like for like and totaled €363 million for the year, driven by several projects in rail transportation and power electronics. This increase was driven by strong business levels in process industries.

In terms of the Group's geographical areas, the most significant event of the period was the excellent performance delivered by the **Asia-Pacific region**, where like-for-like growth came in at over 20%. China, South Korea and India reported double-digit growth propelled by the solar, electronics and process industries markets. After a sluggish start to the year, **North America** reported growth of 5.1% over the year, sustained by the strong business levels in electronics and process industries. **Europe** reported growth of 4.6%, primarily driven by business levels in France in the aeronautics and aerospace markets.

## 2. EBITDA and operating income before non-recurring items

| *(in millions of euros)* | 2017 | 2016 restated | 2016 |
|---|---|---|---|
| **OPERATING INCOME BEFORE NON-RECURRING ITEMS** | **74.6** | **57.3** | **59.9** |
| *as a % of sales* | *9.2%* | *7.5%* | *7.8%* |
| Depreciation and amortization | 39.4 | 37.9 | 36.8 |
| **EBITDA** | **114.0** | **95.2** | **96.7** |
| *as a % of sales* | *14.1%* | *12.5%* | *12.7%* |

EBITDA[1] came in at €114.0 million, an increase of more than 20% compared with the prior year adjusted. This corresponds to 14.1% of sales.

Operating income before non-recurring items [2] came to €74.6 million in 2017, representing 9.2% of revenue, which was 170 basis points higher than 2016 Adjusted (7.5%).

The Electrical Power segment's current operating margin was practically unchanged on 2016 (11.0% vs. 11.1%). Positive effects from the competitiveness plan offset negative effects from pricing, product mix and cost inflation. The segment's operating margin before non-recurring items nevertheless turned upwards during the year, thanks to an improved product mix.

The Advanced Materials segment's current operating margin grew sharply, by 340 basis points, on 2016 (11.1% vs. 7.7%). This improvement resulted from a highly favorable volume effect and gains from the competitiveness plan, while price trends reversed over the year. In fact, halfway through the year the Group announced an increase in the price of graphite, following a rise in prices in certain carbon materials and in some grades of graphite, due to a sub-capacity market since the fourth quarter.

| *(in millions of euros)* | 2017 | 2016 restated | *Change* | 2016 |
|---|---|---|---|---|
| Sales | 809.2 | 759.0 | +6.6% | 763.6 |
| Gross margin | 256.0 | 230.6 | +11.1% | 232.6 |
| *as a % of sales* | *31.6%* | *30.4%* | | 30.5% |
| Sales and other costs | (79.6) | (77.5) | +2.8% | (77.6) |
| G&A and R&D costs | (100.6) | (94.6) | +6.3% | (95.1) |
| Amortization and impairment of revalued intangible assets | (1.2) | (1.2) | | |
| **OPERATING INCOME BEFORE NON-RECURRING ITEMS** | **74.6** | **57.3** | +30.2% | **59.9** |
| *as a % of sales* | *9.2%* | *7.5%* | | *7.8%* |

*(1) Operating income before non-recurring items+ amortization.*
*(2) As defined in Recommendation 2009.R.03 of the French national accounting board (CNC).*

Gross margin was significantly improved on adjusted 2016 results, mainly due to the leverage effect on sales volume in *Advanced Materials*.

As a result of higher sales volume, cost of sales and other expenses increased by 4.5% at constant exchange rates. G&A and R&D costs increased as well, by 7% at constant exchange rates.

As stated in the Introduction, the Group now classifies amortization of revalued intangible assets into operating income before non-recurring items.

# 3. Net income

Net income was €40 million, versus €3.2 million in 2016 adjusted.

| *(in millions of euros)* | 2017 | 2016 restated | 2016 |
|---|---|---|---|
| **OPERATING INCOME BEFORE NON-RECURRING ITEMS** | **74.6** | **57.3** | **59.9** |
| Non-recurring income and expense | (10.3) | (26.5) | (26.5) |
| Amortization and impairment of revalued intangible assets | | | (1.2) |
| **Operating income** | **64.3** | **30.8** | **32.2** |
| Financial income | (10.0) | (11.0) | (11.0) |
| Income tax | (15.1) | (11.5) | (11.9) |
| **Net income from continuing operations** | **39.2** | **8.3** | **9.3** |
| Net income from assets held for sale and discontinued operations | 0.8 | (5.1) | (6.1) |
| **Net income** | **40.0** | **3.2** | **3.2** |
| **Attributable to Mersen's shareholders** | **37.6** | **1.8** | **1.8** |
| Non-controlling interests | (2.4) | (1.4) | (1.4) |

Non-recurring income and charges amounted to €(10.3) million. This includes:

- €8.6 million in expenses related to the competitiveness plan (versus €10 million projected)
- €1.7 million in sundry charges

In 2016, non-recurring income and charges were €26.5 million, mainly in expenses related to the competitiveness plan.

Net finance costs stood at €10 million, lower than in 2016 adjusted due to the €30 million decline in average debt over the year.

Net tax expense was €15.1 million. This includes exceptional net gains of more than €2 million. Stripping out this exceptional item, the tax rate was 32%.

Income from operations held for sale was €0.8 million. This was mainly due to capital gains on the sale of the high voltage switch and contactor business.

Income from minority shareholdings increased sharply thanks in particular to positive results at Cirprotec (Spain) and Yantai (China), where Mersen owns 51% and 60% respectively of the share capital.

# 4. Dividend

The Board of Directors proposed to the General Meeting of Shareholders to pay a dividend of €0.75 per share, 50% more than the amount paid last year. This would mean a distribution of around €15 million, or 38% of net income, restated for non-current expenses and income related to the competitiveness plan and exceptional tax expenses.

# CASH AND DEBT

## 1. Condensed statement of cash flows

| *In millions of euros* | 2017 | 2016 restated |
|---|---|---|
| Cash generated by operating activities before change in the WCR | 94.3 | 72.4 |
| Change in working capital requirement | (14.5) | 25.1 |
| Change in tax expense | (15.4) | (14.3) |
| **Net cash generated by continuing operating activities** | **64.4** | **83.2** |
| Cash generated by discontinued operations | (0.2) | (2.7) |
| Net cash generated by operating activities | 64.2 | 80.5 |
| Capital expenditure | (36.7) | (29.5) |
| **Net cash generated by operating activities after capital expenditure** | **27.5** | **51.0** |
| Change in scope (acquisitions) | 0 | (0.7) |
| Disposals of non-current assets and other | (1.2) | 0.7 |
| Net investment income generated by discontinued activities | 6.2 | 6.5 |
| **Net cash generated/(used) by operating and investing activities** | **32.5** | **57.5** |
| Interest payments | (8.0) | (8.2) |
| Dividends paid | (12.3) | (10.5) |
| Increase in share capital and other | 3.3 | (1.1) |
| **Net cash flow before the change in debt** | **15.5** | **37.7** |

Operating activities generated more than €64 million in net cash flow during the year, versus €83 million in 2016. 2017 also saw an exceptional cash outflow resulting from a voluntary contribution of USD5 million to pension funds in the United States and €14 million related to exceptional cash-out on restructuring (competitiveness plan) and litigation.

In 2016, the change in working capital requirement fell sharply, a clear improvement on the previous year due in particular to major action plans designed to optimize inventory levels. In 2017, a year of significant growth in sales, the working capital requirement[(1)] increased on an absolute basis, but the Group maintained its working capital to sales ratio at 20% in 2017.

Capital expenditure amounted to €36.7 million, up from €29.5 million in 2016. 80% of this was in Advanced Materials. The investment policy is presented in this chapter.

Investment flows from discontinued operations in 2017 came from the sale of the high voltage switches business. In 2016, investment flows had no impact on debt, coming mainly from the final installation payment on the loan granted to MidMark in 2009 at the time the EMC business was sold.

For 2017, net cash flow before changes in debt was thus €15.5 million, versus €37.7 million in 2016.

*(1) Sum of inventories, trade receivables and related accounts, other current receivables less trade payables and related accounts / 4 x revenue for the last quarter.*

## 2. Balance sheet

Net debt[1] at year-end 2017 stood at €178.1 million, down €24.7 million from the €202.8 million reported at December 31, 2016. At constant exchange rates, the decrease was €15.7 million.

The Group improved its balance sheet, with key ratios[2] down on last year: leverage (debt/EBITDA) was 1.58 and gearing (debt/equity) was 37%.

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Total net debt *(in millions of euros)* | 178.1 | 202.8 |
| Net debt/equity | 0.37 | 0.41 |
| Net debt/EBITDA | 1.58 | 2.09 |

In July 2017, the Group also extended the maturities of its multi-currency lines of credit from July 2019 to July 2022. As of December 31, 2017, the maturity of the debt was 4.6 years.

# Outlook

The current favorable economic environment indicates a new year of growth for Mersen in 2018 as the Group benefits from two drivers: growth in its key markets and strong dynamic activity across Asia. The competitiveness plan will be finalized during the year and Mersen will continue to deploy its Excellence Journey to improve its performance.

Accordingly, the Group anticipates like-for-like sales growth of between 3% and 6% in 2018 for a current operating margin of between 9.6% and 10.1% (9.2% in 2017). These forecasts factor in an increase in prices within the Advanced Materials segment.

Given the acceleration in some of its buoyant markets, such as solar and electronics, and the development of new products for the electric vehicles market, capital expenditure in 2018 is expected to reach a high of between €45 million and €50 million (excluding investments scheduled in the competitiveness plan) to meet current demand and prepare for 2019.

*(1) Gross debt +/- cash and cash equivalents +/- current financial assets.*
*(2) Ratio calculated using the banking covenant method for Mersen's confirmed financing.*

# International

The Group is present on all continents. The international positioning of the Group's manufacturing facilities keeps it in close contact with its customers and allows them to be highly responsive on their markets. In addition, it protects Mersen from the impact of currency fluctuations on its competitiveness.

In 2017, around 64% of the Group's capital expenditure was devoted to international markets. This concerned the replacement and modernization of industrial equipment and investments in new production capacity.

In 2017, the Group derived 92% of its sales from outside France (i.e. sales generated by foreign companies excluding those realized in France and exports by French companies).

The Group's foreign subsidiaries contributed sales of €688 million, up 6.4% on 2016 on a like-for-like basis.

Sales in North America accounted for 35% of the Group's consolidated sales. Europe contributed 33% of the total. Lastly, Asia Pacific and the rest of the world (South America, Africa and the Middle East) respectively accounted for 28% and 4% of the Group's consolidated sales.

# Research and development policy

Mersen devotes around 3% of its sales to research and development for products, materials and processes, and to technical sales efforts so as to constantly adapt its solutions or services to each customer's specific requirements.

Most of this expenditure is financed internally.

R&D is coordinated centrally, which safeguards the Group's long-term vision and ensures that its priorities are managed in line with the Company's strategy. It is rolled out via operational services managed by the business units, which share their "in-the-field" innovations and highly ambitious projects to overcome challenges and address development issues faced by Mersen. To boost its R&D efforts, the Group works with external players such as universities and large national research centers, which play a key role in helping the Company to develop core knowledge without which it would quickly become impossible for Mersen to deliver solutions to the increasingly complex problems which its customers need to solve.

The above three facets of Mersen's innovation strategy are essential to the Company's smooth operation as they enable the Group to preserve its market share and competitiveness in a constantly-changing world, become a major player in emerging markets and gradually transform the Company by expanding its number of products and services.

2017 was shaped by several R&D achievements, some of which deserve a special mention due to their impact on sales during the year or their expected impact in the very near future:

- The development of a new grade of synthetic graphite which is essential for the proper functioning of high-power wind turbines. A solution for manufacturers developing wind turbines with capacity of over 3 MV was required. Mersen was the first to propose such a solution.
- The bringing to market of a range of fuses designed to protect electrical systems in electric vehicles. Each fuse has been adapted and tested to ensure that it functions in accordance with automotive industry requirements. The full product range meets all needs identified to date.
- Further progress in the development of hybrid electrical blocking and protection technologies, in which Mersen combines active electrical components with specialized mechanical systems. The most advanced products have far surpassed the design phase. In 2017, a large number of trials and demonstrations were carried out for big names in the automotive industry, resulting in unparalleled solutions for high-power batteries which offer users an enhanced level of security and significant weight and cost savings compared with conventional systems performing the same functions.
- The development of a cooling solution in response to the miniaturization of power electronic components, which requires knowing how to dissipate growing energy flows. The solution, which is based on an original concept and for which a patent application is pending, provides huge performance gains compared with conventional systems.
- The management of the large-scale production of new thermal insulation products, which helped the Holytown plant (UK) enter new markets where the Group was previously absent, certain of which are enjoying strong growth driven by an upturn in demand in the semiconductor industry.

Other projects demonstrate the progress made by Mersen towards its long-term objectives, in particular:

- The launch of four new cooperation programs with universities in various fields, for terms of three years or more.
- Exploratory work in connection with the emergence of the "inevitable" but as yet still "fuzzy" large-scale energy storage market:
  - New electrical distribution and protection systems and new measurement and communication functionalities.
  - Carbon-based materials which are used in certain battery systems.

# Investment policy

In 2017, capital expenditure (continuing operations) amounted to €36.7 million. The Group invested further in silicon carbide production capacity in France, and also in the Graphite Specialties CGU, which was necessary due to significant growth in the renewable energies market.

Disposals of €2.3 million include the sale of land and buildings in Germany, Italy and China, mainly as part of the Transform plan.

In 2016, capital expenditure (continuing operations) amounted to €29.5 million. The Group invested further in silicon carbide production capacity in France. In the United States, the Group invested in electronics for the Graphite Specialties CGU.

Disposals of €2.9 million include the sale of land and buildings in Germany, the U.S. and China, mainly as part of the Transform plan.

According to the Group's internal procedure, the Board of Directors must authorize any investment larger than €10 million and any acquisition of more than €3 million.

| | Continuing operations | |
|---|---|---|
| *(in millions of euros)* | **2017** | **2016** |
| Increase in property, plant and equipment | (34.9) | (30.4) |
| Change in fixed asset suppliers | (1.8) | 0.9 |
| **CAPITAL EXPENDITURE** | **(36.7)** | **(29.5)** |
| Increase in intangible assets | (3.2) | (3.0) |
| Increase in financial assets | 0.0 | 0.0 |
| Other changes in investment flows (excl. fixed asset suppliers) | (0.3) | 0.8 |
| **SUB-TOTAL** | **(40.2)** | **(31.7)** |
| Investments linked to acquisitions | 0.0 | (0.7) |
| Investments linked to asset disposals | 2.3 | 2.9 |
| **TOTAL** | **(37.9)** | **(29.5)** |

# Financing policy

A Group policy has been defined for financing, which is coordinated by the Finance and Administration department.

The Group possesses confirmed credit lines, which have not been drawn down in their entirety.

Most of the Group's borrowings have been arranged by Mersen. Cash pooling systems in Europe, the United States and China help to optimize use of all the credit lines.

In 2011, the Group finalized a private placement of €100 million ("USPP") maturing in 2021 in order to extend the maturity of its debt and diversify its funding sources.

In 2016, the Group finalized a new private placement of USD 60 million ("Schuldschein") maturing in 2023 in order to extend the maturity of its debt. The Group also renegotiated its syndicated loan in China, due to mature in September 2018, replacing it with a syndicated five-year loan and bilateral loans. Lastly, in March 2016 the Group put in place a commercial paper issuance program for up to €220 million in order to diversify its funding sources.

In 2017, the Group renegotiated its syndicated loan due to expire in July 2019 by improving the financial terms and extending its maturity to July 2022.

All the details concerning borrowings are presented in Note 15 to the consolidated financial statements.

# Relations between the parent company and its subsidiaries

Mersen is a holding company that manages its investments in subsidiaries and affiliates and the Group's financing activities, and charges subsidiaries for services related to the intangible assets and property, plant and equipment that it owns.

Mersen SA belongs to the Mersen group, which encompasses 88 consolidated and unconsolidated companies in 35 countries. The Group's largest manufacturing facilities are located in France, the United States, China and Mexico.

The Group's Executive Committee runs its operational affairs. The members of the Executive Committee sometimes act as corporate officers or directors at the companies linked to their activity.

# Parent company results

## 1. Parent company's financial position in the preceding financial year

The parent company, Mersen SA, had sales and other income of €16.6 million in 2017. These revenues are derived from Mersen SA's activities as a holding company, namely the management of investments in subsidiaries and affiliates, Group financing and invoicing for various services, plus fees for the use of the trademark and other associated intangibles.

The parent company's net operating result, which corresponds to the holding company's operating costs and trademark fee, was a loss of €1.8 million.

Net financial income was €15.8 million, vs. €28.0 million in 2016. Dividends received from subsidiaries in 2017 were substantially lower than in 2016, especially from our American subsidiary.

Net current income before tax and exceptional items was €14.0 million. Exceptional net income was €0.7 million, vs. €0.5 million in 2016.

The tax of €3.4 million is income. This was the result of the tax paid by the French subsidiaries consolidated for tax purposes.

After taking these items into account, net income was €18.1 million, versus €25.8 million in 2016.

## 2. Information about payment terms for the parent company's clients & suppliers

### Invoices received and issued at fiscal year-end (table from part I of Article D.441-4 of the French Commercial Code)

| | Trade payables: Invoices received but not paid at fiscal year-end, o/w: Past due date | | | | | | Trade receivables: Invoices issued but not paid at fiscal year-end, o/w: Past due date | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| In € 000' | At due date | 1 - 30 days | 31 - 60 days | 61 - 90 days | 91 days + | Total 1 day and more | At due date | 1 - 30 days | 31 - 60 days | 61 - 90 days | 91 days + | Total 1 day and more |
| (A) Late payment tranches | | | | | | | | | | | | |
| Number of invoices | 2 | | | | | 3 | 10 | | | | | 12 |
| Total amount of invoices, including VAT | 64 | -1* | N/S | | | -1* | 335 | (1) | | | 19 | 17 |
| % of total year's purchasing, including VAT | 1.56% | N/S | N/S | | | N/S | | | | | | |
| % of total year's sales, including VAT | | | | | | | 1.89% | N/S | | | N/S | N/S |
| (B) Invoices excluded from (A) in respect of disputed or unrecognized debts and/or receivables | | | | | | | | | | | | |
| Number of invoices excluded | | | | | | | | | | | | |
| Total amount of invoices excluded, including VAT | | | | | | | | | | | | |
| (C) Reference payment terms used (contractual or legal - Article L. 441-6 or Article L.443-1 of the French Commercial Code) | | | | | | | | | | | | |
| Terms of payment used to calculate late payment | Legal terms: 45 days end of month, unless contractual terms are shorter | | | | | | Contractual terms: 30 days end of month for French and other European customers, 60 days end of month for the rest of the world | | | | | |

** Credit Note.*

# Ethics & Compliance

The Mersen group is driven by values and ethics which are shared by all its employees (see chapter 4, “Human resources policy”).

The collective and individual commitments of the Group and its employees are set out in an Ethics Code. The aim of the Ethics Code is to establish and build trust with all the Group’s stakeholders, in particular its employees, customers, suppliers and shareholders.

The Ethics Code was updated in 2017. It has been rolled out in all the countries where the Group operates and is available on the Group’s intranet and website (https://www.mersen.com/group/ethics). A mandatory e-learning program was also introduced for all employees during the year.

## ETHICS CODE

### The Ethics Code covers:

**Relations within the Group**

Health & Safety
Harassment
Equal opportunities
Mutual respect

**Relations with our customers, our suppliers and our competitors**

Competition
Active corruption
Passive corruption
Data confidentiality
Conflicts of interest
Choice of suppliers

**Relations with our shareholders**

Fair presentation
Insider trading

**Asset protection**

Confidentiality
Use of corporate assets
Group’s reputation

**Undertakings as a responsible business**

Accuracy of financial statements
Environment
Sustainable development
Donation and patronage policy

## Governance of Ethics & Compliance

In 2017, the Mersen group created an Ethics & Compliance function which reports functionally to the CEO, in order to develop and coordinate an effective and sustainable ethics and compliance policy. The new function is tasked with (i) identifying and assessing any risks of non-compliance with laws or regulations which would damage the image, culture or financial stability of the Group; (ii) implementing appropriate procedures and processes to minimize such risks; (iii) informing and raising the awareness of Group employees of the main risks; and (iv) managing the “ethics hotline”.

In particular, the Ethics & Compliance function is responsible for:

- Anti-corruption (third-party relationships, commissions paid to non-Mersen vendors, gifts, donations and patronage);
- Trade and export restrictions (export controls, trade sanctions and embargoes);
- Potential conflicts of interest;
- Protection of sensitive data;
- Development of an ethics culture and integrity.

The Ethics & Compliance function also works with the Human Resources Department to prevent illicit work and harassment, protect whistle blowers and ensure compliance with labor laws.

In order to ensure the effectiveness of the Ethics & Compliance function and facilitate the implementation of its measures, an Ethics & Compliance Committee has been created. It comprises the Chief Executive Officer, the Chief Financial Officer, the Group Vice President, Human Resources and the Vice President, Group Risks, Internal Audit and Compliance. The Committee will:

- Guide the Ethics & Compliance function in the development of an ethics culture and related tools;
- Approve the options and tools proposed;
- Ensure that the tools chosen are correctly rolled out and facilitate their implementation;
- Analyze and guide the action taken following an ethics and/or compliance alert.

The Committee will meet at least three times a year and whenever necessary following an alert.

The Vice President for Audit, Risk and Compliance reports on the work of the Ethics & Compliance function to the Audit and Accounts Committee at least once a year.

## Main work

In 2017, the main work of the Ethics & Compliance function included:

- Implementing the French “Sapin 2” Act:
  - Reviewing the Ethics Code;
  - Drafting a corruption risk assessment in collaboration with an external firm which was presented to General Management and the Executive Committee. An action plan was proposed to strengthen and standardize the procedures and rules to be followed with respect to third-party relationships;
  - Implementing an internal warning procedure and ensuring that all Mersen employees are aware of and familiar with the procedure;
  - Rolling out a mandatory Ethics Code training for all employees;
  - Developing an anti-corruption e-learning program for approximately 500 managers. Using case studies, the training provides rules and explanations on employee conduct when faced with a potential conflict situation.
- Creating a working group for the implementation of the General Data Protection Regulation.
- Carrying out various work to strengthen, standardize and consolidate compliance with key regulations in certain regions.

In 2018, the work of the Ethics & Compliance function will focus on:

- Finalizing the implementation of the French “Sapin 2” Act, in particular the Group’s customer and supplier evaluation process.
- Continuing to implement the General Data Protection Regulation. An inventory of the different ways in which data are processed and stored will be conducted as well as an evaluation of the data security systems in place.
- Standardizing rules and procedures in accordance with the action plan drawn up following the corruption risk assessment.

# Principal internal control procedures for the Mersen group

## 1. Definition of internal control

At Mersen, Internal Control is defined as a process implemented by all the employees, under the leadership of the Board of Directors and the Executive Committee, to run the Group rigorously and effectively.

Mersen's internal control aims to achieve the following objectives:

- compliance with the policies defined by the Group, as well as with the legislation and regulations in force;
- smooth operation of internal processes and notably those helping to protect its assets;
- prevention of fraud and errors;
- accurate and complete financial information.

Mersen's definition of internal control is thus comparable to the international standard laid down by the COSO (Committee of Sponsoring Organizations of the Treadway Commission), whose conclusions were published in 1992 in the United States and are available at www.coso.org. The COSO standard, which was revised in 2013, emphasizes an expanded internal control practice that covers non-financial functions, as well as careful monitoring of the work of the Audit and Accounts Committee. Mersen evaluated its current organization with regard to this standard. The review showed that the Mersen group's internal control practices comply with the standard. However, the current control system cannot provide absolute assurance that risks have been completely eliminated. In addition, the Group has taken into account aspects of the reference framework published by the AMF concerning the general principles of internal control.

## 2. General principles of internal control

Since it has a manufacturing base spanning approximately 35 countries on five continents, the Mersen group monitors the effectiveness of its internal control framework by means of the following:

### 2.1. Internal control organization

From a corporate governance perspective, Mersen opted for an organization guaranteeing separation and balance between powers. The executive and management powers exercised by the Chief Executive Officer, supported by the Executive Committee, are kept clearly separate from the control duties exercised by the Board of Directors.

Mersen's Executive Committee supervises the internal control framework. The composition, operation, powers and responsibilities of the Executive Committee are described in the Corporate Governance section of this document.

Within the Group's subsidiaries, each local manager is responsible for implementing the internal control policy defined by the Executive Committee and by the Audit and Accounts Committee of the Board of Directors.

As part of its control duties, Mersen's Board of Directors has set up an Audit and Accounts Committee; the composition, number of meetings and main duties of which are described in the Corporate Governance section. It supervises internal control since it is notably responsible for:

- monitoring the process used to prepare financial information by assessing the financial documents published by the Company and ensuring that a sufficiently well-organized process exists for the preparation of this information;
- ensuring the efficiency of the internal control and risk management systems by:
  - validating the annual internal audit program and ensuring that the efficiency of internal control systems is monitored and that the recommendations made by the Statutory Auditors and internal audit teams are implemented;
  - monitoring progress on work in the field of risk management.
- overseeing the audit of the annual and consolidated financial statements by the Statutory Auditors;
- ensuring that the Statutory Auditors are independent.

Mersen's Risk, Internal Audit and Compliance Department, whose main responsibilities are described in the Risk Management section herein, follows up on internal control and risk management initiatives. It reports to the Finance and Administration Department and informs the Audit and Accounts Committee of the Board of Directors of its work.

## 2.2. Risk management

Mersen Group updates its risk mapping (strategic, financial and operational) every year and performs a more extensive review every three years. A detailed review took place in 2017, during which the Group was assisted by an external audit firm in order to improve its methods and risk management.

Potential risks are ranked by their impact and probability of occurrence, and by the level of control provided by the systems currently in place.

A review of the action plans is presented every year to the Audit and Accounts Committee, and every six months to the Group's Executive Committee. In 2017, all of the action plans presented complied with the agenda noted at the start of the year. In 2016, the Risk and Internal Audit Department updated its action plan monitoring tool, in order to take risk management criteria into account more effectively and to assess the pertinence of the plans already in place as compared to the criteria thus set. Based on the progress on implementing these plans and any shortcomings in comparison to the management criteria, the mapping survey was updated and validated by the Audit and Accounts Committee. The aim of the plans thus defined is to reduce the impact and/or occurrence of each risk. They are also intended to ensure that the measures currently in place are effective in helping to mitigate potential risk and are in line with risk management criteria. In 2018, it was decided to further tighten control of the action plans currently in place, including audit of the sites.

The Group's risk management policy is described in the "Risk Management" section of this document.

## 2.3. Control activity

Mersen has circulated an internal control handbook to all its subsidiaries. This document is available on Mersen's Intranet site. It encompasses all the basic internal control procedures applicable to every Group unit. The manual is interactive and includes links to the Group's best practices. It covers the following points:

- a description of the background, objectives and resources used in internal control; a description of the internal control organization and reference to the internal control framework adopted by the Group (COSO);
- the definition of Risk, the measurement of the "size" of a risk that the risk mapping survey tool describes;
- a list of all the fundamental internal controls to be implemented to ensure the efficient operation of the main business processes:
  - sales/customers,
  - purchases/suppliers,
  - logistics,
  - human resources management,
  - investments/fixed assets,
  - information systems.
- the fundamental internal controls to be implemented to ensure the reliability of the accounting and reporting systems and financial statements with regard to the following objectives:
  - safeguarding assets,
  - compiling an exhaustive record of accounting transactions,
  - making sure transactions correspond to reality,
  - complying with the dates on which transactions are recorded,
  - correctly valuing assets and liabilities,
  - confidentiality.

This guide was reviewed in 2016 and certain information about tax and customs risks was added. An entire chapter on Quality was also included which, as well as reinforcing the operations aspect, serves to deploy the Group's quality and `lean management' policy wherever possible.

Aside from the corporate audits conducted by the Internal Audit Department, the Group has conducted cross-audits for several years in order to strengthen the internal control systems and culture. After adequate training, these audits are performed by the Group's operational and functional staff from each major geographical area (Asia, Europe and America).

The cross-audit program is determined by the Group's Internal Audit Department. These audits help not only to check on internal control fundamentals every year, but also to ensure that action plans drawn up in the previous year have actually been implemented. They also make it possible to more easily integrate companies that are acquired and gradually bring them to the required level of internal control.

This program provides for an exchange of best practices and helps to instill the internal control culture as widely as possible.

Aside from the action plans and tools described in this report, each year the Group requires that all plant managers provide a formal written statement affirming that the main points of internal control are applied properly at their business unit.

## 2.4. Internal control oversight

### Internal audit department

The Group's Internal Audit Department is responsible for overseeing proper implementation of the internal control handbook and for leading the Group's internal control program. It also coordinates the networks and organization of corporate and cross-audits right across the Group. It submits its findings to the Audit and Accounts Committee on a regular basis, as well as to the Statutory Auditors. The Executive Committee receives regular updates on the Group's Internal Control news.

The department performed 21 assignments in 2017. These assignments were designed to:

- analyze the effectiveness of internal control and verify the proper application of the action plans implemented following the audits conducted at certain production plants in previous years;
- ensure the effective implementation of action plans at two units that were audited in the previous year and at which internal control was not deemed to be satisfactory.

The Internal Audit Department always uses a specialized external firm to ensure the quality and independence of the audit program and to facilitate continuous improvement.

For over 10 years, the units audited have sent in a self-assessment of their internal control system in advance of the Internal Audit Department's review. These evaluations, reviewed by the internal audit function, help to correct certain differences in assessments and to enhance the culture of internal control within the units.

### Information systems security

The Risk, Internal Audit and Compliance Department is responsible for overseeing information systems security, specifically:

- securing the IT system and protecting data confidentiality;
- tightening up the security of IT infrastructure and applications to ensure the continuity of operations.

An IT Systems Security manager was appointed in 2013. They report to the Risk, Audit and Compliance Department and their role is to:

- Verify that the information systems security policy is implemented properly;
- Lead the information systems' contact network in all aspects of the area of security;
- Propose analysis and improvement tools for optimum control of the existing systems;
- Develop an information systems security culture.

The IT Systems Security manager performed 41 site audits in 2017, eleven of which were carried out on site and 30 of which were performed remotely.

IT Systems Security risk mapping was updated in 2017 to focus more closely on business line processes. The new maps were presented to the Executive Committee in early 2018. The IT Systems Security manager reported on the action plans carried out in 2017 concerning cyber risk, and presented this report to the Executive Committee and the Audit and Accounts Committee.

## 2.5. Other procedures contributing to the Group's internal control framework

The Group's management control and strategic planning, human resources management, sustainable development policy and quality procedures also contribute to ensuring compliance with the policies defined by the Group.

### Management control and strategic planning

A Strategic Plan determining the priorities for coming years, a quantified business plan and production plans is prepared every year and presented to the Board of Directors.

At the start of each year, the Executive Committee decides on the key initiatives to be implemented to achieve the goals set. It receives regular status reports and analyses for these action plans.

The budgeting process is carried out once a year. The budget is submitted to the Executive Committee for approval and then ratified by the Board of Directors.

Financial performance and the main financial aggregates for the current year are forecast every quarter. This process allows adjustments to be made for trend reversals and thus helps to speed up the decision-making process for any remedial measures required.

### Human resources procedures

From an internal control standpoint, the Group's human resources policy is structured around:

- management reviews providing a regular update on all the Group's managers to enhance their career opportunities and identify the Group's key men and women;
- annual individual reviews that enable business unit managers to assess the performance of their employees and set targets for the following year together with them;
- forward planning of human resources, notably succession planning for senior managers.

Lastly, performance-related bonuses are calculated using clearly defined rules.

### Sustainable development

Mersen has long pursued a responsible approach in environmental, economic and social affairs. Aside from the economic aspects related to the Group's business development, and in particular renewable energies, energy efficiency and rail and electric transportation, it also strives to promote new social and environmental measures.

These endeavors are described in greater detail in the "Sustainable Development" section of the reference document. With the help of an external firm, the Group established a reporting framework for sustainable development indicators that complies with the Grenelle 2 regulation. The framework was disseminated to all units. Reporting is accredited by the certifying organization.

At the same time, by joining the United Nations' Global Compact, the Group has engaged to support a precautionary approach to environmental challenges (Principle 7), to promote greater environmental responsibility (Principle 8), and to encourage the development and diffusion of environmentally friendly technologies (Principle 9).

The Group has also received a non-financial rating from the GAIA Index, which assesses publicly traded mid-cap companies' ESG [(1)] performance.

### Operational excellence procedures

The goal of the Operational Excellence Department is to improve the Group's operational performance by introducing tools for analysis and continuous improvement at the Group's sites. It also seeks to develop a 'lean' culture within all of the Group's units.

It relies on certain operational indicators, such as service level, non-quality level, safety, and inventory turnover. These indicators are monitored at all Group sites. It implements and verifies the implementation of the plan in place at all sites for improving competitiveness. These projects, which are included in the budget, are reviewed at regular intervals and their financial contribution is assessed monthly.

*(1) Environmental, Social and Governance.*

# 3. Accounting and financial internal control

## 3.1. General organization

The Mersen group's Finance and Administration Department is responsible for accounting and financial internal control. Its role is to produce and ensure the quality of the financial statements and management accounts. To this end, it draws on support from the finance department of each division. In turn, these departments are in contact with each business unit's finance department. This organization allows targets to be set and accounting and financial information to be collected and analyzed at different levels of the organization.

## 3.2. Preparation of accounting and financial information

The Finance and Administration Department prepared and distributed a handbook of accounting and consolidation principles to all subsidiaries. This handbook contains the accounting principles applicable to every Group unit, as well as a description of the process of closing the accounts. It also contains the timetable for the various accounting closes, as well as a list of the information to be reported as part of the consolidation procedure. It lays down the rules that need to be followed by the consolidated sub-groups. This document is available on Mersen's Intranet site.

The handbook is updated in line with external changes in accounting standards in close collaboration with the Statutory Auditors, who validate the changes made with the Group's Finance and Administration Department.

Each Group business unit produces monthly accounts and a standardized consolidation package by the deadline set by the Group. When this data is reported using Group-wide consolidation software, consistency checks are applied at each stage of the data gathering and processing process. The purpose of these checks is to:

- apply the Group's standards properly;
- validate and eliminate intra-Group transactions correctly;
- make consolidation adjustments.

### 3.3. Treasury and financing

The Treasury and Financing Department manages the Group's treasury on a centralized basis. To control risks, the Group has procedures in place specifically to manage exchange, raw materials, and customer risks, the issuance of guarantees and the management of cash pooling and netting processes.

The Group has pursued a major drive to develop its cash management culture, mainly at manager level. Every year, new Group managers receive training on cash awareness, which was set up via the e-learning tool. This awareness contributes to the development of cash culture within the company.

During years in which the department is not audited by an outside firm, they must use a Group tool to carry out a self-assessment of their various procedures. This self-assessment is controlled by the Group's Internal Audit Department.

## 4. Approach adopted in 2017 and 2018 action plan for internal control

The following specific initiatives were initiated in 2017 to tighten up internal control:

- Tests were carried out on several Group entities as part of the Continuous Monitoring project.
- A new Internal Control manual was developed and distributed.
- A complete review of the Group's approval rules was performed, and a new tool was implemented to simplify their implementation.
- The "Internal Control: Best Practices" page on the Group's intranet was overhauled.

In 2017, the Internal Audit Department also conducted audits following a plan approved by the Audit and Accounts Committee. Twentyone site audits were performed, including two control audits.

The conclusions of the in-depth risk mapping review were presented to the Executive Committee and then to the Audit and Accounts Committee, along with a follow-up on the action plan approved in 2016. The Audit and Accounts Committee was also informed of the organization of the internal control tasks, in line with the recommendations of the 8th European Directive.

The various audits and controls conducted during 2017 did not reveal any significant internal control shortfalls or deficiencies. In 2018 there will be four control audits carried out on previously evaluated units whose internal control procedures were found to have some shortcomings.

As part of the evaluation of accounting and financial internal control with respect to the AMF's framework, the Group continued to implement initiatives to raise awareness among Group managers and financial managers of the risks of fraud (including financial scams and forgery, etc.). The Internal Audit Department publishes a monthly press review on fraud. This press review is sent to the managers at all of the Group's sites. The Group experienced several fraud attempts in 2017, which were unsuccessful, thanks in particular to these awareness-raising efforts.

An IT system security audit program was introduced. The program makes it possible to conduct tests remotely or in situ to verify that the infrastructure complies with the Group's rules. The Group's action plans dealing with cyber security were presented to the Audit and Accounts Committee.

The Risk, Internal Audit and Compliance Department will work on the following projects in 2018:

- Ongoing implementation of the Continuous Monitoring project, including the accounting control measures covered under the Sapin II law.
- Deployment of new Group approval policies.
- Tighter compliance and risk management control in the audits.
- A Satisfaction survey on cross-audit issues.

# Risk management

Mersen's internal control organization and the risk management procedures it has put in place are described in the "Principal internal control procedures for the Mersen group" of this reference document.

The Group reviewed risks that could have a material adverse effect on its business, its financial position or its results (or on its ability to achieve its objectives) and believes that there are no material risks other than those presented.

## 1. Risks related to the market environment and the Group's business activities

### 1.1. Industrial risks

The Group may face certain industrial risks that could have an impact on its business activities or the safety of its employees. However, these risks are spread, in general, over several production facilities, geographic regions and different processes. To minimize these risks, the Group takes action related to:

- the preparation and regular review of industrial risk mapping;
- the preparation of a specific mapping of risks related to the IT systems that control the industrial systems;
- the preparation and regular review of procedures regarding equipment or processes that could be dangerous, for example, given the temperatures reached during production;
- the preparation of a Business Continuity plan for certain facilities and/or certain strategic equipment; and
- regular safety audits, as well as IT system audits focusing on industrial information systems.

The Group's capital expenditure program takes this component into account and the Group makes some investments to spread industrial risks over certain production operations. In addition, inspections by the Group's insurance experts assess the level of fire prevention and protection at the Group's main manufacturing facilities in France and in other countries.

None of the Group's sites are Seveso classified.

### 1.2. Risks linked to dependence on certain production facilities

Some of the group's facilities manufacture items used by other group facilities. If certain facilities or processes are interrupted for an extended period, this could affect the profitability of the group or of a business activity. The Group limits part of this risk by ensuring the availability of duplicate critical equipment and/or by preparing business continuity plans. These plans must make it possible, in the event of a major problem, to operate at a reduced level while trying to return, as quickly as possible, to the level of production sought.

Only the Group's major sites, around a dozen, have set up a business continuity plan or started preparing one.

### 1.3. Environmental risks

Like any industry player, the Group must comply with many environmental laws and regulations in the countries in which it conducts its business activities. These laws expose the Group's operating companies to liability risks and significant costs (for example, liability for current or past business activities or related to assets disposed of). To minimize these risks, the Group takes actions related primarily to:

- monitoring matters such as the use of coal tar pitch in our carbon products. This product is still under study at the European level in connection with the REACH regulations. It may be subject to use conditions. Mersen works at the European level with organizations that bring together graphite companies, actively participates in discussions, and contributes to studies in this context;
- further continuous improvement of protection and equipment for personnel exposed to CMR (carcinogenic, mutagenic and reprotoxic) substances and training measures. A working group has been set up in France, bringing together the human resources heads at the sites concerned and technical experts in this area. The objective is to harmonize practices, thereby improving employee training and protection;
- regulatory monitoring through participation in working groups composed of the leading players in carbon and graphite in Europe;
- monitoring pollution risks within the Group and introducing action plans to reduce these risks; and
- systematically implementing environmental due diligence procedures when it acquires an industrial site.

Regulations dealing with best available technology on graphite manufacturing have been published. The implementation date has now been set for 2021. Mersen has launched a study to measure precisely the potential impact of these regulations and to evaluate the necessary investments. The findings will be presented to the Executive Committee and an action plan will be implemented to bring the Group into compliance. Note that the equipment will be brought into compliance over a period of several years, in compliance with the provisions of the law.

The Group's environmental policy is described in Chapter 2 of this reference document.

## 1.4. Risks relating to the effects of climate change

To take into account risks relating to climate change, the Group complies with local regulations and has set up a specific project in response to the most important regulations such as the REACH regulations and CSR reporting.

It is also preparing for important future deadlines, such as achieving compliance with the IED (Industrial Emissions Directive) by 2021 by using the "best technology available". This regulation requires cutting edge technology to be put in place in order to reduce the amount of energy required to make and process graphite. The Group is making the necessary investments so that it will be fully compliant with these regulations.

Numerous best practices also make it possible to address the issue of global warming and the low-carbon strategy. A few years ago, a major program known as Redesign to Cost was introduced in order to cut energy consumption by streamlining processes and saving on raw materials. An eco-design approach is applied at the product design stage. A product-recycling program has also been deployed, especially in the Electrical Power segment: used fuses are recovered and a recycling system is organized so that some of the material can be reused. In the Advanced Materials segment, graphite machining residue is partly reused for making graphite, thereby cutting consumption of the raw material.

Downstream, Mersen has taken a leading position in markets that offer environmental benefits, such as LED manufacturing and solar and wind power. Some 40% of its sales are linked to sustainable development.

## 1.5. Risks relating to capital-intensive operations

Some of the Group's businesses, such as Graphite Specialties (Advanced Materials segment), may be exposed to the consequences of being highly capital intensive, such as a fall in profitability if demand falls (due to heavy depreciation) or falling prices if there is global overcapacity in the industry. Like its competitors, the Group was hampered by significant graphite production overcapacity from 2012 to 2016, but this has now been absorbed. The Group may be faced with capacity under-use again in the future if the market experiences a turnaround or if the global marketplace deteriorates.

## 1.6. Risks relating to the economic environment

The Group may be affected by an unfavorable economic environment in a geographic region or business sector. Changes in sales may have a major impact on results, particularly in the event of a business contraction over several half-year periods. From 2013 to 2016, the Group was confronted with a significant decline in the chemicals market. More recently, it has been affected by a challenging environment in the United States, relating in particular to the downturn in the oil industry.

However, this risk is limited thanks to the diversity of the Group's markets and the geographic regions in which it operates. It has also demonstrated its ability to implement major cost containment plans to address these situations. Lastly, in 2016 it deployed an operational excellence plan intended in particular to be more flexible at sites manufacturing for the chemicals industry.

## 1.7. Risks relating to competition

Mersen is active in competitive markets. Depending on the business sector, this competition may come from companies larger than Mersen or from small-scale local players. It is thus difficult for the Group to guarantee that it will be able to maintain or increase its market share in markets where it is already active or to penetrate new markets. In the future, the Group may face new competitors in low-cost countries. Certain local companies, particularly in China, are capable of competing with Mersen in some products and applications. This competition is currently limited to specific applications on the Chinese market. However, the Group cannot rule out the possibility that some of these companies may compete with it on high-tech products in the future.

However, Mersen's presence in several business sectors and several geographic regions, with competitors that differ, in general, by sector and/or geographic region, and its focus on high value-added products tend to limit these risks.

## 1.8. Risks relating to information systems

The information system security function continued to implement a series of measures aimed at safeguarding the integrity, availability and confidentiality of the Group's information systems.

The following actions were undertaken in 2017, in addition to the measures already in place:

- the risk mapping was reviewed with a business line-oriented approach and new segments were added, particularly regarding connected objects;
- remote audits were intensified;
- new mechanisms to secure emails were added to those already in place;
- encryption solutions were integrated for material regarding major customers; and
- newsletters on cyber security were distributed to staff and IT systems correspondents.

In 2018, compliance issues (General Data Protection Regulation – GDRP and International Traffic in Arms Regulation – ITAR) and connected objects will be monitored particularly carefully. The risk mapping will continue to be updated on a yearly basis.

However, the Group cannot dismiss the possibility of a system failure (equipment or software), human error or computer virus that could harm the Group's reputation or the quality of its service.

## 1.9. Risks relating to raw materials

The Group is dependent on certain raw materials, in particular carbon materials used in the formulation of graphite, as well as copper and silver for the manufacture of fuses and/or brushes. The Group may be faced with supply difficulties and/or price increases. To limit the risks related to raw materials and secure purchases of the most sensitive materials over the long term, Mersen continues its research program into identifying alternative procurement sources in the event that it has to contend with a supplier with a dominant market position.

Increased tension for certain raw materials at the end of 2017 led to the Group planning to take new actions.

From a more global perspective, the purchasing teams continued to achieve concrete results from their collaboration with technical teams on redesign to cost and strategic sourcing projects in order to enhance performance of suppliers with a view to:

- securing more competitive purchasing prices and industrialization solutions;
- planning ahead for the possible replacement of products purchased that are not deemed to comply with the REACH and RoHS regulations; and
- helping to reduce consumption of energy and raw materials, such as copper and silver, used in the manufacture of finished products.

In addition, to protect against price increases, exposure to certain raw materials was hedged using either derivative products or purchase commitments from suppliers. The Group also has the option of increasing its selling prices for certain business activities or product lines in order to offset these costs.

Raw material risks are addressed in the "Raw material risks" section of Note 3 to the consolidated financial statements.

## 1.10. Risks linked to checks on exports of dual-use products

The Group must comply with European and US regulations on the export of dual-use (civilian and military) goods and technologies. These regulations apply to the export of certain kinds of graphite-based goods produced in France and the United States. Unfavorable changes in these regulations intended specifically to restrain or prohibit certain exports could have a material impact on Mersen.

## 1.11. Risks linked to certain regulations

The Group has already been sanctioned, in the early 2000s, for infringements of competition law in Europe and the United States in respect of some of its activities. These sanctions were followed by class actions, which have now been settled for the most part (see legal risks in this chapter). In response to these events, the Group introduced an awareness-raising, training and inspection program to prevent any risks of this type. A new staff training and awareness-raising plan will be deployed in 2018.

The Group must also comply with ITAR regulations in the United States regarding the manufacture and sale of military equipment. Failure to respect these regulations may result in significant fines being levied. To limit this risk, the Group regularly assesses ITAR compliance by certain sites and may, if necessary, put remedial measures in place. However, the risk of non-compliance by a Group site cannot be completely ruled out.

The Group must also comply with new regulations such as the French "Sapin II" Act and the EU General Data Protection Regulation (GDPR). The Group is actively working on implementing measures to comply with these regulations. However, it cannot rule out the possibility of being late to meet the deadlines laid out by these regulations, or of being deemed non-compliant. The Group has set up external ad hoc working groups to limit these risks. It has also appointed a Compliance Officer and a Compliance Committee to monitor the Group's progress as regards these regulations.

In addition, the Group must comply with the OFAC regulations and rules on embargoes with regard to its financing agreements. Failure to comply with this regulation could lead to default on these loans. The Group has implemented internal procedures to ensure compliance with this regulation at all Group facilities.

## 1.12. Risks linked to dependence on customers and commercial disputes

The Group's customers are very diverse. On a Group-wide basis, this diversity helps limit the risk of dependence on a single customer. In 2017, no single customer represented more than 3.1% of consolidated sales.

However, in certain countries, one customer may represent a large share of the business of a specific manufacturing facility and the loss of that customer could have significant impact on a local level.

### PROPORTION OF SALES MADE TO THE GROUP'S MAIN CUSTOMERS

| | 2017 | | 2016 | |
|---|---|---|---|---|
| *(in millions of euros)* | Sales | % of sales | Sales | % of sales |
| With the Group's leading customer | 25.2 | 3.1% | 27.4 | 3.6% |
| With the Group's top 5 customers | 89.3 | 11.0% | 96.5 | 12.6% |
| With the Group's top 10 customers | 150.7 | 18.6% | 140.1 | 18.3% |

The Group is also exposed to risks of customer complaints regarding defective products or, for certain business activities such as anticorrosion equipment characterized by project-based sales, to late penalties. The diversity of customers and activities limits the financial impact of this risk on the Group's earnings and financial position. In addition, some of these risks are partially covered by insurance.

The Group also recognizes certain provisions for disputes based on risks that it assesses and reassesses every six months, using the best estimate it can make with the information available and particularly information provided by outside experts and law firms. However, the Group cannot rule out the possibility that certain dispute risks may be under-estimated and that this may only become apparent after the fact.

## 1.13. Risks linked to acquisitions, goodwill, impairment and restructuring

The Group has followed a strategy of targeted acquisitions for several years. Any acquisition where the price including all liabilities is higher than €3 million must be approved by the Board of Directors pursuant to a proposal by Executive Management.

Every acquisition includes certain risks of inadequate evaluation of certain factors or of integration problems that may affect the results of the Group or of a business activity. To limit this risk, the Group follows complete due diligence procedures (including environmental, legal, financial, industrial and human resources) as well as integration rules. In many cases, it also retains the management of the target company to facilitate integration.

Risks linked to acquisitions may indirectly cause a risk in the valuation of goodwill. The Group has substantial goodwill related to past acquisitions. The amount of goodwill recognized on the balance sheet totals €265 million. Note 6 to the consolidated financial statements describes this goodwill in detail.

Impairment tests for cash-generating units are performed whenever evidence of impairment in the value of assets appears and at least once every year, to identify, where necessary, possible impairment on net assets, including goodwill, of these cash-generating units. Even so, potential uncertainties associated with the economic environment pose a risk to the preparation of the cash flow projections used in the valuations produced from these tests. This risk is all the more significant for the Anti-Corrosion Equipment CGU, whose principal outlet is the chemicals market, which has been suffering from weak demand since 2013. The unit value of orders in that CGU is significantly greater than in the Group's other CGUs. Fluctuating order levels may therefore trigger significant variations in cash flow. The asset impairment tests are presented in Note 7 of the notes to the consolidated financial statements.

The Group regularly conducts industrial and commercial reorganizations that may result in risks of labor conflict, loss of expertise or loss of sales. These risks were exacerbated by the implementation of the competitiveness plan, which included staff cuts, and in particular redundancy plans and transfers of production involving two French sites. This plan was announced and initiated in 2016 and will continue in 2018. The Group limits these risks by setting up dedicated project groups, carefully identifying risks and taking steps to reduce the risks identified.

## 1.14. Risks relating to innovation and R&D

The Mersen group pursues a proactive policy in the area of innovation and R&D, described in this chapter.

The Group will therefore be investing in new equipment or tying up capital in R&D that may eventually be partly or entirely unused if the development plan does not go ahead, or if certain customers abandon their own development plans. However, the Group has very little equipment that is dedicated to only one application or customer, and the sums invested in an R&D project never exceed 0.5% of the Group's sales.

## 1.15. Geopolitical risks

The Group carries out a significant share of its commercial and industrial activities in emerging countries that have recently experienced or are at risk of experiencing periods of political and economic instability. In 2017, sales outside Europe, North America, Japan and South Korea represented 23% of consolidated sales, of which 11% are derived from China. The Group is thus exposed to certain risks that could affect its profitability in certain geographic areas.

In particular, the Group has manufacturing operations in South Africa, which are rated high risk as regards customer payments (Coface ratings). These country accounted for sales of around €5 million, i.e., less than 1% of the Group's overall sales.

With facilities in more than 35 countries, the Group is exposed, generally, to the risk of regulatory change (tax, legal or other) that may affect its profitability or its ability to generate financial flows to the parent company.

Since 2003, the Group has adopted a commercial credit insurance program with Coface, which is described in Note 3 to the consolidated financial statements. However, the program does not include all Mersen's subsidiaries and Coface can refuse to ensure certain exposure.

## 1.16. Human and social risks

The management and development of the Group's activities require the company to recruit and hire many highly-qualified technicians and managers. The success of the Group's internal and external development plans depends, in part, on its ability to hire and integrate individuals with new skills and to train and promote new talented employees. However, the Group could lose expertise and knowledge with the retirement of certain key employees and could face the risk of inadequate management skills. These risks could affect the profitability of a facility, an activity or a project.

To guard against this risk, the Group has adopted procedures, programs and actions intended to maintain employee loyalty and develop employee skills to support the Group's growth as far as possible (see Chapter 4 of this reference document).

In addition, when restructuring measures liable to have an impact on the workforce are contemplated, the solutions envisaged are studied in conjunction with the unions and employee representatives in accordance with legal provisions. Appropriate measures are taken to reassign affected employees to new positions within or outside the Group. However, the Group cannot dismiss the possibility of labor conflicts or legal action by employees that may have negative impacts on the Group's financial position, results or image.

## 1.17. Risk related to internal control failings and risk of fraud

Given the Group's international presence, its administrative, financial, and operational processes are managed in diverse legal and regulatory environments, with a sensitivity to internal control and risk management that differs from one entity to another. In this context, the Group cannot dismiss the possibility of internal control failings, fraud or the failure to comply with local regulations, which may have significant impacts on the Group's financial position and/or harm its image.

To limit this risk, Mersen regularly reviews its internal control procedures, carries out activities to increase awareness, and performs audits of subsidiaries. To heighten employee awareness of fraud-related threats and improve risk management culture within the Group, the Internal Audit and Risk department publishes a monthly press review on the topic. This review includes Group-specific messages and discusses any fraud attempts experienced by Mersen. In 2017, around 20 attempts were recorded. None of these resulted in financial loss.

The Group's internal control organization and risks related to internal control failings are described in the chapter entitled "Principal internal control procedures for the Mersen group" of the management report.

## 1.18. Risks linked to the penetration of new markets and technological ruptures

Mersen has an active policy for developing new markets whose legal, contractual, quality and other risks are beyond its control, since such risks cannot be evaluated at present as the markets and players in question are still developing. To mitigate the extent of these risks, the Group has set up a working group specifically tasked with identifying these risks and proposing action plans.

The Group is positioned in high value-added markets with cutting edge technology. It could be exposed to threats in some of its traditional market segments if its technologies were replaced.

The Innovation Department, working in a transverse role with the Group's various businesses, monitors technological trends so that it can anticipate any technological rupture. Each business also continuously analyses current products, technologies and markets.

### 1.19. Risks linked to electric vehicles market

The Group is expanding into the electric vehicle market with the development of new products. It is exposed to risks related to the automotive market, e.g., risks of non-compliance, price reductions, penalties, product recall, etc. In 2018, it may also be required to tie up capital in resources allocated to developing these new products until said products are brought to market. If product development is postponed or brought to a halt, the Group may then have to partially or fully amortize the investment.

### 1.20. Risks linked to digital transformation and e-commerce

Some of the Group's customers or businesses, particularly in the Electrical Power segment, may be affected by digital development. The Group has set up working groups to limit the risks of loss of sales and to create new opportunities. It cannot rule out all risks in this area, but diversifying its business activities is in itself a risk reduction factor.

### 1.21. Risks linked to changes in product standards

The Group may be faced with unfavorable changes in product standards. To prepare for such risks, the Group regularly monitors changes in product standards and sets up project groups for this purpose, particularly in Research and Development.

## 2. Financial risks

### 2.1. Currency risks

Currency risks are addressed in the "Currency risks" section of Note 3 to the consolidated financial statements.

### 2.2. Interest rate risks

Interest-rate risks are addressed in the "Interest-rate risks" section of Note 3 to the consolidated financial statements.

### 2.3. Raw material risks

Raw material risks are addressed in the "Raw material risks" section of Note 3 to the consolidated financial statements.

### 2.4. Counterparty risks

All hedging transactions are entered into with prime financial institutions. The Group has no material investment securities and is not exposed to counterparty risks on such securities.

With regard to credit risk, the Group has set up a Coface commercial credit insurance policy to cover its principal US, Western European and Chinese companies against the risk of non-payment for financial or political reasons. Coverage may vary, by customer, between 0 and 95% of invoiced amounts.

### 2.5. Liquidity risks

The Group conducted a specific review of its liquidity risk and believes that it will be able to honor its forthcoming repayments.

Liquidity risks are addressed in the "Liquidity risks" section of Note 3 to the consolidated financial statements.

### 2.6. Credit risks

The Group must comply in particular with the OFAC regulations via its syndicated loan and its private placement in the United States. Failure to comply with this regulation could lead to default on these loans. The Group has implemented internal procedures to ensure compliance with this regulation at all Group facilities.

### 2.7. Equity risks

The presence of shareholders with a large stake in the Group limits the stock's liquidity.

The Company has entrusted Exane BNP Paribas with implementing a liquidity agreement in accordance with the AMAFI's charter of ethics, as approved by French law.

The Group has not subscribed any shares in listed companies.

# 3. Tax and customs risks

The Group undergoes regular tax and customs audits by the tax/customs authorities in the countries in which it operates. In the past, the tax reassessments issued after tax/customs audits were for non-material amounts. The most material risks relate to:

Mersen do Brasil, which received notice in June 2013 of a customs inspection covering the period of January 2008 - December 2012. Customs officials issued a notice of reassessment (principal and interest) in the amount of 11.3 million Brazilian reals, or approximately €2.9 million at the exchange rate on December 31, 2017. The Group has filed a challenge.

On December 13, 2016, Mersen Gennevilliers received notice of a reassessment for corporate property tax (CFE) relating to the years 2013 through 2016, and real estate tax for 2016. A provision for part of this amount was recognized at end-2016 and the reassessment was contested by the Group. The tax authorities accepted the arguments put forward by the Group and settled the dispute on April 26, 2017 by proposing a reduced reassessed amount of €339 thousand, covering real estate tax for 2016 and corporate property tax for 2013 through 2016.

On September 22, 2017, Mersen France SB SAS was issued an accounting audit notice for the period from 2014 through 2016 (and subsequently extended to July 31, 2017) concerning sales taxes and also covering the amount declared for the research tax credit for expenses incurred in 2013 through 2016. No provisions had been recognized for this audit at end-2017.

# 4. Legal risks

## 4.1. Dependence of the Company

The Mersen group is not dependent on any patent, license or supply contract that may have a material adverse effect on its business activities or profitability.

## 4.2. Disputes

The Group reviewed the risks that could have a material effect on its business, its financial position or its results (or on its ability to achieve its objectives) and believes that there are no material risks other than those presented below.

None of the legal proceedings referred to below led to provisions being set aside, as the Group is not at this stage in a position to assess the financial risk.

### 4.2.1. Civil proceedings in Canada

The civil proceedings initiated in 2004 in Canada by certain customers against the leading Canadian graphite brush manufacturers, including Mersen's Canadian subsidiary Mersen Toronto, is still ongoing with no significant developments since 2007. To recap, this lawsuit was instigated following the fine of CAD 1 million that Morgan Crucible Ltd was ordered to pay in July 2004 for anti-trust practices in the field of graphite brushes for traction applications during the 1995-1998 period. To recap, the Canadian judge ruled in February 2007 that only Canadian urban transportation companies could join the proceedings in progress. The risk for Mersen Toronto is still not material.

### 4.2.2. Administrative proceedings in France

In 2013, SNCF commenced two legal actions against Morgan, SGL, Schunk and Mersen respectively in the Paris Administrative Court and in the Paris Commercial Court. SNCF is attempting to secure redress for losses that it allegedly suffered following practices penalized in December 2003 by the European Commission in brushes for electric motors and products for mechanical applications. In 2014, the Paris Administrative Court rejected all the claims lodged by SNCF, which appealed the decision. The Tribunal de Commerce de Paris has still not issued a ruling. Mersen rejects all of the allegations and demands put forward by SNCF. Both cases are still ongoing.

### 4.2.3. Legal proceedings in France (accident at the Gennevilliers plant on April 7, 2010)

Criminal proceedings that were initiated after the tragic accident on April 7, 2010 at Mersen's site in Gennevilliers are still in progress, with no significant developments in 2017.

There are no other governmental, legal or arbitration proceedings, including any such proceedings which are pending or threatened of which the Group is aware, during the previous 12 months which may have, or have had in the recent past material adverse effects on the Group's business activities, financial position or results of operations.

# 5. Insurance

Mersen Group has negotiated international insurance programs in the insurance market to cover its main risks. To protect the Group's future, the levels of coverage are set based on the Group's loss record and an assessment of the risks incurred by each Group subsidiary. In a context in which claim levels have remained under control for several years, the Group's insurance programs remained stable in 2017 and the ongoing risk prevention policy has meant that coverage and premium levels are unchanged.

The Group's global insurance programs (implemented in certain countries by local policies) have been put in place with leading insurance companies to cover the main risks of operational Damage/Loss, Professional Third Party Liability, Environment, and Aviation and Transportation Professional Third Party Liability risks. These worldwide programs provide all the Group's subsidiaries with cover and restrictions tailored to their needs. No captive policies have been arranged.

As part of the Professional Third Party Liability insurance program (operations, pre- and post-delivery), Environmental and Professional risks are covered in particular, subject to the usual excesses, exclusions to and limits on coverage, as are bodily harm, physical and economic loss, disassembly/reassembly costs, collection costs, damage to goods in third party storage and decontamination costs. The international program comprises a master policy in France and local policies in certain countries. The total amount of premiums paid by Mersen Group for fiscal 2017 in connection with the Third-Party Liability/Environmental and Professional Third Party Liability/Aviation Third Party Liability program was €725,000 (excluding tax).

The Group's property/business interruption insurance program notably covers bodily injury and physical damage, as well as losses caused by the interruption of business at the Group's main plants as a result of any sudden and accidental events (such as fire, storm, explosion, electrical damage, theft, etc.), subject to the usual deductibles, exclusions and restrictions. The program comprises a master policy and local policies in certain countries. It provides a contractual restriction per event (property/business interruption combined) of €135 million with sub-restrictions for certain events, such as storms, natural disasters or certain specific guarantees, such as machine failures and IT and electrical risks. The total amount of premiums paid by Mersen Group for fiscal 2017 in connection with this program was €825,358 (excluding tax and premiums for GAREAT, natural disasters and compulsory local coverage).

Under the Group's transportation insurance program, Mersen and its subsidiaries are protected by a worldwide policy that provides a guarantee of up to €5 million per shipment for all the Group's goods shipments, irrespective of the means of transportation used. The premium paid by Mersen Group for fiscal 2017 was €85,500 (excluding tax).

# 4 CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

# Corporate Social Responsibility

Mersen's corporate project relies first and foremost on the men and women who work for the Group. Our employees have the expertise. They respond to customers' day-to-day needs and develop innovative solutions by analyzing market trends and keeping a close eye on the latest technological advances. Their knowledge and savoir-faire represent our most precious asset - our human capital.

## 1. Human Resources plan

Every five years, the Human Resources Department determines the policy that guides work in a manner consistent with Group strategy. The 2016-2020 HR master plan is predicated on four pillars and is implemented by the entire management team, with the support of the HR teams. The plan aims to build a strong HR identity to support the achievement of Mersen's strategic project, taking into account the priorities of the divisions and its employees' expectations and needs, while giving managers the requisite visibility and clarity in the medium term concerning the changes to be implemented.

### 1.1. Increase the sense of belonging to the Group and its attractiveness by reinforcing its common culture based on its values

#### 1.1.1. Changing standards

**Values**

2016 saw Mersen redefine the professional values and behavior policy that apply to all employees as well as its management guidelines after consultation with the Group's manager and HR community. Out of this dialogue arose an expression of these values and the vision and purpose of the Group. There are five in total: Excellence, Collaboration, People-conscious, Agility & Entrepreneurial spirit and Partnering with our customers.

All employees approved these values in the first half of 2016 via exchange of viewpoint workshops at all sites throughout the world. A survey was also carried out in the same year to compare these values with those encountered on a daily basis, or those that appeared essential to Mersen's future. Conducted at all sites worldwide, the survey provided both a local and global vision. It was used to define a certain number of indicators for each site (degree of cultural entropy[1], alignment with the Group's values and purpose, level of engagement, quality of action plans) as well as various action plans that continued to be implemented in 2017. A new survey is planned for 2018 in order to measure the progress made. One of the targets defined, for example, is to see the degree of cultural entropy at Mersen drop from 17% in 2017 to below a threshold of 15% in 20187.

FOCUS

**When rolling out the Group's values helps improve its communications**

*As part of its initiatives to promote the Group's values, Mersen's site in Cabreuva (Brazil) launched its own employee satisfaction survey. The managers were trained in how to lead the workshops and 90% of employees took part in the survey. The end objective was to strengthen exchanges and discussions between managers and their teams in order to get a clearer understanding of employee expectations and improve global communications.*

**Ethics Code**

The Ethics Code describes the principles that govern relations within the Group, with our customers, suppliers and competitors, our shareholders and our obligations with regard to protecting the Group's assets and Mersen's commitments as a responsible company. It was updated in July 2017.

The fundamental principles of the ILO (International Labour Organization), which the Group has committed to adhering to under current legislation, were reaffirmed in the Code. They include labor law issues such as freedom of association, effective recognition of the right to collective bargaining, elimination of all forms of forced or compulsory labor, effective abolition of child labor and elimination of discrimination in respect of employment and occupation.

*(1) Cultural entropy is a measure of the proportion of energy in an organization that is consumed by unnecessary or non-productive work.*

An ethics awareness campaign was launched in 2017 in the form of a training program to present the Code and its core principles using practical case studies (e-training available in several languages: Arabic, Chinese, Czech, English, French, German, Hindi, Hungarian, Italian, Japanese, Korean, Portuguese, Spanish and Turkish). This training is mandatory for all employees. At the end of December 2017, close to one third of employees had already completed this training.

Another "anti-corruption" training module was also introduced during the second half of the year which is primarily intended for site manager functions and the finance, sales, purchasing and HR teams. Around one hundred people completed this module in 2017.

Notices are displayed on all sites to inform employees on what alert action they should take if they become aware of any practices that do not comply with the Ethics Code.

All of these measures are coordinated by the Ethics & Compliance function set up in 2017 to develop and coordinate an effective and sustainable ethics and compliance policy (see chapter 3 of this document).

BEST PRACTICE

#### Awareness campaigns

*In India, a specialized committee was set up in response to the country's new law on sexual harassment in the workplace. As well as registering any complaints, the committee is also in charge of employee awareness campaigns to prevent harassment occurring in the first place. In South Africa, the company show was used as a platform to heighten employee awareness of the problem. This type of interactive teaching method helps ensure that audiences understand but also retain the intended message.*

### 1.1.2. Recruitment and induction processes that are central to Mersen's policy of reinforcing a common culture

#### Recruitment

Adhering to the company's principles and values is an essential criterion in the selection of candidates.

The recruitment process for managers has now been harmonized across all the Group's companies to make it as streamlined and professional as possible. Thanks to its heightened presence on social networks (LinkedIn, Viadeo and Xing) and the "Careers" section of its website, Mersen group is improving the visibility of its job postings and increasing its appeal. Mercer's Facebook profile highlights the diversity, energy and collegiality of its teams worldwide.

#### Integration within the Group

It is also essential to share the culture of the Group during the integration phase of new hires in order to assist them in rapidly finding their way in the company.

Mersen has set up a made-to-measure program for them entitled "I Become Mersen" that is mandatory for all new hires. The program begins on the first day on the job, starting with a welcome booklet and kit containing all of the documents and information needed. It is then adapted on a case-by-case basis and may include appointing a mentor with whom interviews may be held during the initial months.

As part of their integration process, new hires are required to complete a certain number of training programs in classroom situations or via e-learning. The training modules on policies and tools related to "safety at Mersen" and on the Group Ethics Code are mandatory for each new hire. For engineers and management staff, the "Project Management at Mersen" module is also mandatory. New engineers and management staff must attend the specific training programs listed in the Group management guidelines.

Following the Group's decision to reinforce its integration process, new engineers and management staff are invited to a two-day integration seminar, the "New Comers Event". The first day is devoted to an introduction to Mersen and its businesses by its executive staff and the second is organized around a visit to an industrial site to highlight and illustrate different issues such as security and operational excellence. At the end of 2017, three integration seminars had been organized in America, Europe and Asia.

Where a company has been acquired by Mersen, integrating the new employees into the Group is also prepared and conducted in such a way as to instill a sense of belonging to the Group. With this in mind, Mersen has specifically developed an integration program intended for the employees of acquired companies entitled "We are Mersen" that integrates human, social and cultural dimensions.

### 1.1.3. Develop a sense of well-being and cohesion in the workplace

#### Health & Safety

One of the Group's values is Humanity. At Mersen, this is clearly evident through its strong commitment to health and safety, as well as to improving working conditions and preventing psycho-social risks and stress. The health and safety of employees was cited as being the most important of our employees' values experienced daily in the survey carried out in 2016. This is the result of sustained efforts in these areas exerted over several years. Mersen works unremittingly to protect its employees against the risks it faces that are inherent to all industrial businesses(1). An occupational health and safety management system has been introduced and implemented globally, irrespective of the location and culture of individual plants. Mersen's managers strive for excellence in these areas.

Prevention in this area involves ongoing efforts to raise employee awareness of safety issues. This begins as soon as the employee enters the company. All new hires must watch a Group safety presentation (available via e-learning in Chinese, English, French and Spanish). The Group's Health & Safety commitment is described in detail later in this chapter.

*(1) The health and safety policy is presented at the end of this section.*

Clear and understandable rules to all Group employees. These golden rules of safety are the backbone of the system. They concern the primary risks that are encountered in all production facilities, such as traffic flows, postures, protective equipment, energy powered systems, lifting operations, working at heights, confined spaces, risk situations, co-activity, forklift operations and high storage, and are displayed at all sites in local language.

A mapping of potentially fatal risks has been carried out in all of Mersen's subsidiaries and each Group facility held a training course in 2015 on fatal risks linked to their site. Additional and more targeted training was also provided to employees who work on highly specific equipment or environments. This training is repeated every year.

In building a culture of safety, we also publish a monthly report of safety results, together with an analysis, and share best practices. Over the years, the Group has recorded a certain number of good safety practices observed in its production facilities, some of which have become mandatory: they are the minimum requirements that each facility must put in place and maintain.

Most Group managers also have at least one safety objective in their annual targets.

Since 2016, Mersen group has carried out Fatal Risks Safety Inspections in addition to the Managers' Safety Inspections already in place for several years now. The aim of these inspections is to specifically identify any activities or operations that present the risk of a serious, even fatal accident as defined in the golden rules of safety. The purpose is to regularly check that the prevention mechanisms in place are correctly applied and that these operations are carried out in compliance with established rules in order to reduce the risk of a fatal accident to a minimum.

To strengthen collaboration between the Group's safety managers, a series of meetings were organized locally in China, North America and Europe in 2017. These meetings provided the opportunity to discuss best practices and the Group's standard safety tools and resources.

In occupational health, Mersen embarked on a program several years ago to develop well-being in the workplace, which paved the way for the signing of an agreement by all labor partners in France. As in the area of safety, the company emphasizes great emphasis on prevention while also providing remedial measures where necessary. Risk analysis, prevention and control measures can be launched at a department or site level, in cooperation with the workplace health and safety committees and occupational health services.

Multi-disciplinary working groups composed of operators, managers, technical departments, occupational medicine, safety officers, and the workplace health and safety committee are being formed at sites to identify risks and improve workstation design in production, administrative and technical departments. These processes are intended to reduce incapacity at work, occupational illnesses, and absenteeism. Their objective is to take action as early as possible to prevent risks.

### BEST PRACTICE

*Firmly committed to occupational health issues for several years now, in 2017 the St. Marys (United States) facility brought in two specialists in well-being to talk with interested staff about heart disease and the immune system. Information and different blood tests (cholesterol, glucose, blood pressure, etc.) were also provided free of charge on-site. The Newburyport (United States) facility also organized two seminars on health in the workplace in 2017.*

### FOCUS

*Mersen's site in Tunisia was presented with the 2017 National Tunisian Health and Safety Award by the President of the Republic of Tunisia. This prize which rewards efforts made to improve health and safety was awarded following a visit from a committee of representatives from various institutions: the Tunisian Labor Inspection Body, the National Institute for Safety Research, the UTICA (Union of Independent Contractors), the UGTT (General National Labor Union), and the Agency for Occupational Health.*

Facilities such as St. Marys and Rochester (United States), Cabreuva (Brazil), and others in Korea, Colombia and India, evaluated the ergonomics of certain workstations. Investments were also made at French and United States facilities (respectively, Bazet-Lannemesan, Amiens, Angers, Saint Bonnet de Mure and Pagny-sur-Moselle and Bay City and Newburyport) to modify certain handling equipment, thereby improving operators' safety and preventing occupational stress.

Osteopathy and massage treatments were also offered during working hours at certain plants.

BEST PRACTICE

### Osteopathy and sophrology to improve well-being at work

*Committed to offering its employees the means to improve their quality of life, Mersen's plant in La Mure (France) has provided osteopathy treatments since 2014 and, since 2016, sessions in sophrology, a personal development technique.*

In line with current legal developments, the Group is also continuing its initiatives to prevent occupational stress.

In 2017, the charter for a better work-life balance was updated to integrate the Group's commitment to the reasoned and balanced use of digital tools in line with the minimum rest times applicable in each local legislation. The charter addresses five issues: scheduling of meetings, maternity/paternity leave, flexible working hours and work-at-home, digital tools and managing rest periods. It is to be implemented in all Group entities under the responsibility of each entity manager. In France, as in the United States, structured work-at-home arrangements have been established for several dozen employees and are becoming practice elsewhere.

Furthermore, in France, an agreement linked to employees' "right to disconnect" (to not have to check and reply to work e-mails outside of normal hours) has been signed with trade unions. The agreement formally defines the rules for the use of digital tools in order to respect rest times, and is being rolled out through communication and awareness campaigns for managers and employees.

These various measures, which are long-term measures, place the emphasis on prevention. They contribute to maintaining a relatively low absenteeism rate within the Group.

BEST PRACTICE

### Flexibility and e-working

*The development of greater flexibility at work (flexible hours, reduction in the working week, e-working, etc.) is a measure taken by many Group sites to help improve the quality of life for employees and, in doing so, encourage greater implication and appeal. In France and the United States, a pilot e-working program has led to a new charter.*

*In New Zealand, Mersen's plant has changed to a four and a half day week for production operators to allow for a better work/life balance. The plant also offers greater flexibility for senior staff in order to encourage them to stay with the company for longer.*

*At the Dorion site in Canada, a trial program was set in place to allow employees to alternate and work a 10-hour day for four days in the week. In countries with a very low unemployment, measures like these can be a means of attracting candidates.*

### Absenteeism

| As a percentage | 2017(1) | 2016(2) |
|---|---|---|
| Absenteeism rate | 3.3% | 3.6% |

*(1) Scope included in HRIS excluding the site of El Paso (United States).*
*(2) Scope included in HRIS excluding the following sites: Bazet (France), Gonzales, Rochester, Oxnard and Salem (United States).*

## 1.1.4. Diversity

Mersen's international presence makes diversity a natural part of the company. There is diversity in our teams' origins, training, cultures and ways of thinking; all qualities which stimulate creativity in the Group, that give us a better grasp of what customers want around the world.

Mersen promotes a corporate culture that inspires mutual respect and recognition of the intrinsic value of each individual, whatever their background or origin. It is solidly embedded in our values, and perfectly reflected at our U.S. Boonton site, where people from 25 different countries work side by side every day to help our company prosper.

The human resources staff strives to ensure equal opportunities at every level, while maintaining and strengthening the multi-disciplinary capabilities of teams.

The Group undertakes to combat all forms of discrimination through respect and diversity. Mersen shares and contributes best practices with other companies through various associations. In parallel, by subscribing to the principles of the UN Global Compact, the Group is committed to contributing to the fight against all forms of discrimination in employment and occupation (Principle 6) around the world.

While Mersen's corporate culture is strong, it is also adapted in each country to fit in with local cultures and customs. The best way to achieve this integration is to give the management reins to local managers, which is the practice at nearly all of the Group's facilities. The Group's human dimension takes on its full meaning in this drive for a subtle balance between respecting its principles and values and embracing local customs and practices. Lastly, Mersen wants its management structures to reflect the diversity of its teams.

| As a percentage | 2017 | 2016 |
|---|---|---|
| Plant managers/local nationality | 90% | 90% |

### Gender balance

Gender balance has been clearly identified and stated by Mersen as a priority area for progress. We have made a serious commitment to integrate more women in all our business lines, including production. Many initiatives in this area have been introduced in recent years, including hiring, career tracking, communication, awareness-raising among managers, compensation, greater flexibility for parents in their professional lives, organizational changes and workstation adjustments to minimize physical constraints for female operators.

In 2015, management and all union organizations renewed their three-year commitment to promote gender equality in the workplace, by signing a new agreement, which also sets the objectives of promoting more flexibility between professional life and family responsibilities and improving gender balance in representative bodies.

The proportion of women managers is approaching the Group's objective of at least 20%. This proportion is 27% in the Board of Directors and Executive Committee governance bodies.

| As a percentage | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Women on corporate governance bodies | 27% | 24% |

A women's network, created in 2010, known as WiN: Women in MerseN, brings together male and female Group employees who want to work on a joint project to promote cooperation and mutual assistance, encouraging growth through greater diversity. The aim of the WiN network is to pool the potential capabilities of its members and to provide opportunities for meetings and analysis outside the scope of any hierarchical system. WiN also aims to become an international network within the Group that can take part in inter-company events and share experiences. In 2017, a team from Mersen took part in the finals of the Innovatech 2017 Challenge in Paris, honoring a team of young, dynamic entrepreneurial women.

### Employment and integration of disabled workers

Going beyond its legal obligations, Mersen has strengthened its disability policy in connection with its policy to foster diversity. Accordingly, it set up a partnership in France with ARPEJEH, a non-profit organization supporting educational projects for disabled school-age and university students. It offers an opportunity to accommodate disabled people and introduce them to the business world. It helps to change the attitudes of Mersen's employees to disabilities, while encouraging creativity and open-mindedness.

The Group has undertaken other initiatives. In France, for example, Mersen Amiens works with the Sign Language Institute to facilitate communication with one of its hearing-impaired employees. Internationally, Mersen India is working with EnAble India to train Group employees in accommodating and working with disabled colleagues and five severely disabled operators now work in our Indian plants. Mersen Canada prepared a facilities access charter for its disabled employees and customers and Mersen Gebze in Turkey specially re-fitted its work areas to facilitate circulation in the factory.

The Group also regularly subcontracts with sheltered work agencies in France (ESAT) and equivalent entities in other countries.

BEST PRACTICE

**Training employees in integrating disabled coworkers**

*If local legislation requires hiring disabled employees, some of our sites go above and beyond these requirements to encourage their integration and facilitate collaboration. In India and New Zealand, for example, training is organized to help our teams understand how best to include and work alongside people with disabilities.*

### 1.1.5. Labor Dialogue

The Group Works Committee in France and the European Works Committee provide a forum for dialogue with employee representative bodies concerning the Group's position and strategic objectives in France and in Europe as a whole. They provide an extra dimension to relations with employee representatives through the employee consultation and discussion bodies that exist within the Group's companies.

In view of the changes seen in certain markets and their short and medium-term outlook, Mersen group faced a number of challenges in early 2016, particularly with regard to its French sites. Today, the Group must adapt to an increasingly restrictive environment and safeguard its competitiveness. As a result, and because it is also committed to its human values, all steps were taken to ensure measures were carried out in keeping with quality labor relations and to find solutions that minimized their social impact through the signing of majority agreements.

These measures resulted in the elimination of 130 jobs in France at the Pagny-sur-Moselle and Saint-Bonnet-de-Mure sites. The voluntary departure option set down in the agreements, however, made it possible to reduce the number of forced layoffs by half at one of the sites and entirely at the second site, bar one exception. By late December 2017, the repositioning rate had reached 97%.

In addition, the Group continued to implement the plans established in 2014, designed to prepare for possible psycho-social risks and support employees interested in initiating their own career planning process. Apart from this, Management drew on all participants in the area of occupational health and generally the executive staff so as to remain attentive to requirements.

## 1.2. Rally collective intelligence through an organization that promotes collaboration

### 1.2.1. New structural organization that seeks to pool resources and synergies

In early 2016, a new organization was implemented to accelerate the Group's development and assist in arbitrate the numerous projects underway. First, two areas of expertise and five businesses were reconfigured in order to improve efficiency and reactivity on the markets, while simultaneously pooling certain resources and reinforcing synergies. Next, an Innovation and Business Support Department was created to accelerate the roll out of an innovation mentality in Mersen. Its responsibility will be to anticipate market challenges and to make the company stand out better in relation to competitors through the advanced technology mastered by the Group. Lastly, in order to support business development in high-potential areas, an Asia and South America department was set up. These two new functions, in addition to the Operational Excellence function, are now associated with the Group's Executive Committee.

In 2017, faced with the need to improve agility and efficiency in its information systems and in its markets, Mersen created an IS department that reports directly to the Group's Chief Executive Officer. A new five-year roadmap for the IS department was developed and approved by the Executive Committee and a transformation project will be launched in 2018 to give Mersen a sustainable information system that is adapted to its activities and a robust IT structure.

### 1.2.2. Promote cross-business methods

#### Project management and cross-business coordination

The Group carries out various major, strategic projects, such as acquisitions, industrial adjustments, and major investments on an ongoing basis. Given their complexity, we use a common project management method, the Global Project Standard (GPS), which was reviewed in 2015. A project group composed of operational employees from the various business lines and project management experts revised the methodology, training and deployment systems in the Group.

Today, an e-learning program is used to familiarize employees with the broad guidelines and methods and has been mandatory for all new managers and engineers since 2016. More comprehensive live classroom modules, taught by in-house experts, were also set up for the project teams on the basis of this shared methodology. In 2017, nearly 200 people were trained. In 2018, this training will be complemented by role playing exercises, so the teams can learn from these methods in a more practical way.

In addition, to accelerate the roll-out of the new project culture, each business line has designated one or more advisors to provide methodological support to the project teams. These advisors' main duties will be to assist the project managers and their teams and help train them. They will ensure that the GPS culture is applied and respected across the Group. In 2017, advisors were designated for the main regions in which Mersen operates.

#### Reinforcing Communities

Communities also promote cross-sector approaches as well as information sharing and best practices. HR and Safety communities have already existed for several years within the Group. In 2016, the first multi-cultural technical community for machining experts of the Group was formed. This new community, which meets at least once a year, has set itself several objectives: improve productivity by reducing costs, improve equipment safety, and capitalize on and consolidate the extensive expertise in the field.

### 1.2.3. Internal communications

Sharing information is a key aspect of employee motivation. Mersen endeavors to communicate internally about the performance of its businesses, including both its results and future projects. This emphasis on transparency enables each individual to gain a full sense of what it means to be part of the Group. Since 2016, Mersen has been improving its internal communications process by setting up quarterly conference calls between General Management, the Finance Department and all executives and managers of the sites. During these meetings, quarterly results are presented and remarked upon, as are upcoming priorities. Every participant has the opportunity to ask questions and the responsibility to report information from their respective areas.

*Inside Mersen*, the Group's in-house magazine, is available in an interactive electronic format on the intranet. Information is also passed on using complementary theme-based publications with the latest news and plant magazines, which focus on local information. In addition, discussions between management and employees take place on a monthly basis at most facilities.

The Group's intranet, accessible in real time right around the world, provides a forum for sharing information and tools. Its content is constantly enriched by contributions from many section managers.

## 1.3. Pursue the strengthening of the new managerial culture

### 1.3.1. Strengthen the quality of management

Faced with a changing, fast-moving world, Mersen is adapting and changing its management culture. "Open Manager", Mersen's new management guidebook, describes what managerial qualities and behavior are expected. It addresses five major topics: Working with Everyone, Communicating and Making Sense, Motivating and Developing Employees, Building the Future, and Achieving and Raising Standards. The entire Group's chain of command is concerned; corporate executives, middle managers and supervisors are all essential players in the Group's transformation process.

Going forward, the decision to assign an individual to a management position will be based on the new managerial skills identified. The Group has decided to combine the internal promotion approach further with external hires in key jobs such as expertise area executives, business managers and product line managers.

In 2017, the Group continued to pursue its support policy for management teams by implementing a training program for new managers. Called “First Steps as a Manager”, the program is a blend of e-learning, classroom teaching and coaching, and met with success in its first roll-out at one of Mersen’s French sites in 2017. It will be deployed on a wider scale across the Group in 2018.

Senior management will receive personal development training, starting with 360-degree feedback and Hogan assessments. The assessments will be used to work on development plans with a coach. The two divisions rounded out their individual programs with coaching for the management teams, which took place all year long in 2017.

### 1.3.2. HR tools available to managers

The **annual review** is still one of the key elements of the skills development process implemented within the Group. Annual reviews, a key opportunity for dialogue and discussion between an employee and the direct superior, help to assess individual performance over the previous year and set objectives for the year to come. They also provide a chance to assess competency development initiatives carried out during the past year and to determine what action needs to be taken or continued to make progress in the employee’s current position or to gain promotion in the future. An application developed on the Group’s new Human Resources Information System can be used to manage online forms and facilitates annual reviews. An application migration was implemented in 2017, making the interface more user-friendly for the managers and the HR teams.

In July, managers are asked to conduct a mid-year review, during which they may revise the objectives set at the start of the year, where necessary, i.e., a change in environment or other reasons.

Training in conducting annual reviews was held in several countries, from Asia to the Americas and including Europe. It is systematized every year with a training program implemented via the Mersen Academy’s remote training platform.

**Career reviews** are another tool which provides a full analysis of employees’ professional accomplishments, helping them to formulate their expectations and goals for the medium term. They also provide an opportunity for managers two tiers up to have direct contact with employees and to listen to their aspirations. Career reviews can also be offered during Career Committees or at the mid-point of an employee’s career to see how the land lies.

The **Group Human Resources Information System** (HRIS) has been in operation since 2012. It is set up in some 30 countries. Its primary objectives are the following:

- Support managers in managing their team.
- Strengthen workforce monitoring with reliable, relevant indicators.
- Manage compensation systems.
- Streamline information processes and flows from the countries.
- Deploy the HR strategy throughout all Group subsidiaries.
- Promote Group culture and develop a strong Group identity.

The system is constantly improved year after year so as to better assist the Human Resources teams and the Group’s managerial community with their daily tasks. The improvements are made to both systems and processes:

- In the three main zones, rationalization of the payroll software is continuing. China and France recently underwent a complete overhaul of their pay systems, and in 2017 the United States followed suit. A modernization project is also underway in the DACH zone (Germany, Austria and Switzerland) to set up a new international platform directed from the shared services center in Frankfurt. This will provide for significant improvements in payroll and HR reporting procedures.
- In France, the various sites are currently restructuring their payroll departments. Two specialized payroll centers will be implemented in early 2018, in order to make payroll safer and more efficient across the entire zone.
- At the same time, digital transformation is continuing, especially in France: digital pay slips are now stored in an electronic strongbox, absence requests and approvals are now part of a recently launched mobility program, and employee files are currently being digitalized.
- Finally, HR data quality and reliability remain a major issue and a constant concern. For this reason, the first RH audit campaigns have been launched. Several sites have been methodically audited for the quality of their data and their compliance with Group specifications: M’Ghira, Tunisia; Wenzhou and Shanghai Nanhui, China; and San Feliu, Spain.

### 1.3.3. Training

To help employees progress and prepare them for future positions of responsibility, employees at all levels of the Group regularly attend training sessions or perform training assignments or projects that deliberately focus on topics outside their usual field of expertise.

By expanding access to e-learning to its employees around the world since 2013, the Group underscores its investment in skills development and support as jobs change. The Mersen Academy, the new e-learning portal, allows employees to obtain both high-quality general training and tailored job-specific training. This also offers the Group an opportunity to focus on priority and strategic topics and to instill the Group's culture.

The objectives of the Mersen Academy are the following:

- Streamline training through e-learning.
- Support staff in their personal development and employability efforts.
- Integrate new hires into the core of Group training processes more easily.
- Systematically offer training programs on basic themes, such as safety, quality, ethics and management.
- Reduce training costs.
- Promote interactivity and collaborative work within the Group.

Mersen Academy is accessible by individual or group licenses.

In 2016 and 2017, new programs were added to the Mersen Academy curriculum, including self-service English lessons for managers and executives in the Group's international business lines. These managers and executives now also have access to a multitude of English training programs specially adapted to their careers. Training programs for using information systems and software such as MS Office, emails, etc. are also available.

Every employee can find what they need to become an active participant in their own development.

The Group also promotes qualifying training programs via joint qualification certificates in its business areas, such as metallurgy and chemistry, as well as training leading to a degree. Several dozen employees from all regions participate in e-learning training programs certified by Essec Executive Education or the Institute of Leadership and Management (ILM).

In all, the Group devoted 1.2% of its total payroll budget to training in 2017, i.e. 72,209 hours (or an average of 11.9 hours of training per employee).

The figures below do not include training via the Group's e-learning platform, Mersen Academy, which accounts for 1,548 training hours for 1,813 active employees around the world.

| Training | 2017(1) | 2016(2) |
|---|---|---|
| **Spending on training as a % of total payroll costs** | | |
| Group total | 1.2% | 1.0% |
| • *Of which France* | *1.9%* | *1.4%* |
| **Average number of hours per employee** | | |
| Group total | 11.9 | 12.3 |
| • *Of which France* | *14.5* | *10.1* |

*(1) Scope included in HRIS excluding the following sites: Moscow (Russia), Taipei (Taïwan) and Vienna (Austria).*
*(2) Scope included in HRIS excluding the site in Yantai (Chine).*

BEST PRACTICE

### Training as a driving force for employability and mobility

*As part of an in-house mobility plan for the site at Saint-Bonnet-de-Mure, France, career gateways have been set up in order to train workers in new skills and help them remain in employment. A training program with special qualifying and/or certifying curricula has also been implemented.*

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### A tighter focus on training needs

*In 2017, particular effort was undertaken in Brazil to better address the special training needs there. A study to identify the particular needs was carried out, which consisted of observing workers and then talking to their manager. This made it possible to practically double the number of hours of training compared to 2016.*

### 1.3.4. Career paths

**Career committees** provide the opportunity to assess the career outlooks of key managers in each of the businesses and to prepare an individual skills development plan. These reviews are conducted at plant and divisional level and help to identify key and/or high-potential employees for review by the Management Board's Talents Committee. These committees contribute to improving **succession planning** in the same way as experience interviews. In 2017, the sales, R&D and site manager functions underwent a more specific review.

Mersen's global dimension provides employees with genuine career development opportunities. The Group has demonstrated its desire to encourage exchanges between its various divisions and geographical regions by prioritizing mobility and the international diversity of managers. Mersen's success is predicated on both a balanced **international mobility policy** and the development of local talent. The human dimension requires respect for and the recognition of local cultures and skills, wherever they may be. It facilitates a rapid response for customers and will help to power innovation and growth.

### 1.3.5 Evaluations

Two types of evaluation are carried out at Mersen Group. The first are individual evaluations for senior managers or other experienced managers who are expected to be promoted to a key management position in the short term. The aim of the evaluations is to verify the suitability of the potential promotion and draw up a personalized development plan, which will also help employees succeed in their new role. The second type, which are intended for emerging talent, are under development and should be rolled out in 2018.

## 1.4. Pursue the development of the Group's human capital by relying on our technical expertise in particular

### 1.4.1 Forward human resources planning

The Group must plan ahead and prepare for the future by identifying the competencies that it will need in the future to sustain its development. At the same time, employees must be aware of likely changes in their jobs so that they can improve their own skills set.

Based on the Group's forward human resources planning process and in line with its strategic planning, each division prepares an annual forecast of the skills and expertise it will need in the medium term, in keeping with its priorities and those of the Group.

This analysis is consolidated at the Group level, based on Mersen's reference job framework. This framework, which is updated annually, identifies and describes, for each of the 10 support functions (sales and marketing, business, R&D, production, production support, sourcing, information systems, human resources/safety/general services, finance and legal affairs), the 93 Group reference jobs that are common to all divisions. The framework is reviewed every year and, if necessary, rounded out to take into account the organizational changes and new positions.

This mapping, which describes the jobs, their challenges, specificities and associated skills, enables the Group to increase the effectiveness of its HR policies (including hiring, mobility and training):

- In terms of training, Mersen relies on the job skills guide to offer training programs by support function and continue to develop expertise and professionalism within the Group. Within the sales function, an analysis was carried out for the DACH (Germany, Austria and Switzerland) operations in collaboration with Mercuri International, in order to take stock of the organization's structure and skills in place. A number of recommendations resulted from the analysis, mainly are regards training.
- In terms of annual performance evaluations, employees with the same position are evaluated on the same skills, thereby strengthening the objectivity and reliability of the Group's evaluation process.

This guide is also a valuable hiring tool as it allows us to narrow in on the type of profile sought.

### 1.4.2. Identifying Group experts

To ensure the Group's sustainable development, in particular the strengthening of its technological excellence, Mersen decided to implement an expertise function called "Open Expert", in parallel with its management functions. This function includes experts selected for their key expertise in the Group's strategic business lines, as well as for certain behavioral skills. An Expert Management Committee approves their integration into the function, based on both technical and behavioral criteria. At the end of 2017, a dozen of Open Experts were appointed, forming the foundation of a community intended to promote the Group's culture of expertise.

### 1.4.3. Stimulating innovation

Innovation is used to build a distinctive range of products and to drive growth. The Group's primary partners in terms of innovation are its customers, for which it develops tailored products.

Mersen has two objectives: bolster the culture, resources and oversight of innovation and of Research & Development (R&D); and structure and promote the sharing and synergies of R&D resources among the Group's various units.

The decisions made and initiatives implemented over the past five years have led to:

- The development of an internal online database to include a list of experts (by materials, by physical and chemical phenomena and by industrial processes) and special equipment at all of the Group facilities.

- The formal fixing of research, development and technology watch priorities for divisions and the Group, while ensuring that they remain consistent with its growth objectives in certain key markets.
- The three ideas creating the most value being rewarded each year through the Innovation challenge.

Innovation also lies at the heart of our corporate culture and our HR policy, which promotes autonomy, creativity, initiative-taking and idea sharing by restricting the number of management tiers and providing easy access to managers. The Group's Research and Development policy is described in the Management Report of this document.

Exchanges with outside experts are also encouraged. In France, for example, the Group formed partnerships with French laboratories, productivity clusters, universities and engineering schools under a Unique Interministerial Fund (FUI) project. This collaborative project, $FE^2E$ (economically and environmentally efficient fuses), integrates these partners in areas of advanced research (including materials, electrical engineering and modelling). In the field of materials, the Group is collaborating on the FORCE[(1)] project launched in 2014 to develop a low cost carbon fiber sector in France. Working within a consortium comprised of French manufacturers and laboratories, Mersen is involved as a technical expert in this strategic project for the industry of the future, providing our knowledge of high temperature processes and carbon materials used in the carbon fiber production chain. These collaborative projects reflect the Group's interest in and ability to meet significant technological and manufacturing challenges.

To better prepare for the large-scale changes affecting both our markets and our customers, and to help guide the Group's R&D strategy and efforts, in 2016 the Group created a Division of Technology, Research, Innovation and Business Support that reports directly to the CEO of the Group. This function aims to better anticipate product and solution issues of the future, and will allow for the more efficient arbitrage and monitoring of R & D projects. It will also contribute to better identifying key experts in the Group.

In place for just over one year now, the Department of Technology, Research, Innovation and Business Support of the Group is focusing on a certain number of priority areas:

- Improving the time to market of new products, an essential factor for organic growth.
- Intensifying the selection process of priority projects, in order to better concentrate the bulk of resources on strategic projects.
- Resorting more to simulation tools to save time and react better to customer requirements.

### 1.4.4. Knowledge transfer

Planning ahead for departures linked to demographic trends in the Group's workforce is a key aspect of the Group's policy of human resource planning.

In France, despite the expiry of the *Contrat de Génération* legislation, Mersen has upheld its commitment to hiring young people on fixed-term contracts while maintaining the jobs of senior employees. In 2017, the Group also took on 27 paid interns on degree courses and offered 58 work-study contracts for apprentices or interns. A report is submitted annually to the Group committee.

Many facilities hire people on an internship or work-study basis to order to integrate young people and identify the strongest candidates. Mersen South Africa has joined forces with SAJ Competency Training Institute to hire apprentices and, in the United States, the St. Marys facility has developed partnerships with local colleges to promote the industry among young people and raise awareness about career prospects. The facility also plays a consulting role for training providers in order to develop programs adapted to specific needs. The Rochester facility also offers an apprenticeship program, developed in partnership with the New York State Department of Labor, and the Hittisau site works with a university of applied sciences in Austria, where it offers work-study programs.

Simultaneously, given the challenges associated with training young people, the Group provides tailored guidance for young recruits. A new mentor/advisor dynamic has been introduced to welcome new hires into the company and provide guidance.

With regard to senior employees, in France the company is continuing the mentoring program introduced several years ago.

An "experience interview" may be held with each employee whose skills are judged to be essential and for all employees who may retire within two to five years. The objective is to review the individual's knowledge and key skills to ensure and prepare for their transfer. This interview also reviews the employee's position ahead of his/her retirement and/or the final part of his/her career to make sure it is as interesting and useful as possible. Managers are offered training to prepare for this interview.

The results of these experience interviews will be used to enhance succession planning.

Lastly, highly motivated employees with expertise in a key area for the Group may be asked to become mentors. This kind of mentoring ensures the proper transmission of professional knowledge, which concerns everyone, whether experienced managers, engineers, technicians or operators.

*(1) Optimized and Realistic Economic Carbon Fiber.*

## 1.5. A motivating compensation policy

### 1.5.1. Compensation policy outline

The compensation policy implemented by the Group includes a multitude of measures for employee motivation and satisfaction. Distinction is made between direct compensation, which is money paid to employees, and non-monetary compensation, which comprises welfare benefits.

The components of compensation set out below may not all be in place in all countries and Group subsidiaries. However, efforts have been underway for several years now to gradually harmonize these components when applicable legislation and financial resources allow.

Direct compensation is composed of the following:

- Basic salary: the fixed amount of compensation that corresponds to the position occupied. A basic salary must be competitive and fair, both within the Group and in relation to market practices. Mersen ensures that salaries attract and retain as many employees as possible. Competitiveness surveys make it possible to analyze, on an annual basis, salary competitiveness in a particular market.
- Annual bonus: paid to eligible employees for group and individual performance and based on annual targets, whose composition and achievement criteria are reviewed annually.
- Profit-sharing: mandatory in France under profit-sharing legislation and supplemented by incentive agreements in each of Mersen's French subsidiaries. Profit-sharing is also offered to employees in a large number of Mersen's host countries.

The welfare benefits offered by the Group, aside from legal and obligatory benefits, are as follows:

- Health care: the Group covers, either directly or by means of contributions paid to an insurer, all or part of the health care costs incurred by employees. As a rule, employees also contribute to the costs.
- Benefits plan: ensures the continued payment of the employee's salary in the event of a long-term illness. In the case of disability, the benefits plan provides employees with an income or lump sum to compensate their loss of income. In addition, some plans provide for the payment of a lump sum to beneficiaries in the event of an employee's death. The employer funds all or part of the plan; in the latter case the employee also contributes to the costs.
- Retirement: Mersen, with the participation of employees in some cases, contributes to retirement plans which complement compulsory schemes. These additional retirement plans are increasingly defined contribution plans.

### 1.5.2. Changes in direct compensation in 2017

At Mersen, an employee's basic salary, which is a core component of their compensation, is reviewed yearly. The budgets allocated for this purpose take into account the needs expressed by each entity and make it possible to *at least* offset the annual inflation of living costs. In 2017, the average rise was 2.8% compared with the previous year.

The yearly bonus, which is a major component of variable compensation, was broken down into three schemes in 2017 (two previously), each of which corresponds to a specific employee category. During the year, Mersen set up a bonus scheme for the Group's senior managers, who were previously eligible for one of the two existing schemes. They can now benefit from a modified scheme that bolsters collective and financial targets. Senior managers play a major role in the achievement of the Group's financial targets, which warrants that 60% of their bonus is made up of these targets.

Managers remain eligible for one scheme, half of which is made up of collective and financial targets, and the other of their individual targets, set yearly.

Lastly, the sales force benefits from a bonus that emphasizes the achievement of individual objectives: 70% of the total bonus corresponds to sales. If annual sales targets are exceeded, this maximum rate may be increased. The ratio for exceeding the maximum rate for individual objectives can reach 2.15, i.e. more than 150% of the total bonus.

As of 2017, Mersen has added a collective objective that is common to all bonus schemes. This objective is the Group's operating margin before non-recurring items. Its weighting is identical, irrespective of the type of bonus, i.e. 30% of the total bonus. The objective to be achieved with regard to the operating margin before non-recurring items is set yearly. If this objective is exceeded, an additional amount is paid to all employees who are eligible for a bonus scheme. This supplementary amount ranges from 1 to 1.4 times the maximum rate allocated to the operating margin before non-recurring items, i.e. at most 12% of the total bonus.

In addition to Mersen's bonus schemes, some countries implement variable compensation schemes that are open to some or all employees. These schemes correspond either to local bonus or profit-sharing schemes. In China, Mersen is studying the feasibility of gradually implementing a profit-sharing system from 2018. It should be noted that local bonuses for employees who do not benefit from Mersen's bonus schemes are in place in some of Mersen's Chinese and Indian facilities. Apart from France, profit-sharing is implemented in certain countries, such as the United States, Canada, Mexico, the United Kingdom, Spain and Turkey, through profit-sharing schemes, which benefit either all employees or those who do not benefit from the Mersen bonus schemes.

### 1.5.3. Diversity of the welfare benefits offered

The welfare benefits offered to Mersen employees cover various areas, such as health care, benefits and pension plans.

In France, Mersen has offered employees a standard supplementary coverage for health costs, irrespective of their subsidiary, since 2012. In 2017, Mersen negotiated with union organizations to implement the "responsible contract", a legal provision capping the maximum benefit reimbursement when the employer is responsible for all or part of the contributions. From January 1, 2018, this change has resulted in the decrease of some reimbursements and Mersen has decided to offer employees additional coverage in order to maintain the same levels – joining this scheme is optional. Since this supplementary coverage is fully charged to employees, Mersen has also decided to increase its contributions so that the total amount paid by employees does not increase in 2018 compared with the previous year.

In China, a supplementary retirement plan was introduced in 2017, which is offered to the senior managers of Mersen's Chinese subsidiaries. The aim of the scheme is to enhance retirement pensions by increasing the replacement rate (total amount of the pension versus the compensation received at retirement). The amount of the retirement pensions offered by the Social Security, which is the only retirement plan offered to Mersen's Chinese employees, translates into a replacement rate that is weakest when retiring employees' compensation is high. The plan is funded by employer contributions, while employees can also make voluntary contributions and, in this case, the employer matches the contribution.

# 2. Workforce and facilities

Mersen had 6,384 employees at December 31, 2017, in 35 countries.

## 2.1. Geographical analysis of the workforce (at December 31)

| Country | 2017 | 2017 (%) | 2016 | Difference |
|---|---|---|---|---|
| Europe | 2,062 | 32.3% | 2,172 | -5.1% |
| • *Of which France* | *1,303* | *20.4%* | *1,418* | *-8.1%* |
| North America | 2,012 | 31.5% | 1,855 | +8.5% |
| Asia-Pacific | 1,723 | 27.0% | 1,584 | +8.8% |
| Africa and South America | 587 | 9.2% | 499 | +17.6% |
| **TOTAL** | **6,384** | **100.0%** | **6,110** | **+4.5%** |

The workforce increased by 274 people.

In 2017, 1,657 people were hired around the world, including on fixed-term contracts, and 1,459 people left the Company, among which 365 not voluntarily (scope included in HRIS).

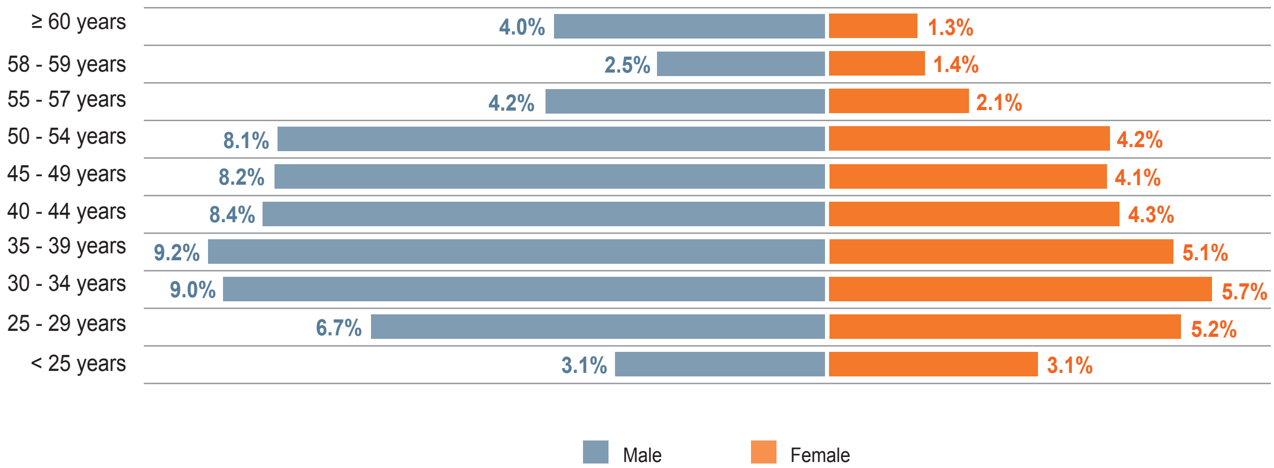
Mersen sold two sites in 2017 – Mersen France Saint-Loup-de-Naud and Mersen France Gorcy – which accounted for 46 and 29 employees respectively at December 31, 2016. With Harbin Electric Carbon, the Group also created a joint venture company which is majority owned by Mersen. This company employed 106 people at December 31, 2017.

Based on the reporting scope, women accounted for 37% and senior employees for 16% of the workforce, a slight increase on 2016.

| | 2017* | 2016* |
|---|---|---|
| Group headcount | | |
| • o/w women (as a %) | 37% | 36% |
| • o/w seniors 55 and older (as a %) | 16% | 15% |

** Scope included in HRIS*

## 2.2. Age pyramid (at December 31)*




** Scope included in HRIS.*

The average age of Group employees is 41.

## 2.3. Headcount broken down by category

| Categories | Dec. 31, 2017 | % | Dec. 31, 2016 | % |
|---|---|---|---|---|
| Engineers and managers | 1,183 | 18% | 1,168 | 19% |
| Technicians and supervisors | 1,004 | 16% | 1,010 | 16% |
| Employees | 582 | 9% | 585 | 10% |
| Blue-collar workers | 3,635 | 57% | 3,347 | 55% |
| **TOTAL** | **6,384** | **100%** | **6,110** | **100%** |

## 2.4. Geographical analysis of facilities (at December 31)

The Group has a presence on five continents. This presence reflects part of Mersen's strategy of forging close relationships in its markets and represents a strategic advantage.

The Group's various manufacturing facilities include both large plants (>125 staff) dedicated to producing intermediate products or large runs, and local workshops, which meet the highly specific needs of their local customers. They break down by geographical area as follows:

| Country | 2017 | o/w facilities with more than 125 employees | 2016 |
|---|---|---|---|
| Europe | 19 | 5 | 21 |
| • *Of which France* | *7* | *4* | *9* |
| North America | 13 | 4 | 13 |
| Asia-Pacific | 13 | 3 | 13 |
| Africa and South America | 5 | 2 | 5 |
| **TOTAL** | **50** | **14** | **52** |

In France, the Group sold the St-Loup-de-Naud and Gorcy sites. In Asia-Pacific, Mersen integrated the Harbin site (China) and closed down a site in Chennai (India).

# 3. Social information concerning the Group's companies in France

*In accordance with the provisions of Decree no. 2002-221 of February 20, 2002 in application of Article L. 225-102-1 of the French Commercial Code (operations in France):*

## 3.1. Headcount at December 31

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Workforce | 1,303 | 1,418 | 1,469 |
| • o/w fixed-term contracts | 15 | 15 | 24 |

## 3.2. Recruitment

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Recruitment | 107 | 69 | 119 |
| • o/w fixed-term contracts | 13 | 11 | 19 |

## 3.3. Temporary workers

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Average headcount | 211 | 139 | 157 |
| % of the headcount | 16% | 10% | 11% |

## 3.4. Overtime

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Overtime | 23,893 | 20,948 | 15,765 |
| % of hours worked | 1.2% | 1.0% | 0.7% |

## 3.5. Absenteeism

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Absenteeism rate | 5.0% | 5.6% | 4.9% |
| • o/w illness | 3.4% | 4.6% | 4.1% |

## 3.6. Part-time work

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Employees working part-time (as a %) | 5.4% | 5.3% | 5.4% |

## 3.7. Disabled employees

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Workers with a disability (as a %) | 5.5% | 5.9% | 5.2% |

## 3.8. Organization of working hours

In France, an amendment to the agreement on executives' working hours was signed in 2017 to integrate the most recent legal changes for an indefinite period.

The working hours of engineers and managers are calculated based on an annual total of 216 work days, which gives them an average of 12 days of additional leave per year. The 2017 amendment reiterates the need for managers and their teams to review the organization of their work, work load, and fluctuations in daily activities, *at least* once a year.

# Health and Safety Commitment

Mersen is committed to developing and consolidating a health and safety culture within the Group by relying on three main tools: **Accountability**, **Risk Analysis** and **Continuous Improvement**. The goal is to achieve **Excellence** in health and safety.

## 1. Organization of the function

The Group's Health & Safety, Environment and Industrial Risks function has been part of the Operational Excellence Department since February 2017. Through this new organization, the Group aims to effectively integrate health and safety in its Operational Excellence policy and make it its primary goal.

Health and safety measures and their results are reviewed each month by the Executive Committee as part of its unstinting commitment to ensuring they are a success. The prevention of accidents, particularly serious accidents, is a core priority for the Executive Committee. Each year, a program of Corporate audits is defined for the Group's different sites which are carried out by the Health & Safety, Environment and Industrial Risks function. The function also draws on a network of regional correspondents. Their role is to perform cross-audits in the region, conduct more detailed audits at underperforming units and implement the Group safety policy formulated by the Executive Committee. Correspondents are also responsible for reporting to the Group on changes in local health and safety regulations.

Most of the plants also have a dedicated health and safety officer who helps to implement the policy defined by the Executive Committee.

| | 2017 | 2016 |
|---|---|---|
| Companies with a dedicated Health & Safety officer | 92% | 90% |

Every month, the Health & Safety, Environment and Industrial Risks Department circulates a publication dedicated to safety reviewing the latest trends in Mersen's safety indicators and highlighting best practices. The publication is intended for site, health and safety and human resources managers and is also posted on the Group's intranet.

## 2. 2017 Achievements

In 2015, the Health & Safety, Environment and Industrial Risks Department assessed the Group's strengths and weaknesses in safety in collaboration with a specialized external firm. Following this assessment, an action plan was drawn up and its implementation began in 2016. As a reminder, the primary actions were as follows:

- Revising our Golden Rules to improve the clarity of definitions for improved understanding.
- Creating a Safety Visit tool focused on fatal risks.
- Strengthening procedures for sensitive equipment.
- Defining a standard Group tool to detect risks at each workstation.

The Fatal Risks Safety Inspections and Job Hazard Analyses that began in 2016 were carried out at all Mersen sites in 2017. By the end of the year, Job Hazard Analyses had been completed for the majority of sites and the regular update of job hazards has started to become standard practice.

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### Job Hazard Analysis

*Deployed for the first time in 2017, the Job Hazard Analysis (JHA) process aims to reinforce prevention by involving each employee in analyzing the specific risks they are exposed to at their workstation. The aim is to identify all of the risks linked to a given workstation with their operators, to assess the risks, to set in place and display the necessary preventative measures, and to train operators accordingly. These risks are then updated on a regular basis.*

The tools developed in recent years are now well-established:

- E-learning in different languages, thus reaching potentially 85% of the Group's population. Intended, on a priority basis, for new employees, many plants use the tool to reinforce the training of employees already on the job.

- Reporting on potentially dangerous situations: the objective is to report potentially serious and dangerous events that have occurred in all of the Group's facilities but that have not caused an accident.
- "Near accident" reporting tool: this tool, which was launched in 2013, has helped to improve awareness of the working environment and avoid events that could have become accidents. In 2017, Group units reported approximately 820 potentially dangerous situations, proving that the Group has adopted this working and early detection culture.

To verify that the various tools are set up and that the plants comply with the Group's safety policy, the Health & Safety, Environment and Industrial Risks Department carried out 9 Corporate safety and environment site audits in 2017.

At the end of 2017, Group-wide measures were set in place to improve protection when operating rotating machinery to bring sites in line with the European Machinery Directive.

Over the course of 2017, three regional meetings with health and safety and environment managers from sites in China, North America and Europe were organized by the Health & Safety, Environment and Industrial Risks Department. These meetings provided the opportunity to discuss best practices and the Group's standard safety tools and resources.

In addition, the number of safety visits rose by 4% compared to 2016, reaching 3,954, or 72 visits per site and per year. The objectives were achieved overall and this method has helped to strengthen the safety culture on a daily basis.

| | 2017 | 2016 | Change |
|---|---|---|---|
| Number of safety visits | 3,954 | 3,807 | 4% |

FOCUS

### Safety visits

*Safety visits provide an opportunity to conduct a rapid safety audit of part of a production workshop or process. They are conducted by a supervisor in charge of a different sector, usually accompanied by a member of the management team or the health and safety committee. The visits help to detect anomalies or deficiencies and generate action plans, whose implementation is verified at the next audit.*

## 3. Evaluation of safety risks at industrial sites

Mersen safety risk assessments are updated annually for each Group unit to incorporate possible new risks resulting from changes to equipment and in local regulations. Risk assessments are also reviewed systematically after each accident or near accident to verify that the cause of the accident has been listed. Risk assessments are also reviewed during Corporate safety audits.

## 4. Safety training and audit

An e-learning safety program was developed in 2013 and has been implemented since 2014. It is now part of the integration process. The objective is to enable all new hires to benefit from this training when they arrive at Mersen. It encourages dissemination of the safety message and serves as a reminder of its importance to the Group from the moment the employee first enters the company.

The Corporate safety audit program continued in 2017. Nine audits were conducted, including cross-audits organized by geographic area. The cross-audits are conducted by specially trained individuals. They help to promote experience-sharing and are instrumental in fostering a Group safety culture. The program's organization by geographic area also helps to strengthen exchanges among facilities of the same culture, promoting understanding and implementation of the solutions proposed.

Many sites hold a safety week every year. In addition to topics related to workplace safety, these events offer an opportunity to address issues such as food safety and the risk of household accidents. They are an opportunity to create awareness among employees, and instill the safety culture.

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### Fatal Risks Safety Inspection

*As part of the health and safety risk assessment carried out each year, all Mersen sites must catalog the aspects of their particular activity that present the risk of a serious, even fatal accident. Preventative measures are then defined and the appropriate procedures set in place. Procedures must be strictly applied by authorized staff that have received prior training.*

*The Fatal Risks Safety Inspection consists of an inspection-audit of operations with an inherent risk of a fatal accident and of regularly checking that prevention mechanisms in place are correctly applied.*

# 5. Safety indicators

In 2017, Mersen group achieved a TF1 rate of 1.4 and a TF2 rate of 4.1 and there were no fatal accidents. The percentage of sites with no lost-time accidents dropped from 83% in 2016 to 74%.

The Group has defined a health and safety policy that aims to eliminate all risks and prevent all accidents. The emphasis is on prevention, first through the identification and then the elimination of risks, and finally through the protection of staff. The organization of safety visits that involve all employees and of job hazard training for employees in particular for new recruits, the strengthening of equipment protection systems, the adaptation of individual protection systems to new risks and lifting aids have all helped to progressively develop and build on a culture of health and safety within the Group.

In order to enhance its efforts and progress in safety at each of its sites, Mersen has introduced a safety award system whereby units are awarded a trophy when they exceed a given number of days without an accident. Presented by the Executive Committee, the awards are a means of recognizing the performance of each site and reminding the Group's partners of the importance that it assigns to safety. At the end of 2017, the Group achieved the following benchmarks over 60 sites for numbers of days without a lost-time accident:

- Four sites with more than 3,000 days.
- Eight sites with more than 2,000 days and less than 3,000 days.
- Eleven sites with more than 1,000 days and less than 2,000 days.
- Thirteen sites with more than 500 days and less than 1,000 days.

In all, 36 sites, representing around two thirds of all sites, had over 500 days without a lost-time accident.

## 5.1. Number of lost-time occupational accidents per million man-hours (TF1)

In 2017, the frequency rate of occupational accidents with lost time (TF1) amounted to 1.4 accidents per million hours worked, i.e., 18 lost-time accidents per 13.1 million hours worked. This performance is slightly lower than the previous year.

In the five years between 2013 and 2017, the TF1 rate improved by 54%.

Each accident is systematically followed by an analysis of probable causes and the implementation of solutions to eliminate the source of the risk or to better protect employees or raise awareness.

| TF1 | 2017 | 2016 | 2015 |
|---|---|---|---|
| Number per million hours worked | 1.37 | 0.91 | 1.24 |

## 5.2. Number of occupational accidents with or without lost time per million man-hours (TF2)

In 2017, the frequency rate of occupational accidents with and without lost time (TF2) amounted to 4.1 accidents per million hours worked, i.e., 54 accidents with and without lost time per 13.1 million hours worked. This performance is identical to last year.

In the five years between 2013 and 2017, the TF2 rate improved by 36%.

The Group also pays particular attention to temporary staffing agency employees who are naturally less well-informed as to equipment and health and safety risks than Group employees. All employees are required to complete general and specific safety training before starting a job. A follow-up of accidents and training and preventative measures for this specific category of employee is also in place.

| TF2 | 2017 | 2016 | 2015 |
|---|---|---|---|
| Number per million hours worked | 4.1 | 4.1 | 4.3 |

| Number | 2017 | 2016 | 2015 |
|---|---|---|---|
| Number of occupational accidents with lost time concerning temporary staffing agency employees* | 5 | 3 | 4 |

*(*) For a total of 1,151,000 hours worked in 2017, 964,000 in 2016 and 1,165,000 in 2015.*

## 5.3. Number of working days lost to occupational accidents per thousand man-hours (TG)

In 2017, the severity rate of occupational accidents (TG) amounted to 65 days lost per million hours worked, i.e., 858 days lost per 13.1 million hours worked. This performance is slightly better than the previous year.

In the five years between 2013 and 2017, the TG rate improved by 59%.

| TG | 2017 | 2016 | 2015 |
|---|---|---|---|
| Number per million hours worked | 65 | 80 | 47 |

## 6. Health risk prevention

The Group continues its employee training in best practices in PAH (Polycyclic Aromatic Hydrocarbons) protection at the Group's main production facilities that face these risks. Some production sites now use materials with a lower PAH content. In addition, working groups were set up several years ago to ensure continuous improvement of the working environment and the protection of individuals.

The Group continues to make improvements to workstations to prevent musculoskeletal disorders (MSDs). It follows ergonomics guidelines on the manual handling of loads, posture at workstations and repetitive motion.

BEST PRACTICE

### Health and Safety week

*A large number of Mersen sites organize a Health and Safety week each year. Structured around various theme-based workshops linked to the different characteristics of each site and often hosted by external speakers, these awareness weeks help to develop a culture of health and safety within the Group.*

## 7. Indicators/operations in France

Monitoring of occupational diseases is done only in France. Because the concept of occupational disease varies significantly from country to country, any information emanating from the various countries where the Group is present would be irrelevant.

In France, musculoskeletal disorders account for the majority of occupational illnesses. The Group is pursuing its efforts to reduce this risk, particularly by working on the ergonomics of workstations and getting employees involved.

| Number | 2017 | 2016 |
|---|---|---|
| Number of employees suffering from an occupational disease* | 8 | 7 |

*(*) Out of a workforce of 1,303 in 2017 and 1,418 employees in 2016*

# Environmental Responsibility

In environmental terms, Mersen is involved on two levels: firstly, through its **positioning in markets related to sustainable development**, and secondly through its commitment to **environmentally friendly** practices. The Group pursues a collective and pragmatic approach involving all its employees, who are educated and receive training at every level of responsibility.

## 1. Helping to develop sustainable development

A significant share of Mersen's business is related to the sustainable development sector, such as renewable energies, energy efficiency, and clean mass transit. In 2017, that sector represented approximately 40% of Mersen's sales.

### 1.1. Renewable energies

The solutions developed by the Group stimulate the growth of renewable energies.

Mersen supports the entire solar cell production process, from polysilicon to ingot pulling, and provides electrical protection for the panels. Our solutions optimize performance in terms of photovoltaic yield and energy efficiency. We are also the leading supplier for the wind energy sector, both in generator power distribution systems and yaw motors. The Group is also a key partner to the hydro-power segment, from turbine manufacturers to power plant operators.

The Group's solutions improve energy yield and optimize the service life of consumables. They also contribute to transporting the energy produced to the places where it is consumed.

### 1.2. Energy efficiency and energy saving

Mersen is positioned on markets whose growth is related to energy efficiency and energy transition. Thanks to solutions such as furnace insulation and heat recovery systems, the Group helps to reduce production and consumption costs linked to customer manufacturing processes. It also supplies components that are central to speed variation systems and thus optimize the yield of industrial facilities.

Its graphite-based solutions and high-performance materials are also critical to the manufacture of LEDs. Their widespread use for domestic lighting and their growing use for public lighting dramatically reduce energy consumption, while offering a particularly long service life.

### 1.3. Non-polluting transportation

Mersen is helping to develop non-polluting urban and rail mass transit in response to the growing demand for mobility of people and goods. We provide equipment for rolling stock and infrastructure to enhance the reliability and performance of their electrical systems.

## 2. Environmentally-sound practices

Mersen undertakes to:

1. **Comply with the regulations in force**, via legal and other requirements, for existing products and installations.
2. **Identify the potential risks** of installations and products, determine whether the preventive measures in place are sufficient to prevent any accidents that could be harmful for persons and for neighboring locations (especially clients, the company's personnel and persons living in the vicinity of the production sites).
3. **Make regular visits to installations** to detect anomalies.
4. **Make use of best practices and previous experience** to continuously improve our performance, specifically through the implementation of an ISO 14001-certified environmental management system at certain sites.
5. **Reduce consumption** of water, energy, raw materials and packaging and encourage the recycling and reuse of waste.
6. **Encourage the development of eco-design**, in particular through more extensive use of the dedicated EIME application.

In 2017, Mersen continued its review of the implications of France's Grenelle II legislation (law no. 2010-788 of July 12, 2010) on the national commitment to the environment. Audits and verifications performed in connection with this reporting gradually improve the reliability of the data reported.

In addition to the regulatory obligation, staff awareness-raising initiatives and the sharing of best practices should encourage lower consumption and energy saving at all the Group's key sites.

# 3. Minimizing environmental impact

In the field, Mersen's environmental approach translates into a quest to identify best practices and an extremely high level of vigilance. It is intended to help the Group achieve a virtuous circle.

To meet European environmental requirements and plan ahead for potential regulatory changes, Mersen stepped up its work in several areas.

## 3.1. Complying with regulatory provisions

The Group monitors changes in regulations so that it can take the relevant measures and plan ahead to find alternatives for certain products. To be able to ensure an uninterrupted supply chain, the Group must confirm that the supplier of a substance subject to approval meets all requirements.

Since 2016, environmental correspondents have been responsible for drawing up a biannual summary for the Executive Committee in the Company's principal operating regions (Europe, North America and China), in order to ensure more effective monitoring of regulatory developments around the world.

The European REACH regulation (Registration, Evaluation, Authorization, and Restriction of Chemicals) reminds industrial companies of their responsibility to assess and manage the risks posed by the chemicals they use. To comply with this obligation, in 2010 the Group registered certain products that make up graphite (mainly resins) and, in 2013, those that make up flexible graphite. In 2017, the Group set up an inter-factory working group which has begun to identify chemical substances used in small qualities, in order to prepare for the registration campaign required by REACH and scheduled for 2018.

Mersen actively monitors changes in European regulations and directives that could take effect in the coming years, including the Industrial Emissions Directive (IED), introduced in 2010 with the aim of preventing and reducing air, water and soil pollution from industrial installations by relying on the best available technology (BAT). The Executive Committee receives regular reports on these matters. The Group is also working with the European Carbon and Graphite Association (ECGA) to contribute to the dialogue with European institutions in areas affecting the graphite industry.

In accordance with local legislation, each industrial site belonging to the Group is required to obtain a government license or authorization and to monitor air, water and soil pollution. Each site is responsible for monitoring the relevant legislation and any discrepancies are to be reported by way of exception. They will be addressed by the Group's management line ending with the Executive Committee. In particular, investment decisions to bring equipment into compliance is a priority for the Group. The Group is particularly vigilant regarding its factories where graphite is manufactured or machined, and constant efforts are made to improve graphite dust aspiration systems and the treatment of gaseous effluents before they are released into the atmosphere.

All of the Group's French manufacturing sites (Amiens, Angers, Bazet, Gennevilliers, La Mure, Pagny-sur-Moselle and Saint-Bonnet de Mure) are classified as environmentally friendly installations (Installations Classées pour la Protection de l'Environnement - "ICPE"). Each site complies with the relevant requirements from declaration and registration through to authorization.

## 3.2. The pursuit of best practices

### 3.2.1. Circular economy

Mersen is seeking to reduce its environmental footprint by drawing inspiration from the virtuous circular economy model. Its approach is based on several areas at all stages of the product life cycle: eco-design and use of the best techniques available, lower consumption of energy and raw materials, optimized product manufacturing and lifespan, recycling, etc.

#### Product design

Mersen strives to offer products with a limited impact on the environment. To this end, it endeavors to acquire the best available technologies and techniques that most effectively meet sustainable development criteria when designing its new manufacturing lines and products.

To this end, the Group has stepped up the implementation of methods and skills to develop products based on an eco-design approach. The environmental impacts of new products are taken into account, from the design stage through to the end of their life cycle.

Research and Development teams are trained in eco-design and, most of the time, specifications take into account the objective of reducing environmental impact.

For example, the Electrical Power segment uses an EIME (Évaluation de l'Impact et Management de l'Éco-conception) application to perform environmental impact analyses on the products (water contamination, air pollution, depletion of natural resources, etc.) throughout their life cycle.

All the stages in the product's life cycle are taken into account, such as:

- The choice of raw materials, with easily recyclable materials being prioritized.
- The weight of packaging.
- Reductions in the number of assembly stages.
- Reductions in the volume of waste.
- The most effective logistics.
- The product's end of life.

This type of tool also helps to maintain traceability of products from existing lines for comparison purposes when future product lines are developed.

### Procurement procedures

With regard to procurement and outsourcing, Mersen's policy takes environmental issues into account. For several years, the Group has been developing an "eco-sustainable-redesign to cost" approach. Based on a functional analysis of a product, this method is intended to replace or reduce the proportion of certain components or raw materials, substituting others that are more environmentally sound without affecting product functionality. After working, on a priority basis, on products for which the proportion of procurement represented a majority share of the price, the process is now being expanded to new products.

The Group also promotes the application of environmental criteria in the purchasing process, including giving priority to the use of recyclable materials, the widespread use of more eco-friendly packaging, and collaboration with local suppliers to reduce transportation costs and greenhouse gas emissions.

We also encourage the adoption of pragmatic initiatives to reduce our environmental footprint, such as improving vehicle occupancy rates, efforts to reduce packaging weight, and the purchase of eco-friendly vehicles.

Lastly, certain Group facilities have integrated environmental criteria, such as the ISO 14001 certification, in their supplier selection process. Facilities with purchases of more than €4 million/year are starting to more systematically monitor the share of purchasing from ISO 14001-certified suppliers.

### Energy consumption

To optimize its resource consumption, each production facility monitors consumption and sets objectives and related action plans. Several examples are presented below. The decision to use renewables as an energy source is left to the initiative of the facilities.

### Waste management

Based on their specialty, the Group's facilities follow approaches at multiple levels intended to reduce the environmental impact of their industrial activities:

- Recovery of waste related to industrial production: Mersen's production activities produce manufacturing residues that may be reused to produce other Group products or resold to third parties to be incorporated in other production processes. This is the case, for example, of graphite powder from graphite block drilling, which can be reused to manufacture graphite tubes or resold for reuse in steel production.
- Recycling of used products: the Group has participated actively for several years now in efforts to recycle fuse waste by reusing large amounts of the metal content of used fuses. Similar initiatives are underway in brush manufacturing, with a recovery program introduced to collect used brushes from customers to recycle the reusable metal content.
- Emissions recovery: certain facilities have set up systems to recover the heat generated by industrial activities. For example, this heat may be reinjected into the heating system or used as an energy source.

## 3.2.2. Land use and noise pollution

Since the beginning of 2017, the Group's acquisitions have strengthened its environmental audit procedure. It systematically performs an audit on soil pollution to protect itself against any possible prosecution.

The Group continues to closely monitor the risks associated with soil pollution at its sites. All the products used by Mersen are subject to constant monitoring, not only by local authorities, but also by Mersen's employees, who are trained in these areas.

The Group's industrial activities do not generate specific noise pollution that exceeds standards. Controls may be performed pursuant to applicable local regulatory requirements.

## 3.2.3. Measures to adapt to climate change

The risks associated with weather-related hazards associated with climate change were analyzed in connection with a specific mapping of the risks of natural disasters to which the Group may be exposed. This mapping did not reveal any specific risk.

# 4. Environmental indicators

The scope of environmental reporting has been extended compared to that of 2016, and now covers 23 sites (Rochester and Hittisau have been added to the list). Furthermore, business grew globally in 2017 at all of these sites.

## 4.1. Environmental certifications and training

48% of the manufacturing sites included in the reporting scope are currently ISO 14001-certified, the recognized global standard for environmental management systems.

In 2017, employee training on protecting the environment decreased slightly to 2,663 hours, versus 2,903 in 2016.

| ISO 14001 certifications | 2017 | 2016 |
|---|---|---|
| ISO 14001 certification rate | 48% | 52% |
| Training in environmental protection *(number of hours)* | 2,663 | 2,903 |

## 4.2. Environmental provisions

| *In millions of euros* | 2017 | 2016 |
|---|---|---|
| Amount of significant provisions for environmental risks | 1.3 | 1.2 |

This amount relates to:

- A minor pollution risk detected at a site in France in 2010 dating back over 20 years (before it joined the Group), caused by the use of certain processes and products that are no longer used.
- Minor pollution or abestos risks at French sites.

## 4.3. Water and energy consumption and CO2 emissions

In 2017, gas consumption increased by 9% (+8% on a like-for-like basis), electricity consumption by 7% (+4% on a like-for-like basis) and water consumption by 2% (0% on a like-for-like basis).

Gas and electricity are two resources used in the manufacturing processes at the sites in the environmental reporting scope for the furnaces and machining tools, used in particular in the Advanced Material segment. This increase corresponds to a growth in production combined with process improvement.

However, water is not a particular issue for the Group as its manufacturing operations do not require large amounts at any of its sites. Some processes, particularly cooling-related, use water in closed systems. Major efforts were made in 2017. Consumption was reduced by 50% in Amiens due to improved monitoring, thus limiting the volume used despite the growth in production in 2017.

In 2017, $CO_2$ emissions increased by 8% (+7% on a like-for-like basis) which reflects the increase in production.

In general, efforts to cut energy consumption are ongoing. These involve initiatives to increase employee awareness, as well as concrete measures. Almost all of the sites have begun the implementation of LED (Light-Emitting Diode) lighting, which uses less energy.

| | Unit | 2017 | 2016 corrected(2) | 2016 |
|---|---|---|---|---|
| Electricity | MWh | 179,035 | 167,683 | 166,239 |
| Gas | MWh | 161,595 | | 147,569 |
| $CO_2$ emissions(1) | Tons | 111,244 | | 102,405 |
| Water | $m^3$ | 512,702 | 501,945 | 497,551 |

*(1) Tons of $CO_2$ equivalent relate to reported energy consumption as well as GPL and domestic and diesel fuel.*
*(2) Certain figures from 2016 have been corrected, after measurement errors were recognized.*

FOCUS

**Reducing water consumption at the Amiens site**

*The site continued with inspection work and the repair of the water supply network. It also detected a high level of consumption generated by the cooling group for the impregnation process. By replacing this group in particular, the total consumption of water was halved.*

## 4.4. Consumption of raw materials and metals

Consumption of raw materials increased greatly in 2017 as compared to 2016, (even excluding the two new sites from the environmental reporting scope), due to the increased level of production (wood: +12%, coke: +33%, copper: +31%).

The reductions for some raw materials such as cardboard (down 4%) were the result of internal recycling. On a like-for-like basis the increase is 9% for wood and 18% for copper.

| | Unit | 2017 | 2016 |
|---|---|---|---|
| Timber | Tons | 1,861 | 1,651 |
| Cardboard | Tons | 1,116 | 1,168 |
| Coke | Tons | 8,277 | 6,225 |
| Copper | Tons | 2,245 | 1,715 |

## 4.5. Waste

In 2017, the volume of waste generated by the business increased by 6% (+3% on a like-for-like basis), significantrly lower than the growth in production.

The proportion of waste recycled increased to 42% in 2017 from 37% the previous year. Most sites are making greater efforts as regards recycling, and some are launching initiatives to find ways of recovering certain types of waste such as graphite and copper powder.

Thermal revalorization is used for almost 2% of all waste.

The introduction of internal recycling is also helping to reduce the consumption of other raw materials, such as at the Gennevilliers site.

| | Unit | 2017 | 2016* |
|---|---|---|---|
| Hazardous industrial waste* | Tons | 1,564 | 1,465 |
| Non-hazardous industrial waste | Tons | 10,849 | 10,219 |
| **Including recycling:** | | | |
| Recycled timber | Tons | 573 | 484 |
| Recycled cardboard | Tons | 322 | 306 |
| Recycled ferrous metal | Tons | 1,159 | 598 |
| Recycled artificial graphite | Tons | 1,657 | 1,684 |
| Percentage of waste recycled | | 42% | 37% |

** Figures including exceptional waste (construction, decommissioning, etc.) for certain sites that had not implemented procedures for identifying waste generated by exceptional work of this kind.*

## 5. Local initiatives

In line with the Group's environmental approach, the sites continued their efforts to reduce their consumption of water, energy and materials, including raw materials. This year, the presentation of the local initiatives shows the general actions and those specific to greenhouse gases.

The training and awareness-raising of employees in responsible behaviors with regard to the environment are always led locally by the sites and they unanimously receive positive feedback.

The examples referred to below were identified at major facilities over the last two years (listed geographically).

### Environmental initiatives

#### Amiens, France

- Launch of the "Do more with less" program for water and electricity consumption in several sectors
- Educational program on eco-friendly behavior for employees
- Shutdown of cooling equipment to avoid a salmonella risk
- Award received for efforts to eliminate toxic waste
- Repair work on leaks in the water network

#### Angers, France

- Implementation of systems to reduce domestic water consumption
- Gradual implementation of LED lighting

#### Gennevilliers, France

- Strengthening of the monitoring plan for gas and liquid emissions
- Modernization plan for SiC operations to reduce the quantity of hydrogen chloride gas emissions
- More frequent verifications and reviews of site equipment

#### La Mure, France

- Implementation of a washer for production tools to reduce water consumption and used water emissions
- Partial replacement of a cutting oil to increase efficiency
- Gradual implementation of LED lighting

#### Pagny-sur-Moselle, France

- Gradual implementation of LED lighting
- Investments to replace equipment with higher-yield, more energy-efficient systems (including transformers, compressors and lighting)
- Overhaul of the plant's aspiration system to improve environmental protection

#### Saint-Bonnet-de-Mure, France

- Gradual implementation of LED lighting
- Gradual improvement of plastic film sorting to improve recycling and reduce ordinary industrial waste (OIW)
- Change of expansion module in the boiler room

#### Holytown, United Kingdom

- Gradual implementation of LED lighting
- Replacement of furnace cooling pumps with more energy-efficient systems
- Streamlining workloads to reduce working times and electricity consumption
- Maintenance of dust aspiration systems to ensure good air quality
- Reduction of high purification furnace temperatures
- Implementation of a software to manage the vacuum pumps and reduce electricity consumption

#### Bay City, United States

- Gradual implementation of LED lighting
- Continued research into recycling possibilities for graphite-based goods
- Collection and recycling of nitrile gloves
- Collection and recycling of cloths

#### Boonton, United States

- Implementation of new furnace-cooling devices to save electricity

#### Greenville, United States

- Gradual implementation of LED lighting
- Implementation of a weather station to regulate water consumption outside of the buildings
- Continued research into recycling possibilities for graphite-based goods
- **Rochester, United States**
- Conversion of copper deposit equipment using a cyanide-free product and cost reduction of waste destruction
- Gradual implementation of LED lighting

### St Mary's, United States

- Transfer of dust collectors outside buildings to improve aspiration
- Improved preventive maintenance of all of the dust collectors
- Improved preventive maintenance of all of the SO2 scrubbers to reduce emissions
- Install action[1] a new $SO_2$ scrubber

### Juarez, Mexico

- Improved sorting of waste to increase recycling and reduce the amount of hazardous waste
- Implementation of non-hazardous waste incineration to reduce the amount of landfill
- Implementation of ink toner and label recycling
- Implementation of solder paste recycling

### Sao Paulo, Brazil

- Implementation of a new recycling system (Renova) to create fuel for cement furnaces

### Toronto, Canada

- Elimination of Naphtha-based products for cleaning operations
- Re-use of cardboard from supplier packaging to package products to be sent to clients

### Chongqing, China

- Reduced electricity consumption through furnace fan modifications
- Replacement of certain filter elements in the dust aspiration systems
- Reduced water consumption in baking furnaces by modifying the cooling pipes
- Gradual implementation of LED lighting

### Songjiang, China

- Gradual implementation of LED lighting
- New washer that uses recycled washing water
- Improved preventive maintenance of electro-intensive equipment

### Xianda, China

- Repair work on leaks in the water network
- Construction of a temporary storage room for hazardous waste before evacuation by a certified provider

### Yuequing, China

- Separation of rainwater and used water
- Gradual implementation of LED lighting

## Greenhouse gas initiatives

### Amiens, France

- Writing of a best practices guide to reduce $CO_2$ emissions

### Gennevilliers, France

- Use of HFCs[2] instead of CFCs[3] for certain air conditioners
- Monitoring of high-tension electric fusegears that use $SF_6$ gas (electric stability)
- Monitoring of methane gas ($CH_4$) consumption for certain furnaces

### Pagny-sur-Moselle, France

- Installation of a plan to reduce volatile organic compounds (VOCs) for the mixture and the mixing furnaces
- Study on $SO_2$[1] emissions

### Bay City, United States

- Furnace optimization for use at full capacity and reduced $CO_2$ emissions

### Boonton, United States

- Reduced frequency of product transportation from Monterrey (Mexico) to Boonton thanks to optimized logistics

### Juarez, Mexico

- Replacement of two heating units with more energy-efficient equipment

### Chongqing, China

- Reduced gas consumption in the baking furnaces by modifying their opening and closing, and accelerating the cooling procedure

### Songjiang, China

- Replacement of a washer with a combustion engine fueled by an electric machine

### Xianda, China

- Improved preventive maintenance of the cooling pipes in the air conditioning systems
- Replacement of certain small pieces of equipment with more energy-efficient facilities

*(1) Sulphur dioxyde.*

*(2) Hydrofluorocarbons.*

*(3) Chlorofluorocarbons.*

# Societal Responsibility

The Group takes great care to act as a good corporate citizen wherever it does business. Through its activities, it naturally has an impact on local and regional development. As a general interest action, it also endeavors to engage in respectful dialogue with the communities in which it is established.

Mersen has been a signatory of the United Nations Global Compact since 2009, reflecting our commitment to make progress on 10 universal principles in order to build societies that are more stable and respectful of human rights and international standards in the areas of labor, the environment and the fight against corruption. Each year Mersen puts up a "Communication on Progress" (COP) on the Global Compact website, which provides an update on the actions taken.

The Group's Ethics Code, which is circulated internally and published on Mersen's web site, restates the collective and individual commitment of the Group and its employees. It was updated in July 2017 and has been translated into more than 10 languages. It particularly addresses the Group's relationships with its employees, customers, suppliers, competitors, shareholders, and surrounding ecosystem.

The audits carried out by the Group's internal audit function provide regular insight into whether these rules are applied properly. Over the last three years, 93% of Group sites were covered by an internal audit (the others not being material in size). In addition, the Group implemented an Ethics & Compliance function in 2017, which ensures the proper application of these rules (see chapter 3 of this document).

The Purchasing Department is improving its selection process for audits and supplier development in compliance with the Ethics Code and the ILO's fundamental principles and rights at work.

At the same time, concrete measures have been implemented to raise team awareness about a number of risks associated with unlawful practices.

A training module focused on fraud-related risks (swindling, counterfeiting, etc.) that was developed for Group managers was also implemented. Nearly 40 managers in various Group functions, including purchasing, sales and logistics were trained worldwide in 2016 and approximately 50 in 2017. Since 2016, a press review in French and English relating to fraud has been sent monthly to Group managers around the world in order to illustrate through specific cases how other companies have been subject to fraud schemes. This awareness effort has also been useful in strengthening the messages linked to the Group's internal control policy.

## 1. Local initiatives

Mersen selects in priority local plan managers. This is the case for 90% of them, allowing to pursue numbers of initiatives as closely as possible to the field all around the world. Numerous local initiatives were taken by plant managers, who are closest to local concerns in regions around the world. These may take the form of financial contributions or concrete measures, including, for instance:

- Participation in competitiveness clusters.
- The development of partnerships with apprenticeship programs, schools and universities (internships to help people learn about the workplace, student programs, participation in job forums, open days).
- Student bursaries.
- Support for professional training campaigns through workplace induction or work-study programs.
- Sponsorship of humanitarian operations and contributions to charity organizations.

### 1.1. Local economic action

In France, competitiveness clusters bring together groups of companies and institutions in a clearly-identified regional area and on a targeted topic.

For example, Mersen Boostec, which is located in the Midi-Pyrénées region, belongs to the European ceramics cluster and the Aerospace Valley cluster. It works with the local PRIMES (power mechatronics and energy management innovation platform) platform and is a member of the MEPI (European Center for Innovative Procedures). Mersen Angers belongs to the S2E2 (Smart Electricity Cluster).

In addition, purchasing by the facilities also helps integrate them into their local community. By working with local suppliers as a priority, in accordance with the Group's purchasing policy recommendations, they contribute to the economic and social development of the regions where they operate, while meeting economic and environmental goals (lower costs and lower greenhouse gas emissions by limiting transportation).

## 1.2. Actions promoting employment, training and apprenticeship

With operations in approximately 35 countries, the Group works to develop relationships with local schools and universities. Thanks to these local connections, young people can learn more about our industry.

The Group is particularly involved in developing apprenticeships. A certain number of examples are described in the first part of this chapter.

In France, the Pagny-sur-Moselle facility collaborates regularly with local schools and universities (including EEIGM, Ensic, ENIM, and Université Paul Verlaine). This may involve employees attending courses and participating in job forums, symposia and conferences. It also includes regular apprenticeship offers within the company.

In terms of training, for several years the Group has been involved in WindLab, a regional wind energy jobs training initiative in the Picardy region. This training offers jobseekers an opportunity to obtain a certificate that is essential for working in the booming wind energy sector. The Gennevilliers site in France implemented a personalized training program to suit its production requirements in collaboration with an industrial and technological training center, AFORP, in the form of professional training contracts. This program has led to the hiring of 12 people since 2015. In the United States, the subsidiary in St. Mary's, Pennsylvania, got involved with the local education committee to play a consulting role for training initiatives. In Greenville, Michigan, Mersen works with teachers at a local school to inform them of jobs and about how they can develop the employability of their students.

Strong relationships were formed with engineering schools and universities, such as Newburyport in the United States, where the R&D Department associates with Northeastern University.

## 1.3. Charitable contributions and volunteerism

Through the Group's entities, Mersen seeks to help organizations supporting projects that reflect our values and are consistent with our corporate mission or our challenges.

In France, the Pagny-sur-Moselle site associates with Louis Vincent High School in Metz, to send computer equipment to Burkina Faso to equip the new IT facilities in a school in Yako.

In Spain, the Cirprotec facility contributed to the charitable work of the Fondation Vincente Ferrer (FVF), by encouraging its clients to participate in a financing program for housing for disadvantaged people in the Narpala region of India.

In Germany, Mersen continues to support a recycling organization. This non-profit group organizes the collection and recycling of fuses throughout the country. Profits generated are invested in activities that support training, teaching and research in electrical engineering and in charitable activities.

In India, Mersen continues to support government initiatives to provide training (in embroidery, sewing, hairdressing) for employees' wives, with the added benefit of getting jobs that will provide the families with additional income. The site also plays a consulting role with the children of employees to help them prepare for the future.

At the same time, most of the sites make contributions to local associations and sponsor sports activities in which company employees participate, according to the rules defined in the Donation and Patronage policy.

# Reporting program and methodology

Following publication of the Grenelle 2 legislation in France (law no. 2010-788 of July 12, 2010) instituting a nationwide commitment to the environment, Mersen stepped up its reporting program. As part of this drive, the Group consolidated its unique internal reporting framework formally defining and describing the processes and methods to be used to gather and report data in line with Article 225 of this law. A number of indicators(1) have been added to those traditionally monitored, while the scope of reporting has been extended to include a larger number of Group companies.

## 1. Reporting scope

The scope of social, environmental and societal reporting encompasses the companies included in the scope of consolidation based on the following principles:

- Corporate and societal reporting; all companies other than companies acquired within the last year.(2)
- Environmental reporting: all companies whose on-site industrial production generated sales in excess of €15 million during the previous year N-1, excluding companies acquired within the last year. Every company that was included in the scope of reporting and whose production exceeded the threshold of €15 million remains within the scope of the environmental reporting, provided that its sales do not fall below €7.5 million. These thresholds thus restrict environmental reporting to companies' representative of the Group's business activities. In 2017, the Hittisau (Austria) and Rochester (United States) sites were included in the scope. In 2017, the companies included in the scope accounted for over 77% of total sales.

In the coming years, Mersen intends to gradually increase the representativeness of the environmental reporting scope.

Possible exclusions from the scope of reporting may be defined for certain indicators, such as where local legislation does not permit the reporting of relevant data or where sufficient arrangements for the collection of certain types of data have not yet been made. The summary table at the end of this section sets out the scope covered by each of the indicators. The "Indicators and specific definitions" paragraph below also provides additional information linked to the definitions and/or the method of calculating certain indicators.

## 2. Organization of the reporting and methodology

### 2.1. Indicator sheets

Data is reported using the indicators described in technical sheets which notably specify the reporting frequency, the indicator's objectives, its scope of application, the definitions needed to understand the indicator and its scope, the calculation methodology and the consistency checks.

### 2.2. Reporting year

The data reported cover the period from January 1 to December 31, 2017.

### 2.3. Reporting process participants and their responsibilities

There are three levels of responsibility:

#### 2.3.1. Corporate responsibility

In conjunction with the Human Resources Department (for social information) and the Financial Communication Department (for societal information), the Risk, Internal Audit and Safety Department organizes the reporting with the directors of the companies within the scope. To this end, it:

- Defines the framework's indicators.
- Deploys the framework and its indicators to the companies and ensures that they are clearly understood by providing adequate information and training.
- Coordinates data collection.
- Ensures that the reporting schedule is adhered to.
- Checks the completeness and consistency of the data collected.
- Consolidates the data.
- Uses and analyzes the data.

*(1) A table summarizing all the indicators is shown at the end of the chapter.*
*(2) Only the payroll figure includes all companies in the financial consolidation scope.*

### 2.3.2. Group companies' responsibility

Data reporting is the responsibility of the general manager of each company within the scope. Their role is to:

- Organize data collection at company level by defining responsibilities and ensuring that the framework and its indicators are clearly understood.
- Safeguard data traceability.
- Ensure that the reporting schedule is adhered to.
- Control the exhaustiveness and consistency of the data reported and implement the requisite checks and verifications by persons not involved in the collection process.

### 2.3.3. External organization

The audit and verification were performed in 2017 and 2018, based on 2017 data, by an independent third-party organization, in accordance with the implementing decree of April 24, 2012.

## 3. Information regarding the collection of social data

Social information is collected through an HR information system (HRIS) used in all the Group's consolidated companies, with the exception of a few entities that recently entered the scope of consolidation and are being incorporated gradually, based on an implementation schedule defined by the Group's senior management. Only the workforce indicator is available for the latter companies (scope not included in the human resources information system), which represented 2% of the workforce in 2017.

Once collected and prior to final consolidation, the data submitted by the subsidiaries is verified for consistency on various criteria, especially absenteeism. Any value or change in value considered non-conform is verified with the relevant site, which will be asked to correct or explain the data. If the value cannot be corrected or if the explanation provided is deemed inconclusive, the scope concerned by that value will then be disregarded from the scope of consolidation.

In addition, with a view to the ongoing improvement of the quality of data transmitted each month by the subsidiaries and to encouraging local contributors to improve their knowledge of the Group's HR standards, internal audits on HR data rolled out in 2017 has become a recurring program under which annual internal audits will be carried out at various Group sites worldwide starting in 2018.

## 4. Information regarding certain indicators and specific definitions

### Absenteeism

Number of days of absence from work for any reason that the employer cannot anticipate: illness, workplace accidents, maternity/paternity leave, strikes and any other unforeseeable absence.

### Work-related Accident with lost time

An accident resulting in time off work. An accident affecting several people is recognized as a single accident. Only the causative event is taken into account. The accidents taken into account are those considered to be directly work-related following investigation by the health and safety managers and for which the Group may be able to take preventive action. Certain events, such as non-work related conditions or commuting accidents, are excluded, even if the relevant authorities have declared them to be workplace accidents. TF1, TF2 and TG indicators only include Mersen employees.

### Agreement

All arrangements made and accepted by the management of an operating company, division or the Group and one or more employee representatives.

### Biodiversity

The Group has not identified any specific concerns linked to the preservation of biodiversity and its operations. Accordingly, no specific measures are taken to monitor this indicator.

### Workforce and distribution by gender, age and geographic area

Employees included in the workforce at the end of the fiscal year, under open-ended or fixed-term contracts, excluding temporary workers, interns, student-apprentice and sub-contractors.

### Employees suffering from an occupational illness (operations in France, ie 20.4% of the workforce)

As the concept of occupational illness varies significantly from country to country, this information is provided only for France. An illness is recognized as "occupational" if it appears on one of the tables appended to the French Social Security Code or Rural Code. Under certain conditions, illnesses that do not appear on the tables may also be included:

- Illnesses designated in a table of occupational illnesses, but for which one or more conditions have not been met (with regard to the time limit on claims, the length of exposure or the exhaustive list of jobs), when it has been established that the victim's regular work is the direct cause of the disease.

- Illnesses not designated in a table of occupational illnesses when it has been established that they are caused, mainly and directly, by the victim's regular work and that they lead to permanent disability at a rate at least equal to 25% or are the cause of a victim's death.

## Hiring

Total number of people hired during the fiscal year who meet the definition of "Workforce" described below.

## Training

Training activities recognized as such are those organized and paid for by the Group and that are designed to:

- Improve performance and help the employee adapt to changes in his/her job.
- Develop the employee's talents and help him/her acquire new skills.

Trainings related to the requirements for the position like information points, prescribed training, internship of apprenticeship are not included.

The HRIS model used is based on monthly data collection. As training is not provided systematically on a monthly basis, it is subject to manual reprocessing at the end of the fiscal year.

They do not include training provided through the Group's e-learning platform, Mersen Academy.

## Environmental protection training

This indicator recognizes the total number of training hours provided whose title and/or main topic is linked directly to environmental protection issues.

## Food wastage

The Group has not identified any material issues relating to food wastage from its business. We have no indicator in place to monitor this issue, that type of service being sub-contracted most of the time.

## Greenhouse gases

In the near future, the Group plans to analyze the sources of scope 3 emissions contributing to scope 1 and 2 emissions data, for which the Group has leverage.

## Impact of collective agreements

The Group is currently considering how to implement the recent regulations concerning the impact of collective agreements on economic performance and employee working conditions.

## Managers

An employee is considered to be a manager when he or she holds a functional management (including engineer, project manager or technical expert) or team management position, with the exception of first-level management (supervisor).

## Local nationality

Local nationality is defined as the nationality of the country in which the company is located.

## Corporate governance bodies

The corporate governance bodies are the Executive Committee and the Board of Directors.

## Organization of working time and social dialogue

As these concepts vary significantly by country, this information is provided only for France.

## Policy

A policy is an organized general framework, disseminated and deployed by the Group's top management throughout all the companies or targeted groups of companies. This framework is formalized as an official, signed document.

## Environmental, health and safety (EHS) manager

An EHS manager is an employee who is responsible for managing environmental, health and safety matters.

## Disabled employees

As the Group has a presence in a large number of countries, it is subject to the various local laws. Accordingly, this information is provided only for France (ie 20.4% of the workforce). It extends to employees whose disability has been recognized by an organization or institution and under the conditions set by current French regulations.

## Consumer safety

Mersen produces and sells components and equipment to its industrial customers in compliance with safety and quality requirements. In this regard, the Group's activity has no direct impact on the safety of the end consumer.

## Senior employees

Employees from the age of 55.

# Overview of indicators

To facilitate the monitoring of the social, environmental and societal data in Mersen's reporting framework, the following table summarizes the list of indicators, their scope, their nature (i.e. qualitative or quantitative) and a reference to the page on which the indicator is presented. It also presents the relationship with the specific Global Reporting Initiative indicators (version 3.1).

| Article R. 225-105-1 of the French Commercial Code Grenelle 2 topics | Qualitative and quantitative information | Scope/Comments | GRI 3.1 | Page |
|---|---|---|---|---|
| **SCOPE** | | | | |
| Scope | - | Reporting program and methodology | 3.5 to 3.11 | 123 |
| **SOCIAL INFORMATION** | | | | |
| **EMPLOYMENT** | | | | |
| Total workforce broken down by gender | Quantitative | Restricted | LA1 | 107 |
| Total workforce broken down by age | Quantitative | Restricted | | 107 |
| Total workforce broken down by geographical area | Quantitative | Restricted | LA1 | 107 |
| Headcount broken down by category | Quantitative | Restricted | | 107 |
| Number of new hires | Quantitative | Restricted | LA2 | 107 |
| Number of dismissals | Quantitative | Restricted | LA2 | 107 |
| Compensation policy and their development | Qualitative | Standard | | 106 |
| **ORGANIZATION OF WORK** | | | | |
| Policy on the organization of working time | Qualitative | Restricted/France | | 109 |
| Percentage of the workforce working part-time | Quantitative | Restricted/France(1) | | 109 |
| Absenteeism rate | Quantitative | Restricted (93% of the Group's workforce) | LA7 | 99 |
| **LABOR RELATIONS** | | | | |
| Structure of the labor dialog | Qualitative | Restricted/Europe | LA4 | 100 |
| Collective bargaining agreements | Qualitative | Restricted/France | LA5 | 99, 100, 109, 124 |
| **HEALTH & SAFETY** | | | | |
| Safety policy | Qualitative | Standard | LA6 & LA8 | 110 |
| List of occupational health and safety agreements | Qualitative | Restricted/France(1) | LA9 | 99 |
| Number of safety visits | Quantitative | Standard | | 111 |
| Frequency rate of occupational accidents with lost time (TF1) | Quantitative | Standard | LA7 | 112 |
| Frequency rate of occupational accidents with and without lost time (TF2) | Quantitative | Standard | LA7 | 112 |
| Severity rate (TFG) of occupational accidents | Quantitative | Standard | LA7 | 112 |
| Number of occupational accidents with lost time concerning temporary staffing agency employees* | Quantitative | Restricted/France(1) | LA7 | 112 |
| Number of employees suffering from an occupational illness | Quantitative | Restricted/France(1) | LA7 | 113 |

*(1) For the next fiscal years, Mersen will endeavor to gradually extend this scope to certain other Group entities if the indicator is relevant in the country concerned and local legislation so permits.*

** The concept of the "Standard" scope refers to the definition given in the section "Scope of reporting" at the end of this chapter. Where the scope is "Restricted", the restrictions are stipulated either in each reporting table or in the "Comments" column above.*

| Article R. 225-105-1 of the French Commercial Code Grenelle 2 topics | Qualitative and quantitative information | Scope/Comments | GRI 3.1 | Page |
|---|---|---|---|---|
| **TRAINING POLICY** | | | | |
| Training policies implemented | Qualitative | Standard | LA11 | 102 |
| Number of hours of training | Quantitative | Standard | LA10 | 103 |
| **DIVERSITY AND EQUAL OPPORTUNITY** | | | | |
| Diversity policy | Qualitative | Standard | LA13 & EC7 | 99 |
| Percentage of women managers | Quantitative | Standard | LA13 | 100 |
| Percentage of women on corporate governance bodies | Quantitative | Standard | LA13 | 100 |
| Percentage of disabled employees in the workforce | Quantitative | Restricted/France | LA13 | 109 |
| Percentage of senior employees in the workforce | Quantitative | Standard | LA13 | 107 |
| Percentage of site managers of local nationality | Quantitative | Standard | EC7 | 99 |
| **PROMOTION OF AND COMPLIANCE WITH ILO CONVENTIONS (human rights)** | | | | |
| Conformity with the provisions of the ILO's key conventions | Qualitative | Standard | HR | 121 |
| **ENVIRONMENTAL INFORMATION** | | | | |
| **GENERAL ENVIRONMENTAL POLICY** | | | | |
| Organization of the company to take environmental concerns into account | Qualitative | Standard/Group policy | Managerial approach | 114 |
| ISO 14001 certification rate | Quantitative | Standard | | 117 |
| Percentage of companies with a dedicated EHS manager | Quantitative | Standard | | 110 |
| Number of hours of environmental protection training | Quantitative | Restricted (64% of the Group's workforce) | | 117 |
| Resources dedicated to environmental risk prevention | Qualitative | Standard | EN30 | 115 |
| Amount of significant provisions for environmental risks | Quantitative | Standard | EN28 & EC2 | 117 |
| Circular economy | Qualitative | Standard | | 115 |
| **POLLUTION AND WASTE MANAGEMENT** | | | | |
| Recycled ferrous metal | Quantitative | Standard | | 118 |
| Recycled artificial graphite | Quantitative | Standard | | 118 |
| Non-hazardous industrial waste | Quantitative | Standard | EN22 | 118 |
| Hazardous industrial waste | Quantitative | Standard | EN22 | 118 |
| Measures to mitigate noise pollution and all other types of pollution specific to an activity | Qualitative | Standard | | 116 |

** The concept of the "Standard" scope refers to the definition given in the "Scope of reporting" section at the end of this chapter. Where the scope is "Restricted", the restrictions are stipulated either in each reporting table or in the "Comments" column above.*

| Article R. 225-105-1 of the French Commercial Code Grenelle 2 topics | Qualitative and quantitative information | Scope/Comments | GRI 3.1 | Page |
|---|---|---|---|---|
| **SUSTAINABLE USE OF RESOURCES** | | | | |
| Volume of water consumed | Quantitative | Standard | EN8 | 117 |
| Electricity consumption | Quantitative | Standard | EN3 & 4 | 117 |
| Gas consumption | Quantitative | Standard | EN3 & 4 | 117 |
| Wood consumption | Quantitative | Standard | EN1 | 118 |
| Cardboard consumption | Quantitative | Standard | EN1 | 118 |
| Copper consumption | Quantitative | Standard | EN1 | 118 |
| Coke consumption | Quantitative | Standard | EN1 | 118 |
| Recycled timber | Quantitative | Standard | EN2 | 118 |
| Measures to improve energy efficiency and use of renewable energy sources | Qualitative | Standard | EN6 | 116 |
| Land use | Qualitative | Standard | | 118 |
| **CLIMATE CHANGE** | | | | |
| $CO_2$ emissions | Quantitative | Standard | EN16 | 117 |
| Greenhouse gases | Qualitative | Standard | | 117 |
| Measures to adapt to climate change | Qualitative | Standard | | 116 |
| **BIODIVERSITY PROTECTION** | | | | |
| Measures taken to preserve or restore biodiversity | - | Standard | EN11 to 15, EN25 | 124 |
| **SOCIAL COMMITMENTS TO SUSTAINABLE DEVELOPMENT** | | | | |
| **REGIONAL, ECONOMIC AND SOCIAL IMPACT OF THE ACTIVITIES** | | | | |
| Local and regional impact of activities on employment and development | Qualitative | Standard | EC8 & EC9 | 121 |
| **RELATIONS WITH STAKEHOLDERS** | | | | |
| Dialogue with stakeholders | Qualitative | Standard | 4.14 to 4.17 | 121 |
| Support, partnership and sponsorship initiatives | Qualitative | Standard | EC1 & 4.11 to 4.13 | 121 |
| **OUTSOURCING AND SUPPLIERS** | | | | |
| Inclusion of social and environmental concerns in purchasing policy | Qualitative | Standard /Group policy | EC6 & HR2 | 121 |
| **FAIR OPERATING PRACTICES** | | | | |
| Measures implemented to prevent corruption | Qualitative | Standard/Group policy | SO2 to 4, SO7 & SO8 | 121 |
| Percentage of companies covered by an internal audit in the past 3 years | Quantitative | Standard | | 121 |
| Managers who have attended the anti-fraud training | Quantitative | Standard | SO3 | 121 |
| Measures to protect consumer health and safety | Qualitative | Standard | PR1 & PR2 | 121 |
| Actions taken in support of human rights | Qualitative | Compliance brought about by the implementation of the ethics charter | HR | 121 |
| Promotion of and conformity with the provisions of the ILO's key conventions | Qualitative | Compliance brought about by the implementation of the ethics charter | HR | 121 |

** The concept of the "Standard" scope refers to the definition given in the "Scope of reporting" section at the end of this chapter. Where the scope is "Restricted", the restrictions are stipulated either in each reporting table or in the "Comments" column above.*

# REPORT BY INDEPENDENT THIRD PARTY,

## ON THE CONSOLIDATED HUMAN RESOURCES, ENVIRONMENTAL AND SOCIAL INFORMATION INCLUDED IN THE MANAGEMENT REPORT FOR THE YEAR ENDED 31TH OF DECEMBER 2017

*This is a free English translation of the Statutory Auditors' report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.*

To the Shareholders,

In our capacity as independent third party and certified by COFRAC under number 3-1049(1), and member of the KPMG International network of the company's Statutory Auditor, we hereby report to you on the consolidated human resources, environmental and social information for the year ended the 31th of December 2017, included in the management report (hereinafter named "CSR Information"), pursuant to article L.225-102-1 of the French Commercial Code.

## Company's responsibility

The Board of Directors is responsible for preparing a company's management report including the CSR Information required by article R.225-105-1 of the French Commercial Code in accordance with the guidelines used by the Company (hereinafter the "Guidelines"), summarised in the management report and available on request from the company's head office.

## Independence and quality control

Our independence is defined by regulatory texts, the French Code of ethics of our profession and the requirements of article L.822-11-3 of the French Commercial Code. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements and applicable legal and regulatory requirements.

## Independent Third Party's responsibility

On the basis of our work, our responsibility is to:

- attest that the required CSR Information is included in the management report or, in the event of non-disclosure of a part or all of the CSR Information, that an explanation is provided in accordance with the third paragraph of article R.225-105 of the French Commercial Code (Attestation regarding the completeness of CSR Information);
- express a limited assurance conclusion that the CSR Information taken as a whole is, in all material respects, fairly presented in accordance with the Guidelines (Conclusion on the fairness of CSR Information);

However, it is not our responsibility to pronounce on the compliance with the relevant legal provisions applicable if necessary, in particular those envisaged by article L. 225-102-4 of the French Commercial Code (Duty of care) and by the law n ° 2016-1691 of December 9, 2016 known as Sapin II (fight against corruption).

Our work involved seven persons and was conducted between July 2017 and March 2018 during a five weeks period. We were assisted in our work by our CSR experts.

We performed our work in accordance with the order dated 13 May 2013 defining the conditions under which the independent third party performs its engagement and with the professional guidance issued by the French Institute of statutory auditors (Compagnie nationale des commissaires aux comptes) relating to this engagement and with ISAE 3000(2) concerning our conclusion on the fairness of CSR Information.

*(1) "whose scope is available at www.cofrac.fr"*

*(1) ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information*

## 1. Attestation regarding the completeness of CSR Information

**Nature and scope of our work**

On the basis of interviews with the individuals in charge of the relevant departments, we obtained an understanding of the Company's sustainability strategy regarding human resources and environmental impacts of its activities and its social commitments and, where applicable, any actions or programmes arising from them.

We compared the CSR Information presented in the management report with the list provided in article R.225-105-1 of the French Commercial Code.

For any consolidated information that is not disclosed, we verified that explanations were provided in accordance with article R.225-105, paragraph 3 of the French Commercial Code.

We verified that the CSR Information covers the scope of consolidation, i.e., the Company, its subsidiaries as defined by article L.233-1 and the controlled entities as defined by article L.233-3 of the French Commercial Code within the limitations set out in the methodological note, presented in chapter 4 of the registration document including the management report.

### *Conclusion*

Based on the work performed and given the limitations mentioned above, we attest that the required CSR Information has been disclosed in the management report.

## 2. Conclusion on the fairness of CSR Information

### *Nature and scope of our work*

We conducted twelve interviews with persons responsible for preparing the CSR Information and, where appropriate, responsible for internal control and risk management procedures, in order to:

- assess the suitability of the Guidelines in terms of their relevance, completeness, reliability, neutrality and understandability, and taking into account industry best practices where appropriate;
- verify the implementation of data-collection, compilation, processing and control process to reach completeness and consistency of the CSR Information and obtain an understanding of the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of our tests and procedures based on the nature and importance of the CSR Information with respect to the characteristics of the Company, the human resources and environmental challenges of its activities, its sustainability strategy and industry best practices.

Regarding the CSR Information that we considered to be the most important[(1)]:

- at parent entity level, we referred to documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions), performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and the consolidation of the data. We also verified that the information was consistent and in agreement with the other information in the management report;
- at the level of a representative sample of sites selected by us[(2)] on the basis of their activity, their contribution to the consolidated indicators, their location and a risk analysis, we conducted interviews to verify that procedures are properly applied and to identify potential undisclosed data, and we performed tests of details, using sampling techniques, in order to verify the calculations and reconcile the data with the supporting documents. The selected sample represents 29% of headcount considered as material data of social issues and between 13% and 26% of environmental data considered as material data[(3)] of environmental issues.

For the remaining consolidated CSR Information, we assessed its consistency based on our understanding of the company.

*(1) Human resources quantitative information: Active headcount as at December 31, 2016 broken down by gender ; Number of recruitments ; Number of dismissals ; Percentage of female managers ; Absenteeism rate ; Frequency rate of work accidents with lost days ; Severity rate of work accidents ; Number of training hours.*
*Environmental quantitative information: Water consumption ; Electricity consumption ; Gas consumption ; Copper consumption ; Amount of hazardous and non-hazardous industrial waste ; Part of recycled waste ; Part of waste thermally recovered ; Emissions of CO2 related to energy consumptions.*
*Qualitative information: Remuneration and their evolution; Occupational health and safety conditions; The organization of the company to integrate environmental issues and, if appropriate, the assessments and certification process regarding environmental issues ; Amount of provisions and guarantees for environmental risks ; Action implemented against corruption.*
*(2) Hittisau (Austria), Amiens (France), Juarez (Mexico), Yueqing (China), Shanghai Songjiang (China), Bay City (United States of America).*
*(3) Electricity consumption ; Copper consumption ; Amount of hazardous and non-hazardous industrial waste ; Part of recycled waste ; Part of waste thermally recovered ; Emissions of $CO_2$ related to energy consumptions.*

We also assessed the relevance of explanations provided for any information that was not disclosed, either in whole or in part.

We believe that the sampling methods and sample sizes we have used, based on our professional judgement, are sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures. Due to the use of sampling techniques and other limitations inherent to information and internal control systems, the risk of not detecting a material misstatement in the CSR information cannot be totally eliminated.

**Conclusion**

Based on the work performed, no material misstatement has come to our attention that causes us to believe that the CSR Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

Paris-La Défense, March, 6th 2018

**KPMG S.A.**

Philippe Arnaud
*Partner*
*Sustainability Services*

Philippe Cherqui
*Partner*

# 5 INFORMATION ABOUT THE SHARE CAPITAL AND SHARE OWNERSHIP

# General information about the Company

## 1. Corporate name and headquarters

Mersen
Tour EQHO
2 avenue Gambetta
CS 10077
F-92066 Paris La Défense, France

## 2. Form, nationality and law

The Company is a Société Anonyme incorporated under French law and governed notably by the law of July 24, 1966.

## 3. Incorporation and corporate life

The Company was incorporated on January 1, 1937 and shall be dissolved on December 31, 2114, unless its life is extended or it is dissolved early by a vote of an Extraordinary General Meeting.

## 4. Corporate purpose (Article 3 of the Articles of Association)

The Company's purpose in France and in all other countries is to carry out all operations concerning the design, manufacture, processing, use and sale of:

- carbon-based products, articles or equipment, whether or not they are combined with other materials;
- metal powders, articles made from these powders, special alloys and articles made from these alloys;
- electro-mechanical and electronic products;
- all industrial products, especially metallurgical, mechanical, plastic and elastomer products;
- all other products, articles or equipment that may be related to the above products:
  - either by using the latter to make the former,
  - or by developing research activities,
  - or through manufacturing processes, industrial applications or distribution networks.

In the area defined above, the Company may carry out all activities related to:

- raw materials, prepared materials, components and elements, spare parts, semi-finished and finished products, equipment, combinations of equipment, assemblies of all kinds and sizes combining equipment;
- all works;
- all techniques.

The Company may also indirectly carry out operations related to technical, industrial and commercial activities. To this end, it may form any companies and groups of companies, acquire holdings in any companies and partnerships, contribute assets to the capital of any company and subscribe to the shares of any company, and purchase or sell any shares, partnership shares, or corporate rights.

In general, the Company may carry out any industrial, commercial, financial, securities or real estate operations connected principally or incidentally to these activities.

Furthermore, the Company may acquire any interest, in any form whatsoever, in any French or foreign companies or organizations.

## 5. Trade and Companies Register Code

RCS NANTERRE B 572 060 333 – APE CODE: 7010Z.

## 6. Access to the Company's corporate documents

Corporate documents, particularly the Articles of Association, financial statements and reports to General Meetings by the Board of Directors and the Statutory Auditors, may be consulted at the headquarters by contacting:

Thomas Baumgartner
Group Vice President, Finance and Administration
Mersen
Tour EQHO
2 avenue Gambetta
92400 Courbevoie, France
Tel: + 33 (0) 1 46 91 54 19

# 7. Fiscal year

The fiscal year begins on January 1 and ends on December 31 of each year.

# 8. Statutory distribution of income (Article 27 of the Articles of Association)

At the end of each fiscal year, the Board of Directors prepares an inventory and the annual financial statements as set forth in accordance with Section II Book 1 of the French Commercial Code (*Code de commerce*).

Net income for the fiscal year, as shown on the income statement, comprises the difference between the income and expenditure for the year, less depreciation, amortization and provisions.

At least one twentieth of net income for the fiscal year, less any prior losses, if any, is allocated to a reserve account known as the statutory reserve.

When the amount in this reserve account reaches one tenth of the share capital, this deduction ceases to be mandatory but if, for any reason, the reserve account were to fall below one tenth of the share capital, the deduction would resume.

Income available for distribution consists of net income for the fiscal year less any prior losses and the amounts to be allocated to reserve accounts as stipulated by law, plus any retained earnings.

An initial dividend of 5% of the paid-up and unredeemed par value of the shares is distributed from income. The shareholders may not demand payment of the dividend out of subsequent years' income, should the income from one year, after the aforementioned deduction, render it impossible to make such a payment. In addition, the General Meeting, on the recommendation of the Board of Directors, has the right to decide to deduct such amounts as it deems suitable, either for retained earnings or for reserves to be used as directed by the Board of Directors.

The balance is then divided among the shareholders without distinction.

The Ordinary General Meeting called to approve the financial statements for the fiscal year has the option of granting each shareholder the choice between receiving all or part of the dividend or interim dividend in cash or in shares, based on the terms and conditions and procedures set forth by current laws and regulations.

The Ordinary General Meeting may, in addition, resolve to distribute sums drawn from the reserve accounts at its disposal; in this case, the resolution expressly indicates the reserve accounts from which said sums are to be deducted.

However, dividends are drawn in priority from the year's income available for distribution.

# 9. General Meetings of Shareholders (Article 25 of the Articles of Association)

## 9.1. Notice of meetings – Admission

General Meetings are convened under the conditions laid down in law, and their proceedings are governed by the quorum and majority voting requirements stipulated by law.

The meetings are held at Company headquarters or at any other location specified in the notice convening the meeting.

All shareholders owning at least one fully paid-up share may attend General Meetings.

The holders of registered shares may attend the General Meeting if their shares were recorded in the accounts five days before the meeting date.

To be entitled to attend the General Meeting, holders of bearer shares must present a certificate showing that their shares have been placed in a blocked account three days ahead of the scheduled date of the meeting.

The Board of Directors may always elect to shorten these time limits.

Any shareholder may also, if the Board of Directors so decides when the General Meeting is convened, participate and vote at General Meetings by means of videoconferencing or any other telecommunications technology that makes it possible to identify them, under the terms and conditions provided for by law.

General Meetings are chaired by the Chairman of the Board of Directors or, in his absence, by the Vice-Chairman of the Board of Directors or, failing this, by a member of the Board of Directors specially designated for this purpose by the Board of Directors. Otherwise, the General Meeting shall elect its own Chairman.

Minutes of the General Meetings are drawn up and the Chairman of the Board of Directors, the Vice-Chairman of the Board of Directors, the Secretary of the Board of Directors or a duly authorized person certifies copies of the minutes.

## 10. Disclosure thresholds (Article 11 *ter* of the Articles of Association)

The Company's Articles of Association stipulate that any person, acting alone or in concert, who acquires in any manner whatsoever within the meaning of Article L. 233-7 *et seq.* of the French Commercial Code, either directly or indirectly through companies that it controls within the meaning of Article L. 233-3 of the French Commercial Code, a stake of 1% or more in the share capital or voting rights that take its stake up to or over this limit, is required, within five days of trading in the securities and irrespective of their delivery, to disclose to the Company by recorded delivery letter with acknowledgment of receipt the total number of shares or securities giving access to the share capital or voting rights that take its stake in the future and the number of voting rights that it holds. Any reduction in the shareholding below the 1% threshold must be disclosed in the same manner and within the same deadline. This obligation shall apply whenever the share of the capital or voting rights held increases or falls by at least 1%.

If a disclosure does not meet the terms and conditions above, the share exceeding the fraction that should have been disclosed shall be stripped of voting rights at any General Meeting that may be held until the expiration of a period of two years following the date on which proper notification is made, at the request, during the Meeting, of one or more shareholders holding at least 1% of the share capital or voting rights.

In addition to the above disclosure obligation, any crossing of share ownership thresholds, as provided by law, must be disclosed.

## 11. Trading by the Company in its own shares

At the Combined General Meeting of May 18, 2017, the Company was authorized to trade in its own shares on the stock exchange in accordance with Article L. 225-209 *et seq.* of the French Commercial Code, in order to:

- enhance trading in and the liquidity of the Company's shares by engaging the services of an investment service provider under a liquidity contract that complies with the charter of ethics drawn up by the French Association of Financial and Investment Firms (*Association Française des Marchés Financiers* – AMAFI);
- allot or transfer shares to Group employees under the Company's growth-based incentive scheme or the implementation of company investment plans under the terms and conditions set forth in Article L. 3332.1 *et seq.* of the French Labor Code (*Code du travail*), notably through the allotment of shares, specifically the allotment of bonus shares under the conditions set forth in Articles L. 225-197-1 to L. 225-197-3 of the French Commercial Code, or through the introduction of stock purchase options pursuant to the provisions of Articles L. 225-177 *et seq.* of the French Commercial Code;
- allot shares in connection with the conversion or exchange of securities (including debt securities) conferring rights to the Company's share capital;
- purchase shares to be held and subsequently remitted as part of an exchange offer or in consideration for possible acquisitions;
- cancel shares through a reduction in the share capital in accordance with the French Commercial Code.

The maximum purchase price has been set at €45 per share. This price is set subject to adjustments related to any transactions affecting the Company's share capital. Based on the maximum purchase price set above and the number of shares making up the share capital at the date of the authorization, the aggregate maximum amount of the purchases may not exceed €92,123,325.

This authorization replaces the authorization granted by the General Meeting on May 11, 2016. A new authorization concerning stock repurchases will be submitted for shareholders' approval at the Combined General Meeting on May 17, 2018.

These share purchases, grants or sales may be entered into and paid for by any means, including as part of a liquidity agreement entered into by the Company with an investment services provider.

In March 2005, the Company signed a liquidity agreement with Exane BNP Paribas that complies with the charter of ethics drawn up by the AMAFI. This liquidity agreement is renewed each year by tacit approval.

## 12. Double voting rights

To account for the entry into force of Act No. 2014-384 of March 29, 2014, the Company submitted a resolution to the May 19, 2015 Extraordinary General Meeting to eliminate double voting rights so that shareholders could discuss and decide on this issue.

The resolution was rejected. Double voting rights are now attached to all shares that fulfill both of the following conditions: i) have been held in registered form for at least two years, and ii) are fully paid up.

## 13. Categories of shares (Articles 6, 13 and 15 of the Articles of Association)

The General Meeting of May 18, 2017 approved the creation of a fourth category of shares and amended the Articles of Association accordingly. Thus, the new Article 6 of the Articles of Association provides for four categories of shares: A shares are ordinary shares, and B, C and D shares are preference shares issued pursuant to Article L. 228-11 *et seq.* of the French Commercial Code.

A shares are freely negotiable (Article 13). B, C and D shares are transferable under the terms and conditions set forth in Article 15 of the Articles of Association.

## 13.1. B shares (2015 bonus preference share plan)

At the end of the vesting period, each B share shall confer the right, in the ownership of the assets of the Company and the sharing of the profits and the liquidation surplus, to a dividend, per B share, equal to 10% of the dividend per share allotted to A shares. All B shares shall confer the right, during the lifetime of the Company and in the event of liquidation, with an equal par value and taking into account, where necessary, the date of entitlement, to payment of the same net amount, equal to 10% of any amount paid to each A share, for any allocation or redemption, pursuant to Section I (Rights attached to shares) of Article 15 of the Articles of Association.

B shares may be converted into ordinary shares at the end of the period set in the category B bonus share allotment plan, according to a conversion parity based on share price trends. The maximum number of ordinary shares that may be issued upon conversion of B shares is 99,220; this number does not take into account any adjustments made to protect the rights of the beneficiaries, in accordance with legal and regulatory provisions and, where necessary, contractual stipulations.

At the end of the Holding Period for B shares (the "Holding Period" – the "Holding Period Expiry Date"), as set forth in the B share bonus allotment plan determining their allotment, each B shareholder may convert some or all of the B shares held into A shares, under the terms and conditions set forth in Section II, paragraphs 4 to 5 of Article 15 of the Articles of Association.

At the end of the Holding Period, B shares are fully transferable between B shareholders. B shares may be converted into A shares during a 30-day period, according to the terms and conditions in the plan and to a parity defined by the percentage difference between the Initial Share Price and the Final Share Price. A specific rule shall be defined if the end of the conversion period falls during a period restricting the sale or purchase of Company shares. The "Initial Share Price" is equal to the volume-weighted average of the opening prices of the A shares for the last 20 trading days prior to the Allotment Date. The "Final Share Price" is equal to the average opening prices of the A shares between the second anniversary of the Allotment Date (included) and the beginning of the Conversion Period during which the B shareholders requested the conversion to A shares (excluded). The Conversion Parity will be equal to:

- If the Final Share Price is less than 150% of the Initial Share Price (the "Maximum Final Share Price" or "CFMax"): N= 10 + 300 (CF-CI)/CF
- If the Final Share Price is greater than the Maximum Final Share Price: N= 10 + (CFMax x 100)/CF
- If the Final Share Price is less than the Initial Share Price: N= 10

Where:

"N" is the number of A shares to which each B share is entitled, it being specified that in the case of a fraction, the number of A shares allotted to a B shareholder will be rounded down to the lower unit; "CF" is the Final Share Price; "CI" is the Initial Share Price; and "CFMax" is the Maximum Final Share Price.

In addition, if conversion takes place at the end of the periods set forth in Section II, paragraphs 4 to 5 of Article 15 of the Articles of Association, the B shares will be converted automatically into A shares.

## 13.2. C shares (2016 bonus preference share plan)

The C shares shall have the same rights and obligations as those set forth in Section II of Article 15 of the Articles of Association relating to the B shares, which shall apply *mutatis mutandis*, subject to the following changes:

- the "Allotment Date" is defined as the date on which a bonus share allotment plan is adopted by the Board of Directors;
- the "Initial Share Price" shall indicate the higher amount of either (i) €17 (seventeen) or (ii) the volume-weighted average of the opening prices of the A shares over a period preceding the Allotment Date by twenty (20) trading days prior to the Allotment Date. The initial share price was eventually set at €17;
- the total maximum number of A shares that may result from the conversion of the C shares may not exceed 129,000; this number does not take into account any adjustments made to protect, in accordance with legal and regulatory provisions and, where necessary, contractual stipulations, the rights of C share beneficiaries.

## 13.3. D shares (2017 bonus preference share plan)

The D shares shall have the same rights and obligations as those set forth in Section II of Article 15 of the Articles of Association relating to the B shares, which shall apply *mutatis mutandis*, subject to the following changes:

- the "Allotment Date" is defined as the date on which a bonus share allotment plan is adopted by the Board of Directors;
- the "Initial Share Price" corresponds to the volume-weighted average of the opening prices of the A shares over a period preceding the Allotment Date by twenty (20) trading days.

The total maximum number of A shares that may result from the conversion of D shares may not exceed 129,000; this number does not take into account any adjustments made to protect, in accordance with legal and regulatory provisions and, where necessary, contractual stipulations, the rights of D share beneficiaries.

# General information about the share capital

## 1. Conditions

Changes in the share capital and the respective rights of the various classes of shares are made in accordance with the provisions laid down in law.

## 2. Amount and structure of the share capital (Article 6 of the Articles of Association)

At December 31, 2017, the Company's share capital was set at €41,274,082 divided into 20,637,041 shares, of which 20,636,724 were category A shares and 317 were category B shares, each with par value of €2. Category C and D shares, which are preference shares, may be issued in application of Article L. 228-11 *et seq.* of the French Commercial Code.

## 3. Authorizations to carry out a capital increase

### 3.1. Combined General Meeting of May 11, 2016

#### 3.1.1. Capital increase with preferential subscription rights for shareholders (resolution 14)

The General Meeting authorized the Board of Directors, with the option of subdelegation, to issue shares and/or securities conferring rights immediately and/or in the future to the Company's share capital, through the accumulation of reserves, profits or issue premiums. The aggregate nominal amount of the immediate and/or future increases in the share capital that may be carried out under this authorization may not exceed €15 million. It replaces and supersedes the previous authorization granted by the General Meeting of May 14, 2014. This authorization is valid for 26 months. The Company has not used this authorization to date.

#### 3.1.2. Increase in the number of shares to be issued as part of a rights issue – with preferential subscription rights for shareholders (resolution 15)

The General Meeting authorized the Board of Directors, with the option of subdelegation, to increase the number of securities to be issued in the event of a share issuance pursuant to the fourteenth resolution – within 30 days of closure of the subscription and up to a maximum 15% of the initial issuance. This authorization will remain valid for 26 months, it being understood that the Board of Directors will not be authorized to approve a capital increase during a public offer for the Company's shares. The Company has not used this authorization to date.

#### 3.1.3. Rights issue in return for contributions in kind made to the Company comprising capital instruments and securities conferring rights to the Company's share capital (resolution 16).

The General Meeting authorized the Board of Directors, with the option of subdelegation, to issue shares or securities conferring rights, immediately and/or in the future, to the Company's share capital in return for the contributions in kind made to the Company comprising capital instruments and securities conferring rights to the Company's share capital. The nominal amount of the immediate and/or future rights issues that may be carried out under this authorization may not exceed 10% of the Company's share capital on the date of the Meeting and shall be applied to the ceiling of €15 million stipulated in the fourteenth resolution. It replaces and supersedes the previous authorization granted by the General Meeting of May 14, 2014. This authorization is valid for 26 months. The Company has not used this authorization to date.

#### 3.1.4. Bonus share allotments (resolution 17)

At the General Meeting, the shareholders authorized the Board of Directors to allot existing or new shares to employees, or to certain categories of employees, of the Company and those of affiliated companies, at no cost. The total number of shares that may be thus allotted may not exceed 84,000, representing around 0.4% of the share capital on the day of the Meeting. This authorization provides that the Board of Directors will determine the identity and categories of the beneficiaries of the share allotment referred to, as well as the performance and share allotment conditions and criteria. This authorization invalidates the previous authorization granted by the General Meeting of May 19, 2015. This authorization is valid for 38 months.

At its meeting of May 11, 2016 the Board of Directors made use of this authorization and empowered the Chief Executive Officer to implement the performance-based bonus share plan and the allotment of said shares. The Chief Executive Officer implemented this authorization by allotting, at no cost, 84,000 Company shares to 121 Mersen group employees and managerial staff according to the related performance conditions; i.e., a 2016 EBITDA-to-sales ratio criterion, or one based on a change in the EBITDA-to-sales ratio between 2014 and 2016, compared to a panel of comparable French companies (whichever is the more favorable).

### 3.1.5. Authorization granted to the Board of Directors to award new bonus preference shares to be issued by the Company, with waiver of shareholders' preferential subscription rights (resolution 18)

At the General Meeting, the shareholders authorized the Board of Directors to allot, on one or more occasions, except during a public offer for the Company's shares, Company bonus preference shares conferring the right to convert them into new or existing ordinary Company shares to certain categories of employees and Management Board members, it being specified that the rights attached to the preference shares were established by the Articles of Association of the Company. The maximum number of ordinary shares that may result from the conversion of the preference shares may not exceed 129,000 shares, or 0.63% of the share capital of the Company. This authorization provides that the Board of Directors will determine the criteria and conditions for allotting these preference shares, the identity of the beneficiaries, the number of preference shares allotted, and the performance conditions and criteria. This authorization invalidates the previous authorization granted by the General Meeting of May 19, 2015 and any similar delegation. This authorization is valid for 38 months.

At its meeting of May 11, 2016 the Board of Directors made use of this authorization and empowered the Chief Executive Officer to implement the bonus preference share plan and the allotment of said shares. The Chief Executive Officer implemented this authorization by allotting 1,172 bonus preference shares to the members of the Executive Committee and the Group's managerial staff. This number corresponds to a maximum number of 129,000 ordinary shares after conversion.

The definitive allotment of preference shares is subject to performance conditions associated with the achievement of earnings per share (EPS) criteria or change in the EPS between 2016 and 2017 compared to that of comparable companies (whichever is the more favorable).

### 3.1.6. Approval to create a category of preference shares and amend the Articles of Association accordingly (resolution 19)

The General Meeting amended Article 6 of the Articles of Association to create three categories of shares, A shares, which are ordinary shares, and B and C shares, which are preference shares issued pursuant to Article L. 228-11 *et seq.* of the French Commercial Code.

The General Meeting amended Article 11 of the Articles of Association, specifying that fully-paid A shares may be held in registered or bearer form, at the shareholder's discretion. Fully-paid B shares and C shares are registered.

The General Meeting amended Article 13 of the Articles of Association, specifying that A shares are freely negotiable. B and C shares are transferable under the terms and conditions set forth in Article 15.

The General Meeting amended Article 15 of the Articles of Association to define:

I) a) the rights attached to A, B and C shares (participation in meetings, voting on resolutions, right to communication, subscription and allotment rights in the event of a share increase), and b) for A shares, rules for participating in the sharing of profits, liquidation bonuses, etc.;

II) the specific rights and restrictions attached to B and C shares and, specifically, the rules for participating in the sharing of profits, liquidation bonuses, etc., the holding period, and the rules for converting B and C shares into A shares based on share price movements.

The total maximum number of A shares that may result from the conversion of C shares may not exceed 129,000; this number does not take into account any adjustments made to protect, in accordance with legal and regulatory provisions and, where necessary, contractual stipulations, the rights of C share beneficiaries.

### 3.1.7. Rights issue reserved for employees participating in the Group Investment Plan (resolution 20)

The General Meeting authorized the Board of Directors, with the option of subdelegation, to increase the share capital on one or more occasions at its sole discretion, through share issuances for cash reserved for employees participating in the Group Investment Plan. These capital increases entail the waiver of shareholders' preferential subscription rights. The nominal amount of the capital increases that may be carried out pursuant to this authorization may not exceed €300,000, i.e., approximately 0.7% of the Company's share capital. This authorization is valid for a period of 26 months. It replaces and supersedes the previous authorization granted by the General Meeting of May 24, 2014. The Company has not used this authorization to date.

#### 3.1.8. Issuance of stock subscription warrants to be granted at no cost to shareholders in the event of a public offer for the Company's shares (resolution 21)

The General Meeting delegated powers to the Board of Directors to issue, on one or more occasions, pursuant to a positive prior and compliant opinion of a committee comprising three independent members specially appointed for this purpose by the Board of Directors, warrants enabling their holders to subscribe on preferential terms to the Company's shares and their allotment free of charge to all Company shareholders with this status prior to the expiry of the public offer. The total nominal amount of the capital increase resulting from the exercise of these subscription warrants may not exceed 25% of the nominal amount of the share capital. This authorization states that the Board will have to report, at the time of the issue, on the circumstances and reasons why it believes that the offer is not in the interests of the shareholders and justify the issuance of the warrants, as well as the financial and legal terms of the warrants. They will automatically become null and void when the offer or any rival offer fails, becomes null and void or is withdrawn. The delegation conferred upon the Board of Directors is valid for 18 months. This authorization invalidates the previous authorization granted by the General Meeting of May 19, 2015. The Company has not used this authorization to date.

### 3.2. Combined General Meeting of May 18, 2017

#### 3.2.1. Bonus share allotments (resolution 18)

At the General Meeting, the shareholders authorized the Board of Directors to allot existing or new shares to employees, or to certain categories of employees, of the Company and those of affiliated companies, at no cost. The total number of shares that may be thus allotted may not exceed 84,000, representing around 0.4% of the share capital on the day of the Meeting. This authorization provides that the Board of Directors will determine the identity and categories of the beneficiaries of the share allotment referred to, as well as the performance and share allotment conditions and criteria. This authorization invalidates the previous authorization granted by the General Meeting of May 11, 2016. This authorization is valid for 38 months.

At its meeting of May 18, 2017 the Board of Directors made use of this authorization and empowered the Chief Executive Officer to implement the performance-based bonus share plan and the allotment of said shares. The Chief Executive Officer implemented this authorization by allotting, at no cost, 84,000 Company shares to 121 Mersen group employees and managerial staff according to the related performance conditions; i.e., a 2018 EBITDA-to-sales ratio criterion, or one based on a change in the EBITDA-to-sales ratio between 2016 and 2018, compared to a panel of comparable French companies (whichever is the more favorable).

#### 3.2.2. Authorization granted to the Board of Directors to award new bonus preference shares to be issued by the Company, with waiver of shareholders' preferential subscription rights (resolution 19)

At the General Meeting, the shareholders authorized the Board of Directors to allot, on one or more occasions, except during a public offer for the Company's shares, Company bonus preference shares conferring the right to convert them into new or existing ordinary Company shares to certain categories of employees and Management Board members, it being specified that the rights attached to the preference shares were established by the Articles of Association of the Company. The maximum number of ordinary shares that may result from the conversion of the preference shares may not exceed 129,000 shares, or 0.6% of the share capital of the Company. This authorization provides that the Board of Directors will determine the criteria and conditions for allotting these preference shares, the identity of the beneficiaries, the number of preference shares allotted, and the performance conditions and criteria. This authorization invalidates the previous authorization granted by the General Meeting of May 11, 2016 and any similar delegation. This authorization is valid for 38 months.

At its meeting of May 18, 2017 the Board of Directors made use of this authorization and empowered the Chief Executive Officer to implement the bonus preference share plan and the allotment of said shares. The Chief Executive Officer implemented this authorization by allotting 1,172 bonus preference shares to the members of the Executive Committee, the Group's managerial staff and the Chief Executive Officer. This number corresponds to a maximum number of 128,920 ordinary shares after conversion.

The definitive allotment of preference shares is subject to two performance conditions whichever the more favorable. These criteria are based on the average of the 2017 and 2018 EPS and on the change in EPS compared to that of peer companies.

#### 3.2.3. Approval to create a category of preference shares and amend the Articles of Association accordingly (resolution 20)

The General Meeting amended Article 6 of the Articles of Association, creating a fourth category of shares (D shares). A shares are ordinary shares and B, C and D shares are preference shares issued pursuant to Article L. 228-11 *et seq.* of the French Commercial Code.

The General Meeting amended Article 11 of the Articles of Association, specifying that fully-paid A shares may be held in registered or bearer form, at the shareholder's discretion. Fully-paid B, C and D shares are registered.

The General Meeting amended Article 13 of the Articles of Association, specifying that A shares are freely negotiable. B, C and D shares are transferable under the terms and conditions set forth in Article 15.

The General Meeting amended Article 15 of the Articles of Association to define:

I) a) the rights attached to A, B, C and D shares (participation in meetings, voting on resolutions, right to communication, subscription and allotment rights in the event of a share increase), and b) for A shares, rules for participating in the sharing of profits, liquidation bonuses, etc.;

II) the specific rights and restrictions attached to B, C and D shares and, specifically, the rules for participating in the sharing of profits, liquidation bonuses, etc., the holding period, and the rules for converting B, C and D shares into A shares based on share price movements.

The total maximum number of A shares that may result from the conversion of D shares may not exceed 129,000; this number does not take into account any adjustments made to protect, in accordance with legal and regulatory provisions and, where necessary, contractual stipulations, the rights of D share beneficiaries.

### 3.2.4. Delegation of authority granted to the Board of Directors for a period of 26 months to issue shares or securities conferring rights, with waiver of shareholders' preferential subscription rights, to employees of Mersen group companies whose headquarters are not located in France and who are not members of a company investment plan (resolution 22)

The General Meeting authorized the Board of Directors, with the option of subdelegation under the conditions provided for by the law and the Articles of Association, to carry out one or more capital increases reserved for Group employees, in the proportion and at the times that it deems appropriate (except during a public offer for the Company's shares), via the issue of ordinary shares or securities conferring rights to the Company's share capital. These capital increases entail the waiver of shareholders' preferential subscription rights. The total nominal amount of the capital increases that may be carried out pursuant to this authorization may not exceed €300,000 or the equivalent in any other currency or currency unit established by reference to more than one currency, i.e., approximately 0.7% of the Company's share capital. The maximum nominal amount will be included in the aggregate nominal limit of €300,000 provided for in the twentieth resolution approved by the General Meeting of May 11, 2016. The Company has not used this authorization to date.

### 3.2.5. Issuance of stock subscription warrants to be granted at no cost to shareholders in the event of a public offer for the Company's shares (resolution 23)

The General Meeting delegated powers to the Board of Directors to issue, on one or more occasions, pursuant to a positive prior and compliant opinion of a committee comprising three independent members specially appointed for this purpose by the Board of Directors, warrants enabling their holders to subscribe on preferential terms to the Company's shares and their allotment free of charge to all Company shareholders with this status prior to the expiry of the public offer. The total nominal amount of the capital increase resulting from the exercise of these subscription warrants may not exceed 25% of the nominal amount of the share capital. This authorization states that the Board will have to report, at the time of the issue, on the circumstances and reasons why it believes that the offer is not in the interests of the shareholders and justify the issuance of the warrants, as well as the financial and legal terms of the warrants. They will automatically become null and void when the offer or any rival offer fails, becomes null and void or is withdrawn. The delegation conferred upon the Board of Directors is valid for 18 months. This authorization invalidates the previous authorization granted by the General Meeting of May 11, 2016. The Company has not used this authorization to date.

## SUMMARY OF CHANGES IN THE SHARE CAPITAL

| Dates | Type of operation | Share capital after operation | Issue premium *(in €)* | Total number of shares after the operation |
|---|---|---|---|---|
| 1/27/2015 | Issue of 450 new shares, each with a par value of €2, through the exercise of subscription options in 2014 | 41,233,628 | 6,988.50 | 20,616,814 |
| 5/27/2015 | Issue of 55,200 shares each with a par value of €2, by incorporating, accordingly, reserves drawn from the "general reserve" account | 41,344,028 | NA | 20,672,014 |
| 7/9/2015 | Issue of 902 category B shares, each with a par value of €2 | 41,345,832 | NA | 20,672,916 |
| 1/27/2016 | Issue of 19,138 new shares, each with a par value of €2, through the exercise of subscription options in 2015 | 41,384,108 | 297,213 | 20,692,054 |
| 1/27/2016 | Cancellation of 55,200 treasury shares, each with a par value of €2 | 41,273,708 | 827,115 | 20,636,854 |
| 12/21/2016 | Cancellation of 165,000 treasury shares, each with a par value of €2 | 40,943,708 | NA | 20,471,854 |
| 12/12/2017 | Issue of 165,772 new shares through the exercise of subscription options in 2017 | 41,275,252 | 2,666,545 | 20,637,626 |
| 12/12/2017 | Cancellation of 585 category B shares, each with a par value of €2 | 41,274,082 | NA | 20,637,041 |

## 4. Voting right certificates

None.

## 5. Investment certificates

None.

## 6. Shares pledged

None.

## 7. Shareholders' agreement

The Company is not aware of any shareholders' agreements or other agreements concerning its share capital.

## 8. Securities conferring rights to the share capital

The stock subscription options still to be exercised at December 31, 2017 (after taking into account cancellations) would make it possible to issue 274,881 new shares, each with a par value of €2.

At December 31, 2015, 902 preference shares (corresponding to 99,220 ordinary shares after conversion) were allotted. At the end of the vesting period and taking into account performance conditions, 317 preference shares were allotted definitively, corresponding to 34,870 ordinary shares. The Board canceled the other 585 preference shares at its meeting of December 12, 2017.

At December 31, 2016, 1,172 preference shares (corresponding to 128,920 ordinary shares that may be converted) were allotted.

At December 31, 2017, 1,172 preference shares (corresponding to 128,920 ordinary shares that may be converted) were allotted.

The number of ordinary shares that may be allotted definitively to members of the Executive Committee (under the 2015, 2016 and 2017 preference shares plans) is 227,810, of which 49,280 to the Chief Executive Officer.

The number of bonus shares that could be allotted definitively, including by converting category B, C and D shares into ordinary shares, is 459,510 new shares, each with par value of €2, representing 2.2% of the current share capital.

Based on the number of subscription options that may be exercised by beneficiaries and the shares that may be definitively allotted, the maximum dilution would be 3.6%.

There are no other instruments or securities conferring rights to the Company's share capital.

## 9. Ownership of the share capital

At December 31, 2017, the Company's share capital stood at €41,274,082, divided into 20,637,041 shares, comprising 20,636,724 category A shares, which are ordinary shares, and 317 category B shares, which are preference shares, each with par value of €2.

At December 31, 2017, 24,673 shares representing 0.1% of the share capital were held by the Company pursuant to the liquidity agreement entered into with Exane BNP Paribas.

The number of theoretical voting rights stood at 28,558,949 at December 31, 2017.

A double voting right is attached to all shares that fulfill both of the following conditions: i) being held in registered form for at least two years; and ii) being fully paid up. Double voting rights have been recorded since April 4, 2016, in accordance with legal provisions.

Furthermore, no public tender or exchange offer, nor any guaranteed share price offer has been made in respect of the Company's shares over the past three years. The Company has not initiated any such offers for other companies over the same period.

Following the investment by AXA Private Equity (now Ardian) in the Company's share capital in July 2008, an agreement was entered into with the Company. Under the terms of the agreement, ACF I Investment (Ardian) undertook not to sell any block of shares representing 5% or more of Mersen's share capital to an identified investor, except in connection with a public offer. Any sale by ACF I Investment of its shares in the market is to be performed in an orderly manner, wherever possible, with a view to restricting the effects of such a disposal on the Company's share price. The agreement ended on June 30, 2012. However, the requirement to sell in an orderly manner remains in effect after the agreement terminates, as long as Ardian holds more than 10% of the Company's share capital.

# Stock repurchase program

## 1. Liquidity agreement

Since February 21, 2005, the Company has entrusted Exane BNP Paribas (independent services provider) with implementing a liquidity agreement that complies with the charter of ethics drawn up by the AMAFI and approved under French law, for an automatically renewable period of one year. The funds and shares made available pursuant to this agreement and credited to the liquidity account on February 25, 2005 comprised €2,200,000 and no shares.

At December 31, 2017, the following funds and shares appeared in the liquidity account:

- 24,673 equities;
- €1,288,229.

## 2. Trading in its own securities by the Company during fiscal 2017

| | |
|---|---|
| **Number of treasury shares held by the Company at December 31, 2016** | **43,490** |
| Number of shares purchased under the liquidity agreement | 236,153 |
| Number of shares sold under the liquidity agreement | 254,970 |
| **Number of treasury shares held by the Company at December 31, 2017** | **24,673** |

The Company did not use any derivatives.

# 3. Description of the stock repurchase program submitted for shareholders' approval at the Combined General Meeting of May 17, 2018

Prepared in accordance with Articles 241-1 *et seq.* of the General Regulation of the French Financial Markets Authority (*Autorité des marchés financiers* – AMF) and Articles L. 225-209 *et seq.* of the French Commercial Code, this description is intended to present the objectives, terms and conditions of the renewal of the stock repurchase program.

## 3.1. Summary of the principal characteristics of the operation

- Mersen's ordinary shares, admitted for trading on Euronext Paris, Compartment B (ISIN code: FR0000039620).
- Maximum percentage of the share capital authorized for repurchase by shareholders at the General Meeting: 10%.
- Maximum acquisition price per share: €65.
- Duration of the program: the authorization is valid for 18 months as of the General Meeting of May 17, 2018, i.e., until November 16, 2019.

## 3.2. Objectives of the program

Shares may be acquired in order to:

- enhance trading in the secondary market or the liquidity of the Mersen share by engaging the services of an investment service provider under a liquidity contract that complies with the charter of ethics drawn up by the AMAFI and approved under French law. For the purposes of the program, the number of shares taken into account to calculate the above-mentioned limit of 10% corresponds to the number of shares acquired, less the number of shares re-sold;
- cover share option and/or bonus share plans (or similar plans) allotted to Group employees and/or Management Board members, share allotments under company or group investment plans (or similar plans) or company profit-sharing plans and/or any other forms of share allotments to Group employees and/or Management Board members;
- cover securities conferring rights to allotments of shares in the Company, in accordance with applicable regulations;
- hold the acquired shares in treasury and subsequently remit them as part of an exchange offer or in consideration for any acquisitions;
- cancel the acquired shares, in accordance with the authorization granted or to be granted by the Extraordinary General Meeting.

## 3.3. Legal framework

The stock repurchase program is compliant with the provisions of Article L. 225-209 *et seq.* of the French Commercial Code. It will be submitted to the approval of the shareholders at the Combined General Meeting of May 17, 2018, deliberating in accordance with quorum and majority voting requirements for Ordinary General Meetings. The corresponding resolution to be proposed by the Board of Directors is worded as follows:

### 3.3.1. Resolution on the share repurchase program

After having read the Board of Directors' report, the General Meeting authorizes the Board of Directors for a period of eighteen months and in accordance with Articles L. 225-209 *et seq.* of the French Commercial Code, to purchase shares in the Company on one or more occasions and at the times that it deems appropriate. The number of shares held by the Company under this authorization may not be greater than 10% of the share capital and may be adjusted as necessary to take into account any capital increases or reductions that may occur during the term of the program.

This authorization supersedes the authorization granted to the Board of Directors by the General Meeting of May 18, 2017 in its sixteenth ordinary resolution.

Shares may be acquired in order to:

- enhance trading in the secondary market or the liquidity of the Mersen share by engaging the services of an investment service provider under a liquidity contract that complies with the charter of ethics drawn up by the AMAFI and approved under French law. For the purposes of the program, the number of shares taken into account to calculate the above-mentioned limit of 10% corresponds to the number of shares acquired, less the number of shares re-sold;
- cover share option and/or bonus share plans (or similar plans) allotted to group employees and/or Management Board members, share allotments under company or group investment plans (or similar plans) or company profit-sharing plans and/or any other forms of share allotments to Group employees and/or Management Board members;
- cover securities conferring rights to allotments of shares in the Company, in accordance with applicable regulations;
- hold the acquired shares in treasury and subsequently remit them as part of an exchange offer or in consideration for any acquisitions;
- cancel the acquired shares, in accordance with the authorization granted or to be granted by the Extraordinary General Meeting.

The shares may be purchased by any means, including by way of block purchases, at the times that the Board of Directors deems appropriate.

The Company does not intend to use options or derivatives.

The Board of Directors may not use this authorization without prior authorization from the General Meeting from the date that a public offer for the Company's shares is filed by a third party until the end of the offer period.

The maximum purchase price has been set at €65 per share. In the event of a transaction affecting the Company's share capital, such as share splits or reverse splits and bonus share allotments to shareholders, the above amount will be adjusted in the same proportion (a coefficient of the ratio between the number of shares comprising the share capital before the transaction and the number of shares after the transaction).

The maximum amount of the stock purchase program has been set at €134,140,760.

The General Meeting grants full powers to the Board of Directors to carry out the stock purchase program, determine the conditions and procedures thereof, enter into any and all agreements and carry out all formalities.

## 3.4. Procedures

### 3.4.1. Maximum percentage of the share capital to be acquired and maximum amount payable by Mersen

Mersen will have the option of acquiring up to 10% of the share capital at the date of the General Meeting, i.e., 2,063,704 shares. This limit shall be assessed on the date on which shares are acquired, in order to take into account any capital increases or reductions that may occur during the term of the stock repurchase program. The number of shares taken into account to calculate the limit corresponds to the number of shares acquired, less the number of shares re-sold during the term of the program for liquidity purposes. As the Company cannot hold more than 10% of its share capital and given that it already held 24,673 shares at December 31, 2017 (i.e., 0.1% of the share capital), the maximum number of shares that it may acquire under the program is 2,039,750 (i.e., 9.9% of the share capital), unless it sells or cancels the shares that it already holds.

The Company reserves the right to use the entire authorization. Accordingly, the maximum amount that Mersen may pay, assuming that it acquires shares at the maximum price set by the General Meeting, i.e., €65 per share, would be €132,583,750.

The Company's discretionary reserves, as stated under liabilities in the most recent annual financial statements prepared and certified at December 31, 2017, amounted to 302,462,518; pursuant to the law, the amount of the stock repurchase program may not exceed this figure until the fiscal 2017 financial statements are prepared.

Mersen undertakes to stay below the direct and indirect ownership threshold of 10% of the share capital at all times.

### 3.4.2. Conditions governing repurchases

These shares may be purchased, allotted or transferred at any time (except during a public offer for the Company's shares) and paid by any means, on and off the market, including by acquisition or transfer of blocks of shares, and specifically pursuant to a liquidity agreement entered into by the Company with an investment service provider.

### 3.4.3. Duration of the program

These stock repurchases may take place only after the approval of the corresponding resolution to be presented to the Combined General Meeting of May 17, 2018 and for a period of 18 months, i.e., until November 16, 2019.

## 3.5. Breakdown by objectives of treasury shares held at December 31, 2017

| | Number of treasury shares and percentage of share capital |
|---|---|
| Grant or transfer of shares to Group employees and/or Management Board members under the company investment plans and the allotment of shares, specifically, the allotment of bonus shares or stock purchase options | 0<br>0% |
| Allotment of shares in connection with the conversion or exchange of securities (including debt securities) conferring rights to the Company's share capital | 0<br>0% |
| Purchase for holding purposes and subsequent remittal as part of an exchange offer or in consideration for any acquisitions | 0<br>0% |
| Cancellation of shares through a reduction in the share capital in accordance with the French Commercial Code | 0<br>0% |
| Enhancement of trading via a liquidity contract | 24,673<br>0.1% |

# Share ownership

## 1. Share ownership thresholds crossed

**March 23:** Dimensional Fund Advisor announced that it had exceeded the statutory threshold of 2% of the share capital and voting rights and now holds 496,704 shares, i.e., 2.0% of the share capital and 2.4% of voting rights.

**April 24:** Norges Bank Investment announced that it had exceeded the statutory threshold of 4% of the share capital and voting rights and now holds 822,961 shares, i.e., 4.02% of the share capital.

**June 19:** La Caisse des Dépôts et Consignations (including Bpifrance Participations) announced that it had exceeded the threshold of 22% of the voting rights and now holds 3,215,039 shares, i.e., 15.70% of the share capital and 22.06% of voting rights.

**June 30:** Jousse Morillon Investissement announced that it had fallen below the statutory threshold of 2% of voting rights and now holds 495,000 shares, i.e., 2.42% of the share capital and 1.99% of voting rights.

**Since September 18:** Norges Investment Bank announced that it had exceeded and fallen below the legal threshold of 5% of the share capital on several occasions and that it had consequently crossed voting rights thresholds upwards and downwards. On December 29, 2017, Norges Bank Investment announced that it now holds 1,026,773 shares, i.e., 5.02% of the share capital and 3.62% of voting rights.

**November 15:** Jousse Morillon Investissement announced that it had fallen below the statutory threshold of 2% of voting rights and now holds 388,000 shares, i.e., 1.89% of the share capital and 1.57% of voting rights.

**December 14:** Bpifrance Participations announced that it had passively fallen below the statutory thresholds of 18%, 17% and 16% of voting rights and now holds 2,242,770 shares and 4,485,540 voting rights, i.e., 10.95% of the share capital and 15.79% of voting rights. La Caisse des Dépôts et Consignations (including Bpifrance Participations) announced that it had passively fallen below the legal threshold of 20% of the voting rights and now holds 3,216,489 shares and 5,459,259 voting rights, i.e., 15.71% of the share capital and 19.22% of voting rights.

**December 20:** Sofina announced that it had passively fallen below the thresholds of 12% and 11% of voting rights and now holds 1,679,852 shares, i.e., 8.21% of the share capital and 11.84% of voting rights.

**December 22:** Dimensional announced that it had fallen below the threshold of 2% of voting rights and now holds 556,536 shares, i.e., 2.72% of the share capital and 1.96% of voting rights.

### 1.1. Changes in ownership of the share capital

| | Dec. 31, 2017 | | | Dec. 31, 2016 | | | Dec. 31, 2015 | | |
|---|---|---|---|---|---|---|---|---|---|
| Shareholders | Number of shares | % of the share capital | % of the voting rights | Number of shares | % of the share capital | % of the voting rights | Number of shares | % of the share capital | % of the voting rights |
| Free float, o/w | | | | | | | | | |
| - French institutional investors | 11,154,393 | 54.1% | 59.6% | 11,846,661 | 57.9% | 57.0% | 9,882,443 | 47.8% | 48.0% |
| - International institutional | 7,465,325 | 36.2% | 32.0% | 6,402,089 | 31.3% | 32.7% | 7,859,263 | 38.0% | 38.2% |
| - Individual shareholders | 1,784,679 | 8.6% | 7.6% | 1,972,743 | 9.6% | 8.9% | 2,664,546 | 12.9% | 12.9% |
| - Employee shareholders | 207,971 | 1.0% | 0.7% | 206,871 | 1.0% | 1.4% | 176,889 | 0.8% | 0.9% |
| Treasury shares | 24,673 | 0.1% | | 43,490 | 0.2% | | 108,913 | 0.5% | |
| **TOTAL** | **20,637,041** | **100 %** | **100%** | **20,471,854** | **100%** | **100%** | **20,692,054** | **100%** | **100%** |

The Chief Executive Officer and the Board of the Directors own 4,517,519 shares (of which 2,242,770 held by Bpifrance, 575,556 by the Nobel Fund), 1,679,852 by Sofina and 11,776 by the Chief Executive Officer), i.e., 21.9% of the total share capital. Excluding Bpifrance, Sofina and the Nobel fund, their shareholding corresponds to 0.1% of the share capital. At December 31, 2017, the Company held 24,673 treasury shares as part of a liquidity contract that complies with the charter of ethics drawn up by the AMAFI.

To the best of the Company's knowledge, the following shareholders hold more than 5% of the Company's share capital and voting rights:

| | Shares* | % of the share capital | Voting rights exercisable at GM | % Voting rights exercisable at GM |
|---|---|---|---|---|
| ACF I Investment (Ardian) | 3,624,304 | 17.7% | 7,248,608 | 25.4% |
| Bpifrance Participations | 2,242,770 | 11.0% | 4,485,540 | 15.7% |
| Caisse des Dépôts et Consignations | 973,719 | 4.5% | 973,719 | 3.3% |
| **SUB-TOTAL (BPI + CDC)** | **3,216,489** | **15.6%** | **5,459,259** | **19.1%** |
| Sofina | 1,679,852 | 8.2% | 3,359,704 | 11.8% |
| Norges Bank | 1,026,773 | 5.0% | 1,026,773 | 3.6% |

** At December 31, 2017.*

To the best of the Company's knowledge, no other shareholders hold over 5% of the Company's share capital and voting rights.

No shareholders' agreement is in place.

As a result of the stock subscription options allotted under the 2009 and 2014 plans that were still to be taken up at December 31, 2017, 274,881 new shares could be created. The information concerning Mersen's stock subscription options is presented in Chapter 2 of this reference document.

In total, 459,510 new bonus shares with a par value of €2 could be allotted definitively, including conversions of category B, C and D shares into ordinary shares.

## 2. Dividend

| | No. of shares at year-end | Dividend per share *(in €)* | Share price *(in €)* | | | Overall yield based on share price at year-end |
|---|---|---|---|---|---|---|
| | | | High | Low | Last | |
| 2013 | 20,816,364 | 0.45 | 27.14 | 16.44 | 25.19 | 1.8% |
| 2014 | 20,616,814 | 0.50 | 27.90 | 17.50 | 20.12 | 2.5% |
| 2015 | 20,692,054 | 0.50 | 25.80 | 16.53 | 17.00 | 2.9% |
| 2016 | 20,471,854 | 0.50 | 20.38 | 11.25 | 20.32 | 2.5% |
| 2017 | 20,637,041 | 0.75 | 39.43 | 20.43 | 37.34 | 2.0% |

Dividend payments are time-barred as prescribed by law; namely five years after their payment. After this time, payments are made to the French State.

For fiscal 2017, the third resolution of the Combined General Meeting of May 17, 2018 provides for the payment of a dividend of €0.75 per share, subject to approval by said Meeting.

## 3. Financial and extra-financial ratings

The Mersen group is not assigned an external financial rating from financial rating agencies.

However, it is assigned an extra-financial rating in the GAIA index. This index evaluates the extra-financial performance of listed mid cap companies. Of the panel of 230 intermediate size companies and SMEs listed on the Paris stock exchange that feature in this index, Mersen ranks 50th.

# MERSEN AND THE STOCK MARKET

Mersen endeavors to meet the value creation targets of its shareholders and to promote a broader understanding of the Group by providing clear, regular and transparent information.

## 1. Share price performance

The Mersen share price performed very strongly over the year, climbing 84%. It rose more than 40% in the first half, outperforming the SBF 120 index by a substantial 7%, in particular due to the strong sales and operating margin forecasts communicated to the market in March and indicating the recovery of the Group's following the establishment of a new organization and the deployment of the competitiveness plan. It continued to grow in the second half, increasing 30% versus an average gain of only 4% on the SBF 120 index, driven by upward revisions of the Group's objectives in July and then October.

### 1.1. Share-related data

- Listing: Euronext Paris.
- Market: Eurolist Compartment B.
- Indices: CAC All shares, CAC Mid&Small, Next 150, Tech 40.
- Eligible for SRD (deferred settlement) and PEA (equity savings plans).
- ISIN Code: FR0000039620.

### 1.2. Price(1)

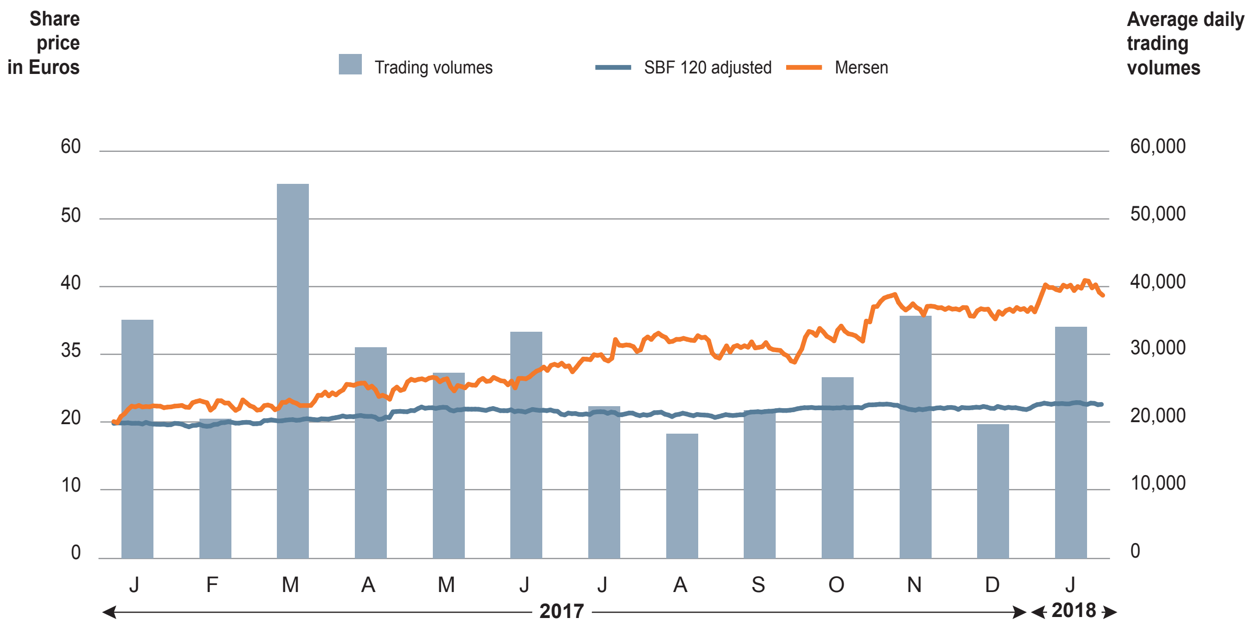
- At December 31, 2017: €37.34.
- 2017 high: €39.43.
- 2017 low: €20.43.

(1) *Closing price.*

### 1.3. Trading

- 2017 average monthly volume: 624,250 (2016 average monthly volume: 494,193).
- 2017 average daily volume: 29,376 (2016 average daily volume: 20,075).

## 2. Share price performance and trading volumes




*Source: Euronext.*

## Market data

| Share price | Number of shares traded | Share capital traded on a monthly basis *(in € million)* | Average daily number of shares traded | Price High *(in €)* | Price Low *(in €)* | Price Average[a] *(in €)* |
|---|---|---|---|---|---|---|
| **2016** | | | | | | |
| January | 358,682 | 5.17 | 17,934 | 17.15 | 12.96 | 14.44 |
| February | 510,274 | 6.18 | 24,299 | 13.65 | 11.25 | 12.00 |
| March | 1,294,822 | 15.60 | 61,658 | 12.91 | 11.34 | 12.18 |
| April | 655,096 | 8.24 | 31,195 | 14.32 | 11.34 | 12.88 |
| May | 361,782 | 5.00 | 16,445 | 15.36 | 12.72 | 13.34 |
| June | 405,883 | 5.63 | 18,449 | 14.84 | 12.81 | 13.90 |
| July | 390,569 | 5.18 | 18,599 | 14.87 | 12.55 | 13.28 |
| August | 305,731 | 4.95 | 13,293 | 17.82 | 14.75 | 16.38 |
| September | 478,504 | 8.47 | 21,750 | 18.60 | 15.98 | 17.51 |
| October | 396,920 | 7.37 | 18,901 | 19.19 | 17.51 | 18.67 |
| November | 320,629 | 5.86 | 14,574 | 19.23 | 17.36 | 18.50 |
| December | 451,451 | 8.52 | 21,498 | 20.38 | 17.85 | 18.96 |
| **2017** | | | | | | |
| January | 776,201 | 17.40 | 35,282 | 23.41 | 20.01 | 22.49 |
| February | 412,502 | 9.55 | 20,625 | 23.95 | 22.11 | 23.10 |
| March | 1,272,416 | 30.02 | 55,322 | 25.30 | 20.85 | 23.70 |
| April | 581,985 | 14.80 | 32,332 | 26.50 | 23.86 | 25.49 |
| May | 603,493 | 15.98 | 27,431 | 27.15 | 24.86 | 26.46 |
| June | 736,360 | 20.34 | 33,470 | 29.44 | 25.59 | 27.55 |
| July | 471,562 | 14.37 | 22,455 | 32.93 | 27.75 | 30.44 |
| August | 423,200 | 13.71 | 18,400 | 33.99 | 29.53 | 32.49 |
| September | 458,966 | 14.29 | 21,855 | 32.82 | 29.26 | 31.25 |
| October | 588,829 | 20.37 | 26,764 | 37.89 | 30.70 | 33.97 |
| November | 788,265 | 29.97 | 35,830 | 39.60 | 36.31 | 37.81 |
| December | 377,222 | 13.89 | 19,853 | 38.14 | 35.25 | 39.96 |
| **2018** | | | | | | |
| January | 752,858 | 29.97 | 34,221 | 41.90 | 36.35 | 39.87 |

*Source: Euronext.*
*(a) Average closing price.*

| *(Share price in €)* | January 2018 | 2017 | 2016 |
|---|---|---|---|
| At end of period | 39.30 | 37.34 | 20.32 |
| Number of shares at end of period | 20,637,041 | 20,637,041 | 20,471,854 |
| Market capitalization at end of period *(in € million)* | 811 | 771 | 416 |
| Average daily number of shares traded | 34,221 | 29,376 | 23,075 |

# 3. A confidence-based relationship with shareholders

Mersen maintains a confidence-based relationship with its shareholders built on transparency and communicates through various channels to give them a better understanding of the Group, its strategy, businesses and fundamentals.

The Group's investor relations strategy is predicated on an active program of information meetings and presentations, including:

- meetings with institutional investors in Europe and North America;
- meetings and themed conferences run for the benefit of financial analysts and journalists from the economic and financial press;
- information and discussion meetings with individual shareholders in France, via a twice-yearly newsletter.

In addition, the web site provides extensive information on products and markets. All regulatory information, Focus documents on the Group's business lines, and presentations of results are available in the Finance section.

# 4. Timetable for the Group's financial communication

## 4.1. 2017 Calendar

### Sales reports

2016 Q4 sales – January 26

2017 Q1 sales – April 26

2017 Q2 sales – July 31

2017 Q3 sales – October 25

### Earnings reports

2016 annual results – March 8

2017 half-year results – July 31

### Meetings for institutional investors

In Europe and North America – throughout the year

### Meetings for individual shareholders

Lille, Strasbourg

### Annual General Meeting

Paris – May 18

## 4.2. 2018 Calendar

### Sales reports

2017 Q4 sales – January 29

2018 Q1 sales – April 25

2018 Q2 sales – July 30

2018 Q3 sales – October 24

### Earnings reports

2017 annual results – March 7

2018 half-year results – July 30

### Meetings for institutional investors

In Europe and North America – throughout the year

### Meetings for individual shareholders

Dijon – June

### Annual General Meeting

Paris – May 17

# 5. Officer responsible for financial information

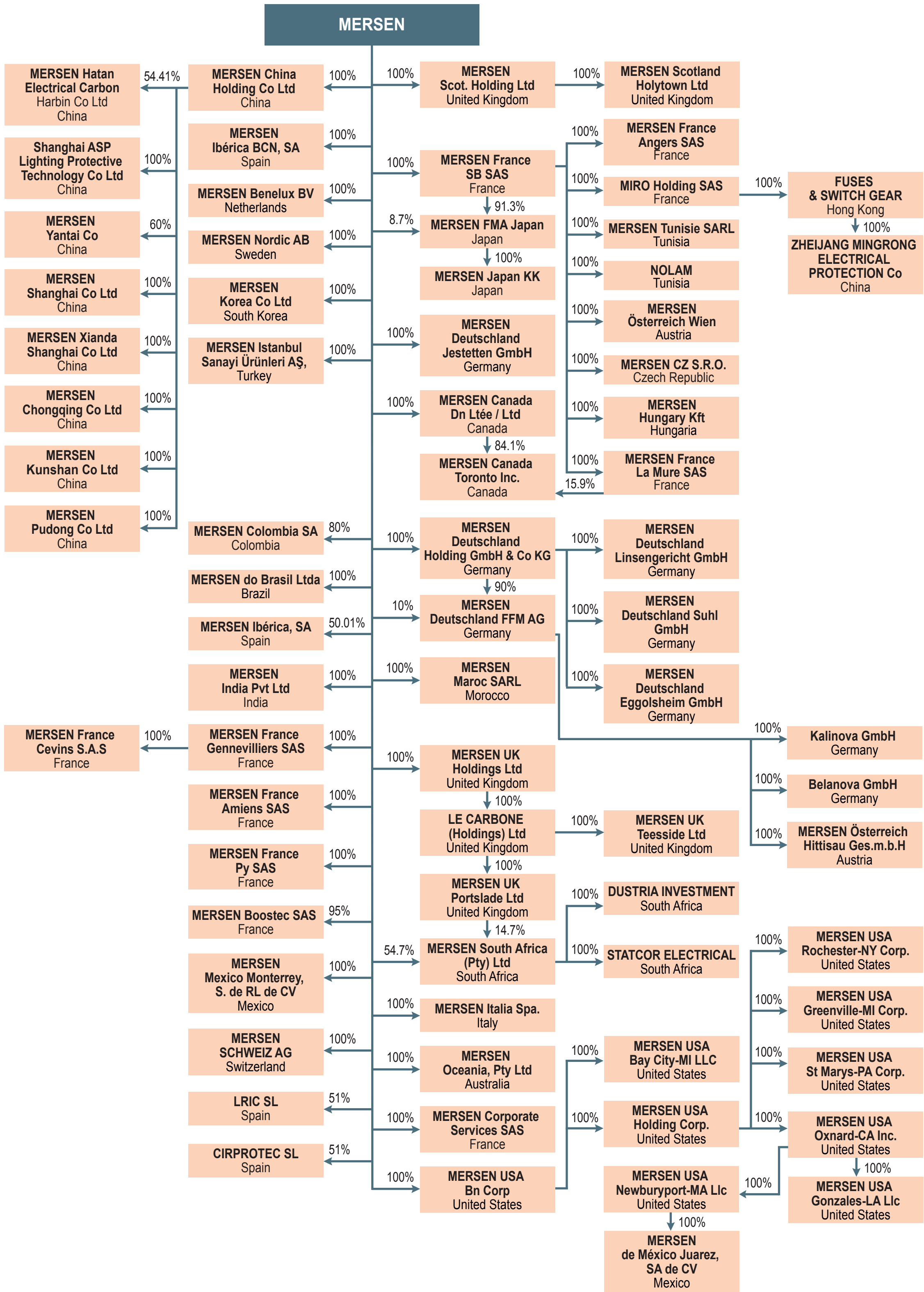
Thomas Baumgartner

Group Vice President, Finance and Administration

**Mersen**
Tour Eqho
2 avenue Gambetta
CS 10077
F-92066 Paris La Défense, France
Tel.: + 33 (0)1 46 91 54 19

# 6 2017 Consolidated Financial Statements

# Scope of consolidation at December 31, 2017



# List of consolidated companies

| | Consolidation method FC: Full Consolidation | % of Group control | % of Group interests |
|---|---|---|---|
| 1. **MERSEN** (France) | FC | 100 | 100 |
| 2. **MERSEN France Amiens S.A.S** (France) | FC | 100 | 100 |
| 3. **MERSEN France Gennevilliers S.A.S** (France) | FC | 100 | 100 |
| - MERSEN France Cevins S.A.S (France) | FC | 100 | 100 |
| 4. **MERSEN France Py S.A.S** (France) | FC | 100 | 100 |
| 5. **MERSEN Corporate Services S.A.S** (France) | FC | 100 | 100 |
| 6. **MERSEN France SB S.A.S** (France) | FC | 100 | 100 |
| - MERSEN France La Mure S.A.S (France) | FC | 100 | 100 |
| - MERSEN France Angers S.A.S (France) | FC | 100 | 100 |
| - MERSEN Österreich Wien Gmbh (Austria) | FC | 100 | 100 |
| - MERSEN CZ S.R.O. (Czech Republic) | FC | 100 | 100 |
| - MERSEN Hungaria Kft (Hungary) | FC | 100 | 100 |
| - MERSEN Tunisie SARL (Tunisia) | FC | 100 | 100 |
| - NOLAM Tunisie SARL (Tunisia) | FC | 100 | 100 |
| - MIRO Holding SAS (France) | FC | 100 | 100 |
| - FUSES & SWITCHGEAR (Hong Kong) | FC | 100 | 100 |
| - Zhejiang Mingrong Electrical Protection Company (China) | FC | 100 | 100 |
| - MERSEN FMA Japan KK (Japan) | FC | 100 | 100 |
| - MERSEN Japan KK (Japan) | FC | 100 | 100 |
| 7. **MERSEN Boostec S.A.S** (France) | FC | 95 | 95 |
| 8. **MERSEN Deutschland Holding GmbH & Co. KG** (Germany) | FC | 100 | 100 |
| - MERSEN Deutschland FFM AG (Germany) | FC | 100 | 100 |
| - Belanova-Kalbach GmbH (Germany) | FC | 100 | 100 |
| - Kalinova-Kalbach GmbH (Germany) | FC | 100 | 100 |
| - MERSEN Österreich Hittisau Ges.m.b.H. (Austria) | FC | 100 | 100 |
| - MERSEN Deutschland Lisengericht GmbH (Germany) | FC | 100 | 100 |
| - MERSEN Deutschland Suhl GmbH (Germany) | FC | 100 | 100 |
| - MERSEN Deutschland Eggolsheim GmbH (Germany) | FC | 100 | 100 |
| 9. **MERSEN Deutschland Jestetten GmbH** (Germany) | FC | 100 | 100 |
| 10. **MERSEN Ibérica S.A** (Spain) | FC | 50 | 50 |
| 11. **MERSEN Ibérica BCN S.A** (Spain) | FC | 100 | 100 |
| 12. **Cirprotec S.L.** (Spain) | FC | 51 | 51 |
| 13. **LRIC S.L.** (Spain) | FC | 51 | 51 |
| 14. **MERSEN UK Holdings Ltd.** (Great Britain) | FC | 100 | 100 |
| - Le Carbone (Holdings) Ltd. (Great Britain) | FC | 100 | 100 |
| - MERSEN UK Portslade Ltd. (Great Britain) | FC | 100 | 100 |
| - MERSEN UK Teeside Ltd. (Great Britain) | FC | 100 | 100 |

| | Consolidation method FC: Full Consolidation | % of Group control | % of Group interests |
|---|---|---|---|
| **15. MERSEN Scotland Holding Ltd.** (Great Britain) | FC | 100 | 100 |
| - MERSEN Scotland Holytown Ltd. (Great Britain) | FC | 100 | 100 |
| **16. MERSEN Italia Spa.** (Italy) | FC | 100 | 100 |
| **17. MERSEN Benelux B.V** (Netherlands) | FC | 100 | 100 |
| **18. MERSEN Nordic AB** (Sweden) | FC | 100 | 100 |
| **19. MERSEN Schweiz AG** (Switzerland) | FC | 100 | 100 |
| **20. MERSEN Canada Dn Ltée / Ltd.** (Canada) | FC | 100 | 100 |
| - MERSEN Canada Toronto Inc. (Canada) | FC | 100 | 100 |
| **21. MERSEN USA Bn Corp.** (United States) | FC | 100 | 100 |
| - MERSEN USA Holding Corp. (United States) | FC | 100 | 100 |
| - MERSEN USA Greenville-MI Corp. (United States) | FC | 100 | 100 |
| - MERSEN USA St Marys-PA Corp. (United States) | FC | 100 | 100 |
| - MERSEN USA Bay City-MI Llc. (United States) | FC | 100 | 100 |
| - MERSEN USA Oxnard-CA Inc. (United States) | FC | 100 | 100 |
| - MERSEN USA Newburyport-MA LLC (United States) | FC | 100 | 100 |
| - MERSEN de México Juarez, S.A DE. C.V (Mexico) | FC | 100 | 100 |
| - MERSEN USA Gonzales-LA LLC (United States) | FC | 100 | 100 |
| - MERSEN USA Rochester NY Corp. (United States) | FC | 100 | 100 |
| **22. MERSEN Mexico Monterrey, S de R.L. de C.V.** (Mexico) | FC | 100 | 100 |
| **23. MERSEN Oceania, Pty Ltd.** (Australia) | FC | 100 | 100 |
| **24. MERSEN Korea Co.** Ltd (South Korea) | FC | 100 | 100 |
| **25. MERSEN India Pvt. Ltd.** (India) | FC | 100 | 100 |
| **26. MERSEN China holding Co. Ltd** (China) | FC | 100 | 100 |
| - MERSEN Pudong Co Ltd (China) | FC | 100 | 100 |
| - MERSEN Chongqing Co Ltd (China) | FC | 100 | 100 |
| - MERSEN Kunshan Co Ltd (China) | FC | 100 | 100 |
| - MERSEN Xianda Shanghai Co. Ltd (China) | FC | 100 | 100 |
| - MERSEN Shanghai Co. Ltd (China) | FC | 100 | 100 |
| - MERSEN Yantai Co (China) | FC | 60 | 60 |
| - Shanghai ASP Lighting Protective Technology Co Ltd (China) | FC | 100 | 100 |
| - MERSEN Hatan Electrical Carbon (Harbin) Co Ltd (China) | FC | 54 | 54 |
| **27. MERSEN South Africa PTY Ltd** (South Africa) | FC | 69 | 69 |
| - Statcor Electrical (South Africa) | FC | 69 | 69 |
| - Dustria Investment (South Africa) | FC | 69 | 69 |
| **28. MERSEN do Brasil Ltda.** (Brazil) | FC | 100 | 100 |
| **29. MERSEN Istanbul Sanayi Ürünleri** (Turkey) | FC | 100 | 100 |
| **30. MERSEN Colombia S.A** (Colombia) | FC | 80 | 80 |
| **31. MERSEN Maroc S.A.R.L** (Morocco) | FC | 100 | 100 |

All these companies have a fiscal year that corresponds to the calendar year.

# Changes in the scope of consolidation in the past two years

The principal changes in the scope of consolidation that impacted the consolidated financial statements in 2016 and 2017 were as follows:

- In 2016, Mersen formed a joint venture – Mersen Hatan Electrical Carbon (Harbin) – with its Chinese partner, Harbin Electric Carbon. The Group holds a 54.41% stake in this joint venture, which only began operations in 2017 as the bulk of the asset contributions required for its formation were carried out in 2017. It has been integrated into the Advanced Materials segment and was set up as part of the Group's growth strategy in Asia. Its operations consist of manufacturing graphite plates, brushes and pantograph strips for non- military use, primarily for the rail market.
- In 2017, Mersen sold:
  - The high voltage switches business of the Saint-Loup-de-Naud site in France (in March). This business had been classified as held for sale (in accordance with IFRS 5) since December 31, 2016 (see below for further details).
  - Mersen France Gorcy S.A.S. (in October). The high voltage switches and contactors business was sold to a French manufacturer in October 2017. Consequently, it was classified as a discontinued operation in the 2017 consolidated financial statements in accordance with IFRS 5 and the 2016 consolidated financial statements have been restated accordingly.

## Operations held for sale:

- **High voltage switches and contactors business: sale of Mersen France Gorcy S.A.S.**

  The Group sold Mersen France Gorcy S.A.S in October 2017 in line with its strategy of divesting businesses that have few synergies with the other businesses in the Electrical Power segment.

- **High voltage switches business: sale of the business at the Saint-Loup-de-Naud site in France**

  On September 13, 2016 the Group announced its intention to enter into negotiations with a view to selling its high voltage switches business at the Saint-Loup-de-Naud site, which offered little synergies with the Electrical Power segment's other businesses. The Group received a binding offer during the second half of 2016 from a European specialist in this business and the sale was completed on March 3, 2017.

- **Non-strategic businesses in the Advanced Materials segment (business included in the former Advanced Materials and Technologies segment)**

  In order to focus on its core business, in December 2012 the Group decided to sell a number of unprofitable businesses resulting from acquisitions made over the last ten years.

  Both businesses were sold during the second half of 2013.

These businesses are presented in accordance with IFRS 5. The 2016 income statement and statement of cash-flows have been restated accordingly.

# Consolidated income statement

| *In millions of euros* | Notes | Dec. 31, 2017 | Dec. 31, 2016 restated* |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | (restated) |
| Consolidated sales | 18 | 809.2 | 759.0 |
| Cost of sales | | (553.2) | (528.4) |
| **Total gross income** | | **256.0** | **230.6** |
| Selling and marketing expenses | | (77.2) | (75.2) |
| Administrative and research expenses | | (100.6) | (94.6) |
| Amortization of revalued intangible assets(*) | | (1.2) | (1.2) |
| Other operating expenses | | (2.4) | (2.3) |
| **OPERATING INCOME BEFORE NON-RECURRING ITEMS** | | **74.6** | **57.3** |
| Non-recurring expenses | 17 | (11.1) | (27.3) |
| Non-recurring income | 17 | 0.8 | 0.8 |
| **OPERATING INCOME** | **18/20** | **64.3** | **30.8** |
| Financial expenses | | (10.0) | (11.0) |
| Financial income | | | |
| **Net finance expense** | **21** | **(10.0)** | **(11.0)** |
| **Income from continuing operations before tax** | | **54.3** | **19.8** |
| Current and deferred income tax | 22 | (15.1) | (11.5) |
| **Net income from continuing operations (*)** | | **39.2** | **8.3** |
| Net income/(loss) from operations held for sale and discontinued operations(*) | 5 | 0.8 | (5.1) |
| **NET INCOME** | | **40.0** | **3.2** |
| Attributable to: | | | |
| - Owners of the parent | | 37.6 | 1.8 |
| - Non-controlling interests | | 2.4 | 1.4 |
| **NET INCOME FOR THE YEAR** | | **40.0** | 3.2 |
| **Earnings per share** | **23** | | |
| Basic earnings per share *(€)* | | 1.83 | 0.09 |
| Diluted earnings per share *(€)* | | 1.76 | 0.08 |
| **Earnings per share from continuing operations** | **23** | | |
| Basic earnings per share *(€)* | | 1.78 | 0.34 |
| Diluted earnings per share *(€)* | | 1.72 | 0.32 |
| **Earnings per share from operations held for sale and discontinued operations** | **23** | | |
| Basic earnings per share *(€)* | | 0.04 | (0.25) |
| Diluted earnings per share *(€)* | | 0.04 | (0.24) |

** The income statement and statement of cash flows for the year ended December 31, 2016 have been restated following (i) the sale of Mersen Gorcy S.A.S in 2017 and its consequent reclassification as a discontinued operation in the 2017 financial statements (see the section on changes in the scope of consolidation), and (ii) the reclassification of "Amortization of revalued intangible assets" within "Operating income before non-recurring items" (see Note 2, "Summary of significant accounting policies and methods").*

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| *In millions of euros* | Dec. 31, 2017 | Dec. 31, 2016 restated |
|---|---|---|
| **NET INCOME FOR THE YEAR** | **40.0** | **3.2** |
| **Items that will not be subsequently reclassified to income** | | |
| Remeasurements of the net defined benefit liability | (2.8) | 0.1 |
| Tax impact | (4.2) | 0.4 |
| | (7.0) | 0.5 |
| **Items that may subsequently be reclassified to income** | | |
| Change in fair value of hedging instruments | (1.1) | 1.7 |
| Exchange differences on translation of assets and liabilities at the year-end rate | (32.7) | 4.4 |
| Tax impact | 0.1 | (0.5) |
| | (33.7) | 5.6 |
| **TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)** | **(40.7)** | **6.1** |
| **TOTAL COMPREHENSIVE INCOME/(LOSS)** | **(0.7)** | **9.3** |
| Attributable to: | | |
| - Owners of the parent | (2.4) | 8.0 |
| - Non-controlling interests | 1.7 | 1.3 |
| **TOTAL COMPREHENSIVE INCOME/(LOSS)** | **(0.7)** | **9.3** |

# Consolidated statement of financial position

## ASSETS

| *In millions of euros* | Note | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| **Intangible assets** | | | |
| - Goodwill | 6 | 265.2 | 288.0 |
| - Other intangible assets | 8 | 31.8 | 37.4 |
| **Property, plant and equipment** | 8 | | |
| - Land | | 30.3 | 31.1 |
| - Buildings | | 70.0 | 76.6 |
| - Plant, equipment and other assets | | 149.6 | 163.2 |
| - Assets in progress | | 16.3 | 14.6 |
| **Non-current financial assets** | | | |
| - Equity interests | 9 | 2.3 | 2.3 |
| - Non-current derivatives | 3 | 0.3 | |
| - Other financial assets | | 4.5 | 7.1 |
| **Non-current tax assets** | | | |
| - Deferred tax assets | 22 | 28.2 | 38.1 |
| - Long-term portion of current tax assets | | 7.7 | 7.7 |
| **TOTAL NON-CURRENT ASSETS** | | **606.2** | **666.1** |
| **CURRENT ASSETS** | | | |
| - Inventories | 10 | 158.8 | 152.6 |
| - Trade receivables | 11 | 123.4 | 123.8 |
| - Other operating receivables | | 17.4 | 14.9 |
| - Short-term portion of current tax assets | | 5.0 | 6.8 |
| - Other current assets | | | |
| - Current financial assets | 15 | 12.6 | 6.0 |
| - Current derivatives | 3 | 0.5 | 1.8 |
| - Cash and cash equivalents | 15 | 25.9 | 29.2 |
| - Assets held for sale and discontinued operations | 5 | 0.1 | 0.0 |
| **TOTAL CURRENT ASSETS** | | **343.7** | **335.1** |
| **TOTAL ASSETS** | | **949.9** | **1,001.2** |

## EQUITY AND LIABILITIES

| *In millions of euros* | Note | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|---|
| **EQUITY** | | | |
| - Share capital | 12 | 41.3 | 40.9 |
| - Retained earnings and other reserves | | 403.3 | 415.7 |
| - Net income for the year | | 37.6 | 1.8 |
| - Cumulative translation adjustments | | (15.8) | 16.2 |
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** | | **466.4** | **474.6** |
| - Non-controlling interests | | 17.6 | 18.0 |
| **TOTAL EQUITY** | | **484.0** | **492.6** |
| **NON-CURRENT LIABILITIES** | | | |
| - Non-current provisions | 13 | 1.3 | 1.3 |
| - Employee benefit obligations | 14 | 68.3 | 73.9 |
| - Deferred tax liabilities | 22 | 20.5 | 29.6 |
| - Long- and medium-term borrowings | 15 | 154.4 | 161.8 |
| - Non-current derivatives | 3 | 0.2 | 0.3 |
| **TOTAL NON-CURRENT LIABILITIES** | | **244.7** | **266.9** |
| **CURRENT LIABILITIES** | | | |
| - Trade payables | | 60.0 | 61.6 |
| - Other operating payables | | 80.7 | 76.3 |
| - Current provisions | 13 | 11.9 | 20.4 |
| - Short-term portion of current tax liabilities | | 2.8 | 3.8 |
| - Miscellaneous liabilities | 13 | 1.2 | 1.1 |
| - Other current financial liabilities | | 37.8 | 53.0 |
| - Current derivatives | 3 | 1.0 | 1.2 |
| - Financial current accounts | 15 | 0.3 | 1.1 |
| - Bank overdrafts | 15 | 24.1 | 22.1 |
| - Liabilities related to assets held for sale and discontinued operations | 5 | 1.4 | 1.1 |
| **TOTAL CURRENT LIABILITIES** | | **221.2** | **241.7** |
| **TOTAL EQUITY AND LIABILITIES** | | **949.9** | **1,001.2** |

# Consolidated Statement of changes in equity

| *In millions of euros* | Attributable to owners of the parent | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital | Additional paid-in capital, retained earnings and other reserves | Net income for the year | Translation adjustments | Total | Non-controlling interests | Total equity |
| **AT JANUARY 1, 2016** | **41.4** | **422.3** | **1.3** | **11.7** | **476.7** | **13.3** | **490.0** |
| Prior-period net income | | 1.3 | (1.3) | | 0.0 | | 0.0 |
| Net income for the year | | | 1.8 | | 1.8 | 1.4 | 3.2 |
| Change in fair value of hedging instruments, net of tax | | 1.2 | | | 1.2 | | 1.2 |
| Remeasurements of the net defined benefit liability (asset) after tax | | 0.5 | | | 0.5 | | 0.5 |
| Translation adjustment | | | | 4.5 | 4.5 | (0.1) | 4.4 |
| **Total other comprehensive income** | **0.0** | **1.7** | **0.0** | **4.5** | **6.2** | **(0.1)** | **6.1** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **0.0** | **1.7** | **1.8** | **4.5** | **8.0** | **1.3** | **9.3** |
| Dividends paid | | (10.2) | | | (10.2) | (0.2) | (10.4) |
| Treasury shares | | 2.0 | | | 2.0 | | 2.0 |
| Capital increase | (0.5) | (2.6) | | | (3.1) | | (3.1) |
| Stock options and free shares | | 0.5 | | | 0.5 | | 0.5 |
| Changes in non-controlling interests | | | | | 0.0 | 3.6 | 3.6 |
| Other | | 0.7 | | | 0.7 | | 0.7 |
| **AT DECEMBER 31, 2016** | **40.9** | **415.7** | **1.8** | **16.2** | **474.6** | **18.0** | **492.6** |
| Prior-period net income | | 1.8 | (1.8) | | 0.0 | | 0.0 |
| Net income for the year | | | 37.6 | | 37.6 | 2.4 | 40.0 |
| Change in fair value of hedging instruments, net of tax | | (1.0) | | | (1.0) | | (1.0) |
| Remeasurements of the net defined benefit liability (asset) after tax | | (7.0) | | | (7.0) | | (7.0) |
| Translation adjustment | | | | (32.0) | (32.0) | (0.7) | (32.7) |
| **Total other comprehensive income/(loss)** | **0.0** | **(8.0)** | **0.0** | **(32.0)** | **(40.0)** | **(0.7)** | **(40.7)** |
| **TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR** | **0.0** | **(8.0)** | **37.6** | **(32.0)** | **(2.4)** | **1.7** | **(0.7)** |
| Dividends paid | | (10.2) | | | (10.2) | (2.1) | (12.3) |
| Treasury shares | | 0.3 | | | 0.3 | | 0.3 |
| Capital increase | 0.4 | 2.7 | | | 3.1 | | 3.1 |
| Stock options and free shares | | 0.6 | | | 0.6 | | 0.6 |
| Changes in non-controlling interests | | | | | 0.0 | | 0.0 |
| Other | | 0.4 | | | 0.4 | | 0.4 |
| **AT DECEMBER 31, 2017** | **41.3** | **403.3** | **37.6** | **(15.8)** | **466.4** | **17.6** | **484.0** |

# Consolidated statement of cash flows

| *In millions of euros* | Dec. 31, 2017 | Dec. 31, 2016 restated* |
|---|---|---|
| Income before tax | 54.3 | 19.8 |
| Depreciation and amortization | 38.3 | 36.8 |
| Additions to/(reversals from) provisions | (10.1) | 6.1 |
| Net finance expense | 10.0 | 11 |
| Capital gains/(losses) on asset disposals | 1.3 | (1.1) |
| Other | 0.5 | (0.2) |
| **Net cash generated by operating activities before change in WCR** | **94.3** | **72.4** |
| Change in working capital requirement | (14.5) | 25.1 |
| Income tax paid | (15.4) | (14.3) |
| **Net cash generated by continuing operating activities*** | **64.4** | **83.2** |
| **Net cash generated by/(used in) discontinued operations** | **(0.2)** | **(2.7)** |
| **NET CASH GENERATED BY OPERATING ACTIVITIES** | **64.2** | **80.5** |
| **Cash flows from investing activities** | | |
| Intangible assets | (3.2) | (3.0) |
| Property, plant and equipment | (34.9) | (30.4) |
| Decreases (increases) in amounts due to suppliers of non-current assets | (1.8) | 0.9 |
| Financial assets | 0.0 | 0.0 |
| Changes in scope of consolidation | 0.0 | (0.7) |
| Other cash flows from investing activities | 2.0 | 3.7 |
| **Net cash generated by/(used in) investing activities related to continuing operations** | **(37.9)** | **(29.5)** |
| **Cash generated by investing activities related to discontinued operations*** | **6.2** | **6.5** |
| **NET CASH GENERATED BY/(USED IN) INVESTING ACTIVITIES** | **(31.7)** | **(23.0)** |
| **NET CASH GENERATED BY OPERATING AND INVESTING ACTIVITIES** | **32.5** | **57.5** |
| Amounts received/(paid) on capital increases/reductions and other changes in equity | 3.3 | (1.1) |
| Net dividends paid to shareholders and non-controlling interests | (12.3) | (10.5) |
| Interest payments | (8.0) | (8.2) |
| Change in debt | (27.4) | (32.3) |
| **NET CASH GENERATED BY/(USED IN) FINANCING ACTIVITIES** | **(44.4)** | **(52.1)** |
| **Net increase/(decrease) in cash and cash equivalents** | **(11.9)** | **5.4** |
| Cash and cash equivalents at beginning of year (Note 15) | 29.2 | 22.4 |
| Cash and cash equivalents at year-end (Note 15) | 25.9 | 29.2 |
| Changes in scope of consolidation | | 0.0 |
| Impact of currency fluctuations | (8.6) | (1.4) |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | **(11.9)** | **5.4** |

** The income statement and statement of cash flows for the year ended December 31, 2016 have been restated following (i) the sale of Mersen Gorcy S.A.S in 2017 and its consequent reclassification as a discontinued operation in the 2017 financial statements (see the section on changes in the scope of consolidation), and (ii) the reclassification of "Amortization of revalued intangible assets" within "Operating income before non-recurring items" (see Note 2, "Summary of significant accounting policies and methods").*

# Notes to the consolidated financial statements

## Summary of the notes to the financial statements

# Note 1 Compliance statement

In accordance with EC Regulation No. 1606/2002 of July 19, 2002, which applies to the consolidated financial statements of European companies listed on a regulated market, and as a result of its listing in an EU country, the consolidated financial statements of Mersen and its subsidiaries (the "Group") have been prepared in accordance with IFRS (International Financial Reporting Standards).

The standards and interpretations that are mandatory at January 1, 2017 are indicated in Note 2. The new standards applied with effect from 2017 are presented in Note 2-W. The standards and interpretations yet to be applied appear in Note 2-X.

The options chosen by the Group are indicated in the chapters that follow.

The consolidated financial statements at December 31, 2017 were prepared by applying the principles for recognizing and valuing transactions set forth in the IFRS standards adopted in the European Union at this date. They were also prepared in accordance with the rules of presentation and financial information applicable to annual financial statements, as defined in the General Regulation of the French Financial Markets Authority (*Autorité des Marchés Financiers*, AMF).

For comparison purposes, the 2017 consolidated financial statements include data for 2016 which were prepared using the same accounting rules.

The accounting principles described in Note 2 were used to prepare the comparative information and the 2017 annual financial statements.

# Note 2 Summary of significant accounting policies and methods

## A - Scope and method of consolidation

The consolidated financial statements include the financial statements of the parent company as well as those of companies controlled by the parent company.

Income from subsidiaries acquired or sold during the period is included in the consolidated income statement since the date of acquisition or up to the loss of control respectively.

All intra-Group transactions and balances are eliminated.

The consolidated financial statements have been prepared in euros.

The Group's business is not seasonal; both sales and purchases are spread evenly over the year.

## B - Presentation of the financial statements

The Mersen Group presents its financial statements in accordance with the principles contained in the revised standard IAS 1, "Presentation of financial statements".

### *B1 - Statement of comprehensive income*

In view of customary practice and the nature of its business, the Group has opted to present the income statement using the function of expense method, which consists in classifying costs according to their function under cost of sales, the cost of commercial activities, administrative activities and Research and Development.

The Group presents comprehensive income in two statements consisting of an income statement and a separate statement showing income and other items of comprehensive income.

### *B2 - Consolidated statement of financial position*

Assets and liabilities linked to the operating cycle and those having a maturity of less than 12 months at the reporting date are classified as current. Other assets and liabilities are classified as non-current.

### *B3 - Statement of cash flows*

The Group prepares the statement of cash flows using the indirect method and as stipulated in IAS 7.

The indirect method consists in determining the cash flows relating to the operational activities, for which net income or loss is restated for the effects of non-cash transactions and items relating to investment and financing activities.

### *B4 - Activities, assets and liabilities held for sale and discontinued operations*

In application of IFRS 5, assets and liabilities that are immediately available for sale in their current state, and whose sale is highly probable, are presented on the balance sheet under assets and liabilities held for sale. Where a group of assets is held for sale as a single transaction and this group of assets represents a distinct component of the entity (business line or principal and distinct geographical region covered by a single and coordinated disposal plan, or a subsidiary acquired exclusively with a view to resale), we consider the group of assets as a whole, together with the liabilities that are attached to it. The sale must take place during the year following this presentation of the asset or group of assets.

The non-current assets or group of assets held for sale are stated at the lower of their carrying amount and the fair value net of disposal costs. Non-current assets presented in the balance sheet as held for sale are no longer depreciated once they are presented as such.

For groups of assets that meet the definition of an operation held for sale or discontinued, net income is presented separately from the net income of continuing operations and cash flows are presented on separate lines in the cash flow statement.

## Changes in presentation for 2017

**Reclassification of "Amortization of revalued intangible assets" within "Operating income before non-recurring items"**

To improve the comparison with industry peers, the Group now recognizes the amortization of revalued intangible assets (primarily its client relationships and technological expertise) in goodwill in "Operating income before non-recurring items", rather than below "Operating income before non-recurring items".

Amortization of revalued intangible assets amounted to €1.2 million in 2017, unchanged from 2016.

The 2016 figures have been restated to reflect the above reclassification.

## C - Foreign currency translation

The financial statements of the Group's foreign subsidiaries are prepared in their functional currency.

The balance sheets of companies whose functional currency is not the euro are translated into euros at the closing exchange rate, with the exception of equity, which is translated at the historic exchange rate. Income statements are translated at the average exchange rate during the period; the average exchange rate is the value approached by the exchange rate on the date of the transaction, in the absence of significant fluctuations.

Foreign exchange differences resulting from translation are recognized under other items of comprehensive income, and are presented in the currency translation reserve component of equity. However, if the operation involves a subsidiary that is not wholly owned, a foreign exchange difference proportional to the percentage of the holding is assigned to the non-controlling interests. Where a foreign operation is sold and control or significant influence or joint control is lost, the aggregate amount of the corresponding foreign exchange differences is reclassified in income. Where the Group sells part of its equity interest in a subsidiary that includes a foreign operation while retaining control, a proportional share of the aggregate amount of the foreign exchange differences is reallocated to non-controlling interests. Where the Group sells only a part of its holding in an affiliated or proportionally consolidated company that includes a foreign operation abroad, but maintains a significant interest or joint control, the proportional share of the total amount of the exchange differences is reclassified under income.

With the exception of cash that is translated at the closing exchange rate, the cash flow statement is translated at the average exchange rate, unless it is not appropriate to do so.

Balance sheet translation differences are recorded separately in equity under cumulative translation adjustments and include:

- the impact of the exchange rate movements on assets and liabilities;
- the difference between income calculated at the average exchange rate and income calculated at the year-end exchange rate.

Goodwill and fair value adjustments resulting from the acquisition of subsidiaries whose functional currency is not the euro are treated as assets and liabilities of the subsidiary. They are therefore stated in the functional currency of the subsidiary and translated at the closing exchange rate.

## D - Translation of foreign currency transactions

The recognition and measurement of foreign currency transactions are defined by IAS 21 - Effects of changes in foreign exchange rates.

Foreign currency transactions are translated at the exchange rate ruling at the time of the transaction. At the end of the year, monetary assets and liabilities denominated in foreign currencies are translated at the closing exchange rate. The resulting translation adjustments are recognized in operating income under foreign exchange gains and losses.

Translation adjustments on financial instruments denominated in foreign currencies corresponding to a hedge of a net investment in a foreign subsidiary are recognized in equity under cumulative translation adjustments.

## E - Hedging

The recognition and measurement of hedging transactions are defined by IAS 32 and 39.

### *E1 – Currency and commodity hedging*

A currency derivative is eligible for hedge accounting provided that the hedging relationship was documented from the outset and that its effectiveness over its lifetime has been demonstrated.

Hedging protects against variations in the value of assets, liabilities or firm commitments; it also guards against variations in the value of cash flows (sales generated by the company's assets, for example).

Derivatives are stated at fair value. Changes in the fair value of these instruments are recognized using the following methods:

- Changes in the fair value of instruments eligible for the hedging of future cash flows are recognized directly in equity for the effective component of the hedge (intrinsic value); changes in the fair value of these instruments are then recognized in operating income and offset changes in the value of the hedged assets, liabilities, or firm commitments as and when they occur. The time value of the hedges is recognized in operating income under other operating expenses;

- Changes in the fair value of instruments not eligible for hedging future cash flows are recognized directly in income.

### *E2 - Interest rate hedging*

Interest rate derivatives are valued on the balance sheet at fair value. Changes in fair value are recognized using the following methods:

- The ineffective component of the derivative instrument is recognized under income as the cost of debt;
- The effective component of the derivative instrument is recognized in:
  - equity in the case of a derivative recognized as a cash flow hedge (e.g. a swap to fix a debt carrying a floating interest rate),
  - income (cost of debt) in the case of a derivative recognized as a fair value hedge (e.g. a swap turning a fixed interest rate into a floating interest rate). This recognition is offset by changes in the fair value of the hedged debt.

## F - Intangible assets

The applicable standards are IAS 38 “Intangible Assets”, IAS 36 “Impairment of Assets” and IFRS 3 “Business Combinations”.

In accordance with IAS 38 “Intangible Assets”, only items whose future economic benefits are likely to benefit the Group and whose cost can be reliably determined are recognized as intangible assets.

The Group’s intangible assets consist primarily of goodwill.

Other intangible assets (customer relationships, technology) with a finite lifespan are recognized at cost less accumulated amortization and impairment. Amortization is recognized as a cost on a straight-line basis over the estimated useful life.

### *F1 - Goodwill*

For acquisitions completed between January 1, 2004 and January 1, 2010:

Goodwill represents the excess acquisition cost paid over the Group’s share of the amounts recognized (usually at fair value) as assets, liabilities and contingent liabilities.

Since January 1, 2010, in application of the revised version of IFRS 3, in the case of a business combination, the Group has measured goodwill as the fair value of the consideration transferred (including the fair value of any equity interest previously held in the acquiree) plus the amount recognized for any non-controlling interest in the acquiree, less the net amount recognized (usually the fair value) for identifiable assets acquired and liabilities assumed, with all of these items measured at the acquisition date. When the difference is negative, the resulting gain is recognized as a bargain purchase in income.

The Group chooses, transaction by transaction, on the date of acquisition, to value any non-controlling interest at either its fair value or its share in the identifiable net assets of the acquired company recognized.

Goodwill is allocated to the Group’s cash-generating units (CGU). The Group has defined the following five CGUs:

- Power Transfer Technologies;
- Graphite Specialties;
- Anti-Corrosion Equipment;
- Solutions for Power Management;
- Electrical Protection and Control.

In accordance with IFRS 3 “Business Combinations”, goodwill is not amortized. It is subject to an impairment test as soon as indications of impairment appear, and at least once a year.

In accordance with IAS 36, the method used by the Group for testing the impairment of assets consists in:

- developing cash flows after normal taxes on the basis of the Strategic Plan of the relevant CGU;
- calculating value in use using a method comparable to any business valuation by discounting the cash flows at the Group’s Weighted Average Cost of Capital (WACC);
- comparing this value in use with the carrying amount of the assets to determine whether an impairment loss should be recorded.

Value in use is determined from discounted projections of future operating cash flows over five years, and a terminal value. The discount rate used for these calculations is the weighted average cost of capital after tax for each cash generating unit (see Note 7).

Any impairment recognized against goodwill is irreversible.

### *F2 - Patents and licenses*

Patents and licenses are amortized on a straight-line basis over the legal protection period.

Computer software is amortized on a straight-line basis over its useful life.

### *F3 - Development costs*

According to IAS 38 “Intangible Assets”, development costs are capitalized as soon as it has been demonstrated:

- that the company has the intention and the financial and technical capacity to see the development project through to its term;
- that the future economic benefits that are attributable to development spending will benefit the company;
- that the cost of this asset can be measured reliably; and
- how the intangible asset will generate probable future economic benefits.

Research and Development costs that do not meet the above criteria are recognized as expenses in the period during which they are incurred. Capitalized development costs that meet the criteria laid down by the new accounting framework are recorded on the assets side of the balance sheet. They are amortized on a straight-line basis over their useful life.

### *F4 - Intangible assets acquired in connection with a business combination*

Intangible assets also include the technology, trademarks and customer relationships valued at the time of the acquisition of companies in application of IFRS 3 “Business Combinations”.

Amortization is recognized as an expense on a straight-line basis over the estimated useful life of the intangible assets, other than goodwill, as soon as they are ready to be brought into service. The estimated useful lives for the current period and comparable period for the acquisitions made were as follows:

- trademarks whose useful life is finite up to 30 years
- patents and technology up to 30 years
- customer relationships up to 30 years

To determine whether the useful life of an intangible asset is finite or indefinite, the Group examines the external and internal factors relating to the asset according to the criteria laid down in the standard.

## G - Property, plant and equipment

In accordance with IAS 16 “Property, plant and equipment”, only items whose cost can be reliably determined and whose future economic benefits will probably benefit the Group are recognized as Property, plant and equipment.

Property, plant and equipment are valued at their historical acquisition cost, less accumulated depreciation and impairments observed, with the exception of land, which was revalued on the date of transition to IFRS.

Borrowing costs directly attributable to the acquisition, construction and production of qualifying assets are included in the cost of this asset.

Depreciation is calculated on the basis of the rate of consumption of the expected economic benefits for each asset item on the basis of the acquisition cost, where appropriate less a residual value.

The various components of property, plant and equipment are recognized separately if their useful life and therefore their depreciation period are significantly different.

Accordingly, the depreciation method used by the Group is the straight-line method, depending on the expected useful life of the asset.

The periods used are:

- construction: 20 to 50 years;
- fixtures and fittings: 10 to 15 years;
- plant and equipment: 3 to 10 years;
- vehicles: 3 to 5 years.

These depreciation periods and the residual values are reviewed and restated at the end of each annual period; the changes are applied prospectively.

Investment subsidies are recognized at the outset as a deduction from the gross value of the asset.

## H - Leases

According to IAS 17, a lease agreement is categorized as a finance lease if it transfers virtually all of the risks and rewards of owning the asset to the lessee.

If these criteria are not met, the lease is considered as an operating lease and the costs resulting from these leases are recognized in the income statement for the fiscal year.

The assets used in the context of a finance lease are posted on the Group’s balance sheet both as property, plant and equipment and as an obligation to make future payments under the lease. The finance lease is recognized for amounts equal to the fair value of the leased property or, if lower, the discounted value of the minimum lease payments. At the beginning of the lease, the assets and liabilities corresponding to the future payments under the lease are posted to the balance sheet in the same amounts.

Payments under the lease are broken down between financial expenses and the amortization of the outstanding debt. The financial expense is spread over the different periods covered by the lease agreement so as to obtain a constant periodic interest rate on the outstanding balance for each period.

The fixed asset is amortized over the lifespan used by the Group for fixed assets of the same type. If the Group is not reasonably certain that the lessee will become the owner of the asset at the end of the lease, the asset is fully depreciated over the shorter of either the lease agreement or the useful life of the asset.

Any repayment of part of the debt principal is made in accordance with the debt repayment schedule in the finance lease agreement.

## I - Impairment of property, plant and equipment and intangible assets

In accordance with IAS 36 “Impairment of assets”, if events or changes in the market environment suggest that there is a risk of impairment, the Group’s property, plant and equipment and intangible assets are subject to a detailed review to determine whether their carrying amount is lower than their recoverable amount. This value is defined as the higher of either their fair value less selling costs, or their value in use.

If the recoverable amount of the assets is lower than their carrying amount, an impairment loss equivalent to the difference between these two amounts is recognized. Impairment losses relating to property, plant and equipment and intangible assets (excluding goodwill) with a finite useful life can be subsequently reversed if the recoverable value becomes higher than the net book value (within the limit of the impairment loss originally recognized).

The recoverable value of an asset is usually determined on the basis of its value in use. This corresponds to the value of the future economic benefits expected from their use and sale. It is calculated in particular by reference to the future discounted cash flows determined according to the projected economic assumptions and operating conditions used by the Management of the Mersen Group.

IAS 36 defines the discount rate to be used as the pre-tax rate reflecting the current market assessments of the time value of money and the risks specific to the asset. It is the rate of return that investors would require if they were to choose an investment whose amount, timing and risk profile were equivalent to those of the relevant asset or Cash-Generating Unit (CGU).

## J - Financial assets and liabilities

The measurement and recognition of financial assets and liabilities are defined by IAS 39 “Financial Instruments: Recognition and Measurement”, IAS 32 “Financial Instruments: Disclosure and Presentation” and IFRS 7 “Financial Instruments: Disclosures”.

Financial assets include assets available for sale, assets held to maturity, financial trading assets, guarantee deposits paid, derivatives held as assets, loans and receivables, and cash and cash equivalents.

When they are first measured, all financial assets and liabilities that are not at fair value are measured at their fair value taking into account transaction costs.

For subsequent measurements, loans and receivables are recorded at amortized cost.

Financial liabilities include borrowings, other financing facilities and bank overdrafts, derivatives held as liabilities and guarantee deposits received relating to derivatives and liabilities.

Unless they have been hedged at fair value (Section E2), borrowings and other financial liabilities are measured at amortized cost calculated using the effective interest rate (EIR). For example, lending fees are deducted from the initial amount of the debt, and then reinstated period by period according to the calculation of the EIR, the consideration for these reinstatements being recognized in income.

Current assets include receivables relating to operations measured at amortized cost and written down if the carrying amount exceeds the recoverable amount.

### *J1 - Equity interests*

The equity interests of non-consolidated companies are non-current financial assets classified as “available for sale”. They are recognized at fair value. In the rare cases where fair value cannot be reliably determined, they are valued at cost.

If there is an objective indication of impairment (financial difficulties, falling performance and lack of growth prospects, local economic situation, etc.), significant and durable impairment is recognized through profit or loss.

Impairments are irreversible and may not be written back.

The principal activity of the non-consolidated subsidiaries consists in the distribution of products manufactured by the consolidated companies.

Subsidiaries that are considered, individually and on an aggregate basis, to be immaterial, are not included in the scope of consolidation.

### *J2 - Other non-current financial assets*

These are receivables not relating to operations: in accordance with IAS 39, they are recognized at amortized cost and are written down if the recoverable amount is less than the carrying amount.

## K - Capital

Ordinary shares are classified as equity instruments. Incidental costs directly attributable to the issuance of ordinary shares or share options are recognized as a deduction from equity, net of tax.

Treasury shares are recorded at their acquisition cost as a reduction in equity. The proceeds from the sale of these securities are posted directly to equity and do not contribute to income for the year.

## L - Provisions

In accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, provisions are recognized if at the year-end the Group has an obligation to a third party that is likely or certain to result in an outflow of resources corresponding to future economic benefits in favor of this third party.

This obligation may be legal, regulatory or contractual. It may also result from the Group’s practices or from public commitments that have created a legitimate expectation in the minds of the third parties concerned that the Group will assume certain responsibilities.

The estimate of the amount shown as provisions corresponds to the outflow of resources that the Group will probably have to cover in order to fulfill its obligation. If this amount cannot be reliably estimated, no provision is recognized; an explanation is then added to the notes to the financial statements.

Contingent liabilities correspond to potential obligations resulting from past events whose existence will only be confirmed by the occurrence of uncertain future events that are partly beyond the control of the company, or to probable obligations for which the outflow of resources is not beyond its control. An explanation is then added to the notes to the financial statements.

In the case of restructuring, an obligation is created provided that the restructuring has been announced, or has commenced and is described in a detailed plan, before the closing date.

If the Company has a reliable timetable, liabilities are discounted if the effect of discounting is significant.

## M - Inventories

Inventories are valued at cost price, or at its probable net resale value if the latter is lower.

The cost price is the acquisition cost or the production cost.

The production cost takes into account the normal level of activity of the production tool.

Indirect costs taken into account when valuing work in progress and finished products include only those relating to production.

Interest expenses are not capitalized.

## N - Consolidated sales

Sales include sales of finished products and services relating to these products, sales of scrap, sales of goods purchased and invoiced shipping costs.

The Group executes “construction contracts” through certain subsidiaries on an incidental basis. If the revenue from a construction contract can be reliably estimated, the proceeds of the contract are recognized in income depending on the state of progress of the contract. The costs of the contract are recognized in income when they are incurred, unless they constitute an asset relating to the future activity of the contract.

A sale is recognized when the company has transferred the risks and benefits inherent to the ownership of the property to the buyer.

The sale is measured at the fair value of the consideration received or receivable. If the existence of a deferred payment would have a significant effect on the calculation of fair value, it is taken into account by discounting the future payments.

In general, revenue from the sale of goods and equipment is recognized if there is a formal agreement with the customer that the risks have been transferred, the amount of revenue can be measured reliably and it is probable that the Group will ultimately gain from the economic benefits associated with this transaction. In the case of agreements that stipulate formal acceptance of the goods, equipment or services received by the customer, in principle the sale is deferred until the acceptance date.

The proceeds of associated activities appear in the income statement under headings of a similar nature (other income, financial income) or as a deduction from expenses of the same type (commercial, general, administrative, research).

## O - Employee benefit obligations

Post-employment benefits granted by the Group vary, depending on each subsidiary’s legal obligations and policy on the matter. They include defined contribution plans and defined benefit plans.

In the case of defined contribution plans, the Group’s obligations are limited to the payment of regular contributions to external organizations that provide administrative and financial management of the plans. The charges recorded in connection with these plans correspond to the contributions paid during the reference period.

A defined benefit plan is any post-employment benefit plan other than a defined contribution plan. The Group’s liability under defined benefit plans is evaluated separately for each plan by estimating the amount of future benefits acquired by the staff in exchange for services rendered during the current period and previous periods. This amount is updated to determine its present value. The fair value of the plan’s assets is then deducted to determine the net liabilities (assets). The Group determines the net interest charge (income) on the net liabilities (assets) for the defined benefits for the period, by applying the discount rate used at the beginning of the fiscal year to evaluate the obligation under the net liabilities (assets).

The Group calculates the discount rate with the help of an independent expert, taking into account market practices.

The calculations are performed each year by a qualified actuary, using the projected unit credit method. If calculations of net liabilities result in an asset for the Group, the amount recognized in connection with this asset may not exceed the discounted value of any economic benefit available in the form of a future repayment by the plan or reductions in future contributions to the plan. All the minimum funding requirements that apply to the Group’s plan are taken into account to calculate the current value of the economic benefits. An economic benefit is available for the Group if it is feasible during the lifetime of the plan, or on the settlement dates of the plan’s liabilities.

Remeasurements of the net liabilities (assets) relating to the defined benefits include actuarial differences, the return on the plan assets (other than the amounts taken into account in the calculation of the net interest on the net liabilities (assets) and the variation in the effect of the asset ceiling (other than the amounts taken into account in the calculation of the net interest on the net liabilities (assets), if any). The Group recognizes them immediately as other items of comprehensive income and all the other expenses relating to defined benefit plans are recognized through profit or loss in respect of employee benefit obligations.

If the plan benefits change, the impact associated with past services rendered by personnel is recognized immediately in the income statement at the time of the change. If a plan is reduced, the profit or loss resulting from the reduction is also recognized immediately through profit or loss on the date of the reduction.

The Group recognizes the profits or losses resulting from the liquidation of a defined benefit plan at the time of liquidation. The profit or loss resulting from a liquidation is equal to the difference between the discounted value of the liquidated defined benefit liability, calculated on the liquidation date, and the consideration of the liquidation, including any plan assets transferred and any payment made directly by the Group in connection with the liquidation.

## P - Non-recurring income and expenses

Non-recurring income and expenses correspond to income and expenses not arising during the normal course of the Company's business activities. This caption is intended to recognize the impact of major events that may distort operating performance, and does not include any operating or recurring expenses.

Non-recurring income and expenses include the following items:

- the proceeds from material and non-recurring sales: property, plant and equipment and intangible assets, equity interests, other financial assets and other assets;
- impairment losses recognized on equity interests, loans, goodwill, and assets;
- certain provisions;
- reorganization and restructuring expenses;
- costs relating to acquisitions as part of a business combination.

## Q - Operating income

Operating income is shown before net finance expenses, taxes and non-controlling interests.

Operating subsidies are presented as a deduction from the costs to which the subsidy relates.

## R - Deferred taxes

Accounting restatements or consolidation adjustments may impact the results of the consolidated companies. Temporary differences shown in the balance sheet between consolidated values and the tax values of the corresponding assets and liabilities give rise to the calculation of deferred taxes.

In accordance with IAS 12, the Group presents deferred taxes in the consolidated balance sheet separately from other assets and liabilities. Deferred tax assets are recorded in the balance sheet provided that it is more likely than not that they will be recovered in subsequent years. Deferred tax assets and liabilities are not discounted.

The following factors are taken into account when assessing the Group's ability to recover these assets:

- projections of future taxable income;
- taxable income in previous years.

Deferred tax assets and liabilities are measured using the liability method, i.e., using the tax rate expected to be applied to the fiscal year in which the asset will be realized or the liability settled, on the basis of the tax rates (and tax regulations) that have been adopted or largely adopted at the year-end, taking into account future rate rises or cuts.

The measurement of deferred tax assets and liabilities reflects the tax consequences that depend on the extent to which the company expects, at the year-end, to recover or settle the carrying amount of these assets and liabilities.

## S - Segment Reporting

IFRS 8 on segment information defines an operating segment as a component of an entity:

- that operates businesses from which it is likely to derive income from ordinary activities, and incur costs;
- whose operating profits are reviewed regularly by the entity's chief operating decision-maker with a view to taking decisions concerning the resources to be allocated to the segment and to assess its performance; and
- for which separate financial information is available.

The internal report made available to the chief operating decision-maker, the Executive Committee, and the Board of Directors, corresponds to the managerial structure of the Mersen group, which is based on segmentation by type of business, as follows:

- **the Advanced Materials segment,** which includes the Group's three businesses related to carbon materials: graphite specialties for high-temperature applications; anti-corrosion equipment, mainly used in the chemicals sector; and power transfer technologies.
- **the Electrical Power segment,** which includes the Group's two businesses related to the electrical market, namely solutions for power management and electrical protection & control (primarily fuses, industrial fuse holders and surge protection solutions).

In application of IFRS 8, the Group thus identifies and presents its operating segments based on the information forwarded internally to the Executive Committee and the Board of Directors.

## T - Earnings per share

Earnings and diluted earnings per share are presented for the total income and for income from continuing operations.

Basic earnings per share is calculated by dividing the net income for the year attributable to the ordinary shares by the weighted average number of ordinary shares in issue during the fiscal year.

To calculate diluted earnings per share, the net profit attributable to the ordinary shares and the weighted average number of shares outstanding are restated for the effects of all dilutive potential ordinary shares.

## U - Equity-linked benefits granted to employees

In accordance with IFRS 2 "Share-based payment", the fair value of share purchase and subscription options reserved for employees involving the Group's shares is measured at the grant date.

The value of share purchase and subscription options depends in particular on the exercise price, the probability of fulfilling the conditions for the exercise of the option, the lifetime of the option, the current price of the underlying shares, the expected volatility of the share price, the expected dividends and the risk-free interest rate over the life of the option. This value is recorded under staff expenses on a straight-line basis over the vesting period with a corresponding adjustment to equity for share-settled and debt-settled plans vis-à-vis the personnel for cash-settled plans.

## V - Use of estimates

For the preparation of the consolidated financial statements, the calculation of certain figures shown in the financial statements requires that assumptions, estimates or appraisals be used, in particular when calculating provisions and performing value tests. These assumptions, estimates or appraisals are carried out on the basis of the information available or existing situations at the reporting date. These estimates and assumptions are made on the basis of past experience and various other factors. The current sharply deteriorating economic and financial environment makes it difficult to accurately assess business prospects. The actual amounts may subsequently turn out to be different from the estimates and assumptions used.

The actual occurrence of certain events after the reporting date may subsequently differ from the assumptions, estimates and appraisals used in this context.

### *Use of management estimates in the application of the Group's accounting standards*

Mersen may be required to make estimates and to rely on assumptions that affect the carrying amount of assets and liabilities, income and expenses, and also information relating to unrealized assets and liabilities. Future earnings may differ significantly from these estimates.

The underlying estimates and assumptions are determined based on past experience and other factors considered to be reasonable in the circumstances. They thus serve as a basis for the exercise of the judgment required to determine the carrying amounts of assets and liabilities that cannot be obtained directly from other sources. Actual values may differ from the estimated values.

The underlying estimates and assumptions are reviewed on an ongoing basis. The impact of changes in accounting estimates is recognized during the period of the change, if this affects this period only, or during the period of the change and future periods if these are also affected by the change.

Notes 2-F1, 2-I and 7 relate to impairment testing of goodwill and other fixed assets. The Group's Management has conducted the tests on the basis of best expectations for future valuations of the businesses of the units concerned, taking into account the discount rate.

Notes 13 and 14 relating to provisions and employee benefit obligations describe the provisions introduced by Mersen. In calculating these provisions, the Group took into account the best estimate of these obligations.

Note 22 relating to the tax burden summarizes the Group's tax situation and is based, especially in France and Germany, on the best estimate that the Group has for future changes in taxable income.

All of these estimates are based on an organized process for gathering projections of future flows, with validation by the operational managers, as well as market data projections based on external indicators, used in accordance with consistent, documented methodologies.

## W - New standards applied with effect from 2017

**None**

## X - New standards and interpretations not yet applied

**IFRS 15 "Revenue from contracts with customers"**

IFRS 15 establishes a comprehensive framework specifying how, when and for what amount revenue should be recognized. It replaces the following standards and interpretations related to revenue recognition: IAS 18, Revenue; IAS 11, Construction Contracts; and IFRIC 13, Customer Loyalty Programmes.

The Group has carried out a preliminary analysis of the impacts that IFRS 15 could have on its consolidated financial statements, the results of which are as follows:

- Concerning sales to distributors (mainly in the EP segment), selling and marketing expenses paid to distributors would be reclassified as sales for approximately €3 million based on the annual amount of these expenses recorded in previous years.

- The Group does not expect the application of IFRS 15 to have a significant impact on construction contracts (which are primarily used in the AM segment).

IFRS 15 will be mandatory for years beginning on or after January 1, 2018.

**IFRS 16 "Leases"**

This new standard – which was issued in January 2016 – principally amends how lessees will be required to account for leases as from 2019. On commencement of a lease, the lessee will be required to recognize a right-of-use asset (corresponding to the lessee's right to use the underlying asset) and a lease liability (corresponding to its obligation to make payments under the lease). The impact of this accounting treatment will be an increase in EBITDA, operating income and financial expenses in the income statement and an increase in non-current assets and debt in the statement of financial position.

The Group has compiled data on its lease contracts in order to estimate the impact of applying IFRS 16 based on the leases in effect at June 30, 2017.

The balance sheet and income statement impacts of applying IFRS 16 are currently being analyzed.

IFRS 16 will come into force for financial years starting on or after January 1, 2019.

**IFRS 9 "Financial Instruments"**

IFRS 9 – issued in July 2014 – replaces IAS 39, Financial Instruments: Recognition and Measurement. It includes amended guidance for the classification and measurement of financial instruments, a new expected credit loss model for measuring impairment losses on financial assets, and new requirements for general hedge accounting. IFRS 9 also carries over from IAS 39 the requirements for recognition and derecognition of financial instruments. Based on its preliminary analysis, the Group does not believe that its application of IFRS 9 will have a significant impact on its consolidated financial statements.

IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018.

# Note 3 Financial Risk Management

The Group is exposed to the following risks on financial instruments:

- Liquidity risk;
- Interest rate risk;
- Commodity risk;
- Currency risk;
- Credit risk.

This note provides information regarding the Group's exposure to each of the above risks, its objectives, its policy and its procedures for evaluating and managing risks.

Quantitative information is provided in other areas in the consolidated financial statements.

Information on capital management is presented in Note 12.

## Liquidity risk

Mersen has confirmed credit lines and borrowing facilities for a total of over €368 million, of which 43% was drawn down at end-December, 2017. Based on the amounts drawn down, the average maturity of these confirmed credit lines and borrowing facilities is more than 4.5 years.

Mersen has the following principal financing agreements:

- A multi-currency syndicated bank loan set up in July 2012 and amended in 2014 and 2017. The amount of this facility is €200 million with a five-year maturity and payable at maturity in July 2022. The interest payable is at variable rates, plus a credit margin.
- A syndicated credit facility from an international banking pool established in September 2013 and amended in October 2016, intended to finance the Group's activities in China. The amount of this facility is RMB 120 million with a maturity of five years and payable in full in October 2021. The interest rate is 95% of the People's Bank of China's rate at the time of drawdowns.
- Bilateral banking facilities for a total of RMB 130 million, set up in September 2013 and amended in August 2016 and which can be repaid up until 2019, and are intended to finance the Group's activities in China.
- A United States Private Placement (USPP) of $100 million negotiated in November 2011 with an American investor, with one tranche of $50 million on a ten-year maturity and another tranche of $37.2 million on an eight-year maturity, both payable upon maturity. The investor will receive a fixed rate of interest.
- A German private placement ("Schuldschein") of €60 million set up in November 2016 with a pool of European and Asian investors, with a seven-year maturity and payable upon maturity. Investors receive interest at the variable Euribor plus a credit margin.

Furthermore, as part of its policy to diversify its funding sources, in March 2016 Mersen set up a €220 million commercial paper program with a maturity of less than one year. As at December 31, 2017, €32 million had been used. The program can be substituted by drawdowns from the Group Syndicated Loan on maturity.

### Breakdown of confirmed credit lines and borrowings by maturity

| *(in millions of euros)* | Amount | Drawdown at Dec. 31, 2017 | Utilization rate Dec. 31, 2017 | Maturities | | |
|---|---|---|---|---|---|---|
| | | | | Less than 1 year | From 1 to 5 years | More than 5 years |
| Group syndicated loan | 200.0 | 0.0 | 0% | 0.0 | 200.0 | 0.0 |
| Confirmed credit lines, China | 27.7 | 16.7 | 60% | 2.5 | 25.2 | 0.0 |
| German private placement | 60.0 | 60.0 | 100% | 0.0 | 0.0 | 60.0 |
| US Private Placement | 79.0 | 79.0 | 100% | 0.0 | 79.0 | 0.0 |
| Other | 1.6 | 1.6 | 100% | 0.3 | 1.2 | 0.1 |
| **TOTAL** | **368.3** | **157.3** | **43%** | | | |
| **AVERAGE MATURITY (YEARS)** | **4.6**(1) | **4.1**(2) | | | | |

*(1) Maturity calculated on the basis of authorized amounts*
*(2) Maturity calculated on the basis of drawdown amounts*

### Breakdown by maturity of cash flows on drawdowns of confirmed credit facilities and borrowings

| *(in millions of euros)* DRAWDOWNS | Impact at Dec. 31, 2017 | Expected cash flows | Maturities | | |
|---|---|---|---|---|---|
| | | | 1-6 months | 6-12 months | More than 1 year |
| Group syndicated loan | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Confirmed credit lines, China | 16.7 | 17.5 | 5.7 | 1.6 | 10.2 |
| German private placement | 60.0 | 65.6 | 0.5 | 0.5 | 64.6 |
| US Private Placement | 79.0 | 90.4 | 1.8 | 1.8 | 86.8 |
| Other | 1.6 | 1.6 | 0.2 | 0.2 | 1.2 |
| **TOTAL** | **157.3** | **175.1** | **8.2** | **4.1** | **162.8** |

## Interest rate risk

The interest rate risk management policy is approved by the CEO of the Group on the basis of recommendations made by Mersen's Finance Department and changes in interest rates.

When it was acquired by Mersen, Scotland Holytown had an interest rate swap with a nominal value of GBP 4 million that was arranged on January 15, 2008 to convert the interest on part of its confirmed medium-term debt into a fixed rate. Under this swap, the Company receives interest due to the lender and pays 5.38%. The repayment and duration profile of the swap match those of the debt. At December 31, 2017, the nominal amount stood at GBP 1.4 million.

The USPP of 2011 are fixed rate instruments, with an average interest rate of 4.7%.

In March 2017, the Company set up an interest rate cap on a notional amount of €25 million in order to hedge part of its confirmed debt against an increase in the Euribor of over 1%.

| *(in millions of euros)* | Amount | Interest rate received | Interest rate paid | Maturities | | |
|---|---|---|---|---|---|---|
| | | | | Less than 1 year | From 1 to 5 years | More than 5 years |
| *GBP* swap | 1.6 | 1-month Libor | 5.38% | 0.3 | 1.2 | 0.1 |

| *(in millions of euros)* SWAP | MTM(a) | Expected Cash flows | Maturities Less than 1 year | From 1 to 5 years | More than 5 years |
|---|---|---|---|---|---|
| Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Liabilities and shareholders' equity | (0.2) | (0.2) | (0.1) | (0.1) | 0.0 |

*(a) Mark-to-market = evaluated at market price.*

| *(in millions of euros)* | Amount | Variable rate | Rate for the year | MTM |
|---|---|---|---|---|
| **Cap (EUR)** | **25** | **6-month Euribor** | **1%** | **0.26** |

### *Sensitivity analysis of the fair value of fixed-income instruments*

The Group does not record any fixed-income financial assets or liabilities at fair value through profit or loss or designate any derivatives (interest rate swaps) as fair value hedges. Accordingly, a change in interest rates at the reporting date would not have any impact on the income statement.

A change of 50 basis points in the interest rate would have triggered a change in other comprehensive income of €0.09 million (in 2016: €0.03 million)

## Commodity risk

Certain Group companies purchase raw materials or components comprising commodities, such as non-ferrous metals like copper, silver and zinc. Copper and silver are the two metals accounting for a significant volume of purchases (in total, around €28 million) for the Mersen Group. Different hedging techniques, such as index-linking of purchase prices, index-linking of selling prices and bank hedging may be applied.

The commodity price risk management policy is validated by the Group's Executive Committee on the basis of recommendations by Mersen's Finance and Purchasing departments, and consists of establishing positions in the form of forward purchasing contracts or zero premium collars.

Around 67% of price risk on copper and 76% of price risk on silver can be covered centrally using bank hedges.

At end-2017, out of the quantities budgeted for 2018, 40% of the copper tonnages that could be hedged were hedged and 72% of hedgeable silver tonnages were hedged.

An increase or decrease in the price of copper and silver, with relation to closing prices at December 31, 2017 as indicated below, would have resulted in an increase/(decrease) in other comprehensive income and operating income by the amounts indicated below as a result of the commodity hedges.

| **Impact** *(in millions of euros)* **at December 31, 2017** | Copper | | Silver | |
|---|---|---|---|---|
| | Other items of comprehensive income | Gains or losses recognized in operating income | Other items of comprehensive income | Gains or losses to be recognized in operating income |
| Increase of 5% | 0.3 | 0.0 | 0.3 | 0.0 |
| Decrease of 5% | (0.3) | 0.0 | (0.3) | 0.0 |

### *Recognition at year-end 2017 of commodity hedges*

| **MTM(a)** *(millions of euros)* | Impact on 2017 other comprehensive income | Impact on 2017 income |
|---|---|---|
| MTM of copper and silver hedges | 0.02 | 0.0 |

*(a) Mark-to-market = evaluated at market price.*

Other metals, primarily steel and reactive metals, are essentially used on the Chemical market. They are used for specific customer requirements and their cost is generally reflected in the commercial offer. As a result, changes in prices have a limited impact on the Group's gross margin.

Prices of petroleum-derived products, especially petroleum coke and pitch, which are raw materials used in the manufacture of graphite, have little correlation with oil prices. After several years of only slight increases, the prices of certain carbon raw materials rose significantly during 2017. The selling price of graphite was increased in order to offset the effect of these price rises.

Energy, primarily electricity and gas, is purchased at fixed rates based on forecasted annual or multi-annual volumes depending on regions.

Changes in energy prices and petroleum derivatives have had little impact on the Group's margins overall, as they are partially or fully offset by reformulation programs.

## Currency risk

### *Fluctuations in the principal currencies used by the Group*

| | JPY | USD | KRW | GBP | RMB |
|---|---|---|---|---|---|
| Average exchange rate from Jan. 1, 2016 to Dec. 31, 2016[(a)] | 120.52 | 1.1066 | 1282.90 | 0.8189 | 7.3496 |
| Closing exchange rate at Dec. 31, 2016[(b)] | 123.40 | 1.0541 | 1269.36 | 0.8562 | 7.3202 |
| Average exchange rate from Jan. 1, 2017 to Dec. 31, 2017[(a)] | 126.65 | 1.1293 | 1275.83 | 0.8761 | 7.6264 |
| Closing exchange rate at Dec. 31, 2017[(b)] | 135.01 | 1.1993 | 1279.61 | 0.8872 | 7.8044 |

*(a) Exchange rate used to translate the cash flow statement and income statement.*
*(b) Exchange rate used to translate the balance sheet.*

The currency risk management policy is validated by the Group's Executive Committee on the basis of proposals made by the Finance Department.

It consists of contracting forward exchange rate hedges with leading banks on the basis of a complete inventory of inter-company and non-Group risks.

In its commercial activities, barring exceptional circumstances, Group policy is to hedge currency risks when an order is taken or to hedge a large portion of the annual budget. The primary currency risk concerns intra-Group flows.

In the area of borrowings, Group policy is to contract loans in local currencies, except for special cases. Borrowings in foreign currencies arranged by the parent company match loans made in euros subject to hedges (foreign exchange swaps) transforming them into loans in the currencies of the subsidiaries concerned.

For consolidation purposes, the income statement and cash flow statements of foreign subsidiaries are translated into euros at the average exchange rate for the relevant period, while balance sheet items are translated at the rate prevailing at the end of each reporting period. The impact of this currency translation can be significant. The principal impact concerns the effect of rate changes of the US dollar on the Group's shareholders' equity and debt.

The Group's operating income before non-recurring items is exposed to exchange rate variations primarily through the translation of earnings recorded by companies whose currency is not the euro. The primary exposure is with the US dollar. A 10% decline in the value of the US dollar compared with the average confirmed rate of January through December 2017 would have had a translation impact of a negative €3.3 million on the Group's recurring operating income. Conversely, this 10% decline in the value of the US dollar compared with the closing exchange rate for 2017 would have had a translation impact of a negative €4.5 million on the Group's net debt at December 31, 2017.

Apart from these special cases, hedges are centralized at the level of the parent company. They are carried out under strictly defined procedures. Hedges are valued as described below.

### *EUR/foreign currency risk*

| Risk *(millions of euros)* [(a)] | JPY | USD | KRW | GBP | RMB |
|---|---|---|---|---|---|
| Sale of foreign currencies | 7.6 | 21.2 | 4.1 | 12.8 | 8.1 |
| Purchase of foreign currencies | (1.2) | (16.6) | 0.0 | (11.7) | (5.2) |
| Potential risks for 2018 | 6.4 | 4.6 | 4.1 | 1.1 | 2.9 |
| Hedges at December 31, 2017 | (3.2) | (3.2) | (1.5) | (0.80) | (1.5) |
| Net position | 3.2 | 1.4 | 2.6 | 0.3 | 1.4 |
| Impact in euros of a 5% fall in the euro[(b)] | 0.17 | 0.08 | 0.14 | 0.02 | 0.07 |

*(a) Excluding any anti-corrosion equipment business, which is hedged when an order is placed.*
*(b) Sensitivity calculated on the basis of currency exchange rates at December 31, 2017.*

### USD/Foreign currency risks

| **Risks** *(millions of US dollars)* [(a)] | JPY | KRW | GBP | RMB | CAD |
|---|---|---|---|---|---|
| Sale of foreign currencies | 5.3 | 19.4 | 0.6 | 19.4 | 16.4 |
| Purchases of foreign currencies | 0.0 | 0.3 | (10.8) | (26.8) | (19.9) |
| Potential risks for 2018 | 5.3 | 19.1 | (10.2) | (7.4) | (3.5) |
| Hedges at December 31, 2017 | (3.7) | (11.4) | 7.8 | 2.2 | 3.5 |
| Net position | 1.6 | 7.7 | (2.4) | (5.2) | 0.0 |
| Impact in USD of a 5% fall in the USD [(b)] | 0.09 | 0.41 | (0.12) | (0.27) | 0.0 |

*(a) Excluding any anti-corrosion equipment business, which is hedged when an order is placed.*
*(b) Sensitivity calculated on the basis of exchange rates at December 31, 2017.*

### Recognition at year-end 2017 of currency transactions

| **MTM** [(a)] *(in millions of euros)* | | Dec. 31, 2017 |
|---|---|---|
| Mark-to-market of currency hedges | Other items of comprehensive income | (0.5) |
| | Other financial items of operating income | 0.0 |

*(a) Mark-to-market = evaluated at market price.*

An increase or decrease in the value of the euro, with relation to closing exchange rates of the USD, JPY and RMB at December 31, 2017 as indicated below, would have resulted in an increase (decrease) of other items of comprehensive income and operating income by the amounts indicated below as a result of the currency hedges.

| | Increase in the euro against foreign currencies | | Decrease in the euro against foreign currencies | |
|---|---|---|---|---|
| **Impact at Dec. 31, 2017** *(in millions of euros)* | Other items of comprehensive income | Gains or losses on operating income* | Other items of comprehensive income | Gains or losses on operating income * |
| USD (change of 5%) | 0.24 | 0.02 | (0.27) | (0.02) |
| JPY (change of 5%) | (0.25) | (0.02) | 0.25 | 0.02 |
| RMB (change of 5%) | (0.09) | 0.0 | 0.09 | 0.0 |

** Excluding inverse impacts related to the revaluation of underlying items recorded in the balance sheet.*

This analysis is carried out on the basis of changes in exchange rates that the Group deems reasonably possible at the reporting date. For the purposes of this analysis, all other variables, especially interest rates, are assumed to have remained constant and the effect of forecasted sales and purchasing has been ignored.

Sensitivities relating to other currency pairs were not recorded due to their immaterial impacts.

### Future impact on income of currency transactions recorded at end-December 2017

| *(in millions of euros)* CURRENCY | Mark-to-market of currency derivatives in other comprehensive income | Impact on income: Under six months | Impact on income: Over six months |
|---|---|---|---|
| Assets | 0.3 | 0.1 | 0.2 |
| Liabilities | (0.8) | (0.3) | (0.5) |

### Future cash flows on currency transactions recognized at December 31, 2017

| **CURRENCY** *(in millions of euros)* | MTM | Expected cash flows |
|---|---|---|
| Assets | 0.4 | 0.4 |
| Liabilities | (0.9) | (0.9) |

Currency hedges are restated as a function of underlying assets and there is therefore no timing difference between maturities.

### Credit risk

The Group set up in 2003 a Coface commercial credit insurance program to cover the principal American and French companies against the risk of non-payment for financial or political reasons. Coverage may vary, by customer, between 0 and 95% of invoiced amounts.

In 2009, this program was extended to Germany, Great Britain and to China.

This credit insurance program does not however cover 100% of risk because the insurer excludes certain risks from the cover.

During 2016 and 2017, the Group continued its assignment of receivables programs regarding several French subsidiaries, which gave rise to assigned receivables amounting to €12.1 million at December 31, 2017 compared to €14.0 million at December 31, 2016. Delegation riders to contracts covering French company assigned receivables were signed with the factoring agent.

Derecognized assets with continuous application: the amount of the guarantee deposit relating to assigned receivables programs amounts to €0.6 million.

## Note 4 Business combinations recognized in 2017

There were no business combinations in 2017 and there was no goodwill in the process of allocation at the year-end.

## Note 5 Operations held for sale or discontinued

**High voltage switches and contactors business: sale of Mersen France Gorcy S.A.S.**

The Group sold Mersen France Gorcy S.A.S in October 2017 in line with its strategy of divesting businesses that have few synergies with the other businesses in the Electrical Power segment.

Sales for this business – including the sales generated by Mersen France Gorcy and four other Group subsidiaries – totaled €6.6 million in 2017 (€5.8 million in 2016) and operating income before non-recurring items amounted to €0.8 million (€1.4 million in 2016).

The disposal gain was €1.2 million.

**High power switches business at the Saint-Loup-de-Naud site in France**

On September 13, 2016, the Group announced its intention, under its competitiveness plan, to enter into negotiations with a view to selling its high voltage switches business at the Saint-Loup-de-Naud site, which offered few synergies with the Electrical Power segment's other operations. The Group received a binding offer during the second half of 2016 from a European specialist in this business and the sale was completed on March 3, 2017.

Sales in this business including sales from the Saint-Loup-de-Naud site, in addition to sales carried out by some 15 other subsidiaries of the Group amounted to €2 million in 2017, compared to €7.3 million in 2016.

The Canadian and Japanese subsidiaries of the Electrical Power unit of the Group continue to distribute high voltage switches in 2017 coming from the Saint-Loup-de-Naud site that no longer belongs to the Group. The sale of these two subsidiaries are not included under "Businesses held for sale and discontinued operations"

Recurring operating income for this business amounted to €0 million in 2017, compared to €0.1 million in 2016.

An impairment loss was recognized in 2016 in the amount of €4.7 million. This was calculated by comparing net values of assets and liabilities held for sale with their realizable value.

The disposal loss realized in 2017 corresponds to the impairment loss recognized in 2016.

**Businesses in the Advanced Materials and Technologies segment**

The businesses of Mersen Grésy France and the Brignais site (Mersen France PY) were sold at end-November, 2013.

A net loss of €0.8 million was recorded in 2017 in relation to these businesses due to the recognition of a provision for a dispute over a quality issue covered by the seller's warranty given by the Group.

A net loss of €0.6 million was recorded in 2016 (write-down of the seller's loan to the buyer, a loan against the acquired company and filing for bankruptcy)

In accordance with standards, assets and liabilities held for sale and discontinued operations are presented on a separate line in the Group's balance sheet.

## Balance sheet of assets held for sale and discontinued operations

### ASSETS

| *In millions of euros* | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| - Trade receivables | 0.1 | 0.0 |
| **ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS** | **0.1** | **0.0** |

### EQUITY AND LIABILITIES

| *In millions of euros* | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| - Current provisions | 0.5 | 0.5 |
| - Trade payables | 0.9 | 0.1 |
| - Other payables | | 0.5 |
| **LIABILITIES RELATED TO ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS** | **1.4** | **1.1** |
| **NET ASSETS IN THE PROCESS OF BEING SOLD OR DISCONTINUED OPERATIONS** | **(1.3)** | **(1.1)** |

## Income statement for assets held for sale and discontinued operations

| *In millions of euros* | Dec. 31, 2017 | Dec. 31, 2016 restated |
|---|---|---|
| Sales | 8.6 | 13.7 |
| Cost of sales | (8.3) | (11.3) |
| **Total gross income** | **0.3** | **2.4** |
| Selling and marketing | (0.3) | (0.5) |
| Administrative and research expenses | 0.0 | (0.8) |
| Other operating expenses | 0.0 | 0.0 |
| **Operating income before non-recurring items** | **0.0** | **1.1** |
| Non-recurring income and expenses | (0.4) | (1.0) |
| Impairment losses/Gains (losses) on sale | 1.2 | (5.0) |
| **Operating income** | **0.8** | **(4.9)** |
| Net finance income | 0.0 | 0.0 |
| **Income from continuing operations before tax** | **0.8** | **(4.9)** |
| Current and deferred income tax | 0.0 | (0.2) |
| **Net income of assets held for sale/discontinued operations** | **0.8** | **(5.1)** |
| **Net earnings per share of assets held for sale and discontinued operations** | | |
| - Basic earnings per share *(€)* | 0.04 | (0.25) |
| - Diluted earnings per share *(€)* | 0.04 | (0.24) |

## Note 6 Goodwill

| *In millions of euros* | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Carrying amount at start of period | 288.0 | 287.9 |
| Acquisitions | | 0.0 |
| Other movements | | (1.2) |
| Other assets held for sale | (4.6) | (2.0) |
| Cumulative translation adjustments | (18.2) | 3.3 |
| Carrying amount at end of period | 265.2 | 288.0 |
| Gross value at end of period | 275.2 | 298.0 |
| **Total impairment losses at end of period*** | **(10.0)** | **(10.0)** |

** Impairment is linked to goodwill for the Anti-Corrosion Equipment CGU and was booked in 2015.*

Breakdown by Cash-Generating Unit is given in the table below:

| | Dec. 31, 2016 | Movements during 2015 | | | | Dec. 31, 2017 |
|---|---|---|---|---|---|---|
| *In millions of euros* | Carrying amount | Acquisitions | Other | Assets held for sale and discontinued operations | Cumulative translation adjustments | Carrying amount |
| Anti-Corrosion Equipment | 57.9 | | | | (5.7) | 52.2 |
| Graphite Specialties | 94.6 | | | | (2.6) | 92.0 |
| Power Transfer Technologies | 12.7 | | | | (0.4) | 12.3 |
| Electrical Protection and Control | 80.1 | | | (4.6) | (4.0) | 71.5 |
| Solutions for Power Management | 42.7 | | | | (5.5) | 37.2 |
| **TOTAL** | **288.0** | **0.0** | **0.0** | **(4.6)** | **(18.2)** | **265.2** |

Goodwill classified under “Assets held for sale and discontinued operations” relates to Mersen France Gorcy (see Note 5).

## Note 7 Asset impairment tests

### Impairment tests for cash-generating units

Impairment tests for each of the cash-generating units were carried out at the close of 2017.

In application of IAS 36, the tests were carried on the basis of the value in use determined by applying the discounted cash flow method. The principal assumptions used are the following:

- Five-year cash flows based on the 2017 budget and projections for the four following years.
- The average weighted cost of capital used in discounting future cash flows include the beta calculation of the Group by analysts and that for no-risk rates on French treasury bonds with a ten-year holding period. In view of these parameters, of a market risk premium and a size-specific premium, the average cost of capital after tax used as a rate for discounting future flows was set at 6.9%, compared to 7.2% in 2016. This discount rate is applied to all of the CGUs. There are no substantive grounds for applying a different discount rate per CGU.
- The perpetual growth rate is 2% for the Power Transfer Technologies CGU, 2.5% for the Anti-corrosion Equipment CGU, 3% for the Graphite Specialties CGU and 2.5% for the Solution for Power Management and Electrical Protection & Control CGUs. The rates of growth applied to CGUs can be explained by the development of CGUs’ businesses in their respective markets.
- The normative tax rate is 27.5%.

No impairment has been booked in any of the CGUs.

A calculation of sensitivity to the discount rate was conducted such that the recoverable amount was equal to the carrying amount. Discount rates obtained are as follows:

- Around 26% for the Power Transfer Technologies CGU;
- Around 15% for the Solutions for Power Management CGU;
- Around 17% for the Electrical Protection & Control CGU;
- Around 10% for the Graphite Specialties CGU;
- Around 8% for Anti-corrosion Equipment CGU.

A sensitivity test was carried out by reducing the perpetual growth rate by one point in the first case and by increasing the discount rate after taxes by one point over the assumed value in the second case. This was done in each CGU. A sensitivity test was also carried out on the basis of a drop of one point in the margin rate (EBIDTA) of the terminal value.

The decline in values in use following these changes in assumption does not call into question the valuation of net assets.

### Impairment of specific assets

The Group reviewed the recoverable amount of its non-current assets. Some intangible assets were derecognized following the halt of the projects.

## Note 8 Property, plant and equipment and intangible assets

| *In millions of euros* | Intangible assets | Land | Buildings | Plant, equipment and other assets | Assets in progress | Total property, plant and equipment | TOTAL |
|---|---|---|---|---|---|---|---|
| **Carrying amount at January 1, 2016** | **35.8** | **29.3** | **75.3** | **169.2** | **23.0** | **296.8** | **332.6** |
| Non-current assets | 3.0 | 2.6 | 5.7 | 16.8 | 5.3 | 30.4 | 33.4 |
| Retirements and disposals | 0.0 | (1.0) | (1.6) | (1.9) | | (4.5) | (4.5) |
| Depreciation and amortization | (2.8) | | (4.8) | (30.4) | | (35.2) | (38.0) |
| Translation adjustments | 0.3 | 0.1 | 0.4 | (2.0) | | (1.5) | (1.2) |
| Impact of changes in the scope of consolidation | | | | | | 0.0 | 0.0 |
| Assets held for sale and discontinued operations | | | | | | 0.0 | 0.0 |
| Other movements | 1.1 | 0.1 | 1.6 | 11.5 | (13.7) | (0.5) | 0.6 |
| **Carrying amount at December 31, 2016** | **37.4** | **31.1** | **76.6** | **163.2** | **14.6** | **285.5** | **322.9** |
| Gross value at December 31, 2016 | 88.8 | 33.6 | 150.6 | 592.2 | 14.6 | 791.0 | 879.8 |
| Total depreciation and amortization at December 31, 2016 | (42.4) | (1.3) | (74.0) | (411.8) | | (487.1) | (529.5) |
| Total impairment losses at December 31, 2016 | (9.0) | (1.2) | 0.0 | (17.2) | 0.0 | (18.4) | (27.4) |
| **Carrying amount at January 1, 2017** | **37.4** | **31.1** | **76.6** | **163.2** | **14.6** | **285.5** | **322.9** |
| Non-current assets | 3.2 | | 1.8 | 12.9 | 20.2 | 34.9 | 38.1 |
| Retirements, disposals and impairment | (4.5) | (0.5) | 0.5 | (1.8) | | (1.8) | (6.3) |
| Depreciation and amortization | (3.2) | (0.1) | (5.1) | (31.0) | | (36.2) | (39.4) |
| Translation adjustments | (1.1) | (0.8) | (5.5) | (10.8) | (1.1) | (18.2) | (19.3) |
| Change in scope | | | | | | 0.0 | 0.0 |
| Assets held for sale and discontinued operations | | | | (0.1) | | (0.1) | (0.1) |
| Other movements | | 0.6 | 1.7 | 17.2 | (17.4) | 2.1 | 2.1 |
| **Carrying amount at December 31, 2017** | **31.8** | **30.3** | **70.0** | **149.6** | **16.3** | **266.2** | **298.0** |
| **Gross value at December 31, 2017** | **84.2** | **32.9** | **149.1** | **610.0** | **16.3** | **808.3** | **892.5** |
| **Total depreciation and amortization at December 31, 2017** | **(43.4)** | **(1.4)** | **(79.1)** | **(443.2)** | | **(523.7)** | **(567.1)** |
| **Total impairment losses at December 31, 2017** | **(9.0)** | **(1.2)** | | **(17.2)** | | **(18.4)** | **(27.4)** |

Impairment losses concern impaired assets as per IAS 36 (see Note 7 Impairment of assets).

Research expenses, or expenses for the research phase of an internal project, are recognized as expenses as they are incurred. Regarding development costs, an intangible asset resulting from development or from the development phase of an internal project, is recognized if, and only if, the Group can demonstrate that these developments satisfy the criteria of the standard.

At December 31, 2017, development costs identified by the Group over the period that satisfy these criteria represent less than 0.5% of the Group's revenue.

## Note 9 Equity interests

At year-end, investments in non-consolidated companies held by consolidated companies represented:

| *In millions of euros* | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Gross value | 7.8 | 7.8 |
| Impairment losses | (5.5) | (5.5) |
| **CARRYING AMOUNT** | **2.3** | **2.3** |

Impairment losses recognized against investments in non-consolidated companies at December 31, 2017 concern primarily investments in Hungary, Russia and Argentina. The principal investments are the following:

| *In millions of euros* | % held | Gross value | Carrying amount |
|---|---|---|---|
| **Company name** | | | |
| Fusetech (Hungary) | 50% | 2.3 | 1.1 |
| Mersen Argentina | 98% | 3.7 | 0.8 |
| Mersen Russia | 100% | 1.2 | 0.0 |
| Mersen Chile Ltd | 100% | 0.2 | 0.2 |
| Other investments | | 0.4 | 0.2 |
| **TOTAL** | | **7.8** | **2.3** |

## Note 10 Inventories

| *In millions of euros* | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Raw materials and other supplies | 84.1 | 85.8 |
| Work in progress | 48.8 | 45.8 |
| Finished products | 43.7 | 39.2 |
| **Carrying amount of inventories** | **176.6** | **170.8** |
| Impairment losses | (17.8) | (18.2) |
| **CARRYING AMOUNT OF INVENTORIES** | **158.8** | **152.6** |

The carrying amount of inventories was €6.2 million higher at December 31, 2017 than one year earlier. Based on a constant scope of consolidation and constant exchange rates, inventories increased by €16.5 million (or 11%) year on year, in line with the rise in sales – especially towards the end of the year. This increase is partially offset by foreign exchange differences (€8.6 million) and the sale of Mersen France Gorcy during the year also had a negative impact as this company had inventories with a carrying amount of €1.1 million at December 31, 2016.

## Note 11 Trade receivables

| *In millions of euros* | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Gross trade receivables | 149.4 | 146.1 |
| Customer advances | (20.9) | (15.7) |
| Impairment losses | (5.1) | (6.6) |
| **NET TRADE RECEIVABLES** | **123.4** | **123.8** |

Net trade receivables decreased by €0.4 million in 2017, with an adverse €8.1 million currency effect and a €0.5 million negative impact arising from the classification of Mersen France Gorcy under discontinued operations. Based on a constant scope of consolidation and constant exchange rates, net trade receivables were €8.2 million, or 6.6%, higher at end-2017 than one year earlier.

A factoring contract was established in 2009 that concerns the assignment of trade receivables of our main French subsidiaries. This contract (see Note 3) anticipates a maximum amount of €20.0 million. At December 31, 2017 usage amounted to €12.1 million, compared to €14 million at end-2016.

At end 2017, late payments represented 17.6% of client accounts before advance payments, compared to 15.9% at end 2016. Payments late by over 15 days amount to around 12%. Over one-third of these related to receivables in China that are paid mostly by bank drafts whose maturities exceed the deadline for payment stated on the invoice.

Overdue trade receivables broke down as follows at December 31:

| *In millions of euros* | Dec. 31, 2017 | | Dec. 31, 2016 | |
|---|---|---|---|---|
| | Gross | Impairment | Gross | Impairment |
| Receivables not yet due | 119.5 | (0.6) | 111.1 | (0.4) |
| Receivables 0 to 30 days past due | 14.3 | (0.6) | 17.1 | (0.1) |
| Receivables 31 to 120 days past due | 9.1 | (0.3) | 9.9 | (0.4) |
| Receivables 121 days to 1 year past due | 3.1 | (0.7) | 2.9 | (1.4) |
| Receivables more than 1 year past due | 3.4 | (2.9) | 5.1 | (4.3) |
| **NET TRADE RECEIVABLES** | **149.4** | **(5.1)** | **146.1** | **(6.6)** |

Movements related to impairment losses taken against trade receivables are as follows:

| *In millions of euros* | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Impairment losses at January 1 | (6.6) | (5.8) |
| Allowance/reversal during the fiscal year | 1.5 | 0.8 |
| **IMPAIRMENT LOSSES AT DECEMBER 31** | **(5.1)** | **(6.6)** |

Trade receivables are tested for impairment on a customer-by-customer basis by each entity in line with procedures in progress.

# Note 12 Equity

| *Number of shares (unless stated otherwise)* | **Ordinary shares** |
|---|---|
| Number of shares at January 1, 2017 | 20,471,854 |
| Capital increase/reduction *(in millions of euros)* | 0.4 |
| Number of shares at December 31, 2017 | 20,637,041 |
| Number of shares in issue and fully paid-up during the period | 165,772 |
| Number of canceled treasury shares | 585 |
| Number of shares in issue and not fully paid-up | 0 |
| Par value of shares *(€)* | 2 |
| Entity's shares held by itself or by its subsidiaries and associates | 24,673 |

At December 31, 2017 the Company's share capital was €41,274,082, comprising 20,637,041 shares each with a par value of €2.

In theory, there were 28,558,949 voting rights, since treasury shares do not carry voting rights. A double voting right is attached to all shares that fulfill both of the following conditions: i) being held in registered form for at least two years; and ii) being fully paid up.

To the best of the Company's knowledge Group, its ownership structure at December 31, 2017 was as follows:

- French institutional investors: 54.1%
- International institutional investors: 36.2%
- Individual shareholders: 8.6%
- Employee shareholders: 1.0%
- Treasury shares: 0.1%

Since January 1, 2017, certain shareholders have reported crossing the following disclosure thresholds:

- March 23: Dimensional Fund Advisor announced that it had exceeded the statutory threshold of 2% of the share capital and voting rights and now holds 496,704 shares, i.e., 2.0% of the share capital and 2.4% of voting rights.
- April 24: Norges Bank Investment announced that it had exceeded the statutory threshold of 4% of the share capital and voting rights and now holds 822,961 shares, i.e., 4.02% of the share capital.
- June 19: La Caisse des Dépôts et Consignations (including Bpifrance Participations) announced that it had exceeded the threshold of 22% of the voting rights and now holds 3,215,039 shares, i.e., 15.70% of the share capital and 22.06% of voting rights.
- June 30: Jousse Morillon Investissement announced that it had fallen below the statutory threshold of 2% of voting rights and now holds 495,000 shares, i.e., 2.42% of the share capital and 1.99% of voting rights.
- Since September 18: Norges Investment Bank announced that it had exceeded and fallen below the legal threshold of 5% of the share capital on several occasions and that it had consequently crossed voting rights thresholds upwards and downwards. On December 29, 2017, Norges Bank Investment announced that it now holds 1,026,773 shares, i.e., 5.02% of the share capital and 3.62% of voting rights.
- November 15: Jousse Morillon Investissement announced that it had fallen below the statutory threshold of 2% of voting rights and now holds 388,000 shares, i.e., 1.89% of the share capital and 1.57% of voting rights.
- December 14: Bpifrance Participations announced that it had passively fallen below the statutory thresholds of 18%, 17% and 16% of voting rights and now holds 2,242,770 shares and 4,485,540 voting rights, i.e., 10.95% of the share capital and 15.79% of voting rights. La Caisse des Dépôts et Consignations (including Bpifrance Participations) announced that it had passively fallen below the legal threshold of 20% of the voting rights and now holds 3,216,489 shares and 5,459,259 voting rights, i.e., 15.71% of the share capital and 19.22% of voting rights.
- December 20: Sofina announced that it had passively fallen below the thresholds of 12% and 11% of voting rights and now holds 1,679,852 shares, i.e., 8.21% of the share capital and 11.84% of voting rights.
- December 22: Dimensional announced that it had fallen below the threshold of 2% of voting rights and now holds 556,536 shares, i.e., 2.72% of the share capital and 1.96% of voting rights.

## Treasury shares:

At December 31, 2017, 24,673 shares representing 0.1% of the share capital were held by the Company pursuant to the liquidity agreement entered into with Exane BNP Paribas.

## Stock options, free shares and preference shares:

At December 31, 2017, the Group's employees held 207,971 shares, namely 1% of the share capital, plus 274,881 stock subscription options which, if exercised in full, would represent 1.3% of the current share capital. The stock option plans set up by the Group are based on an exercise price determined without any discount, since exercise of the options is subject to conditions linked to the Group's future performance. Using this method, the Group ensures that the interests of its managers are aligned with those of its shareholders.

In addition, the Group implemented a policy of awarding free shares. Definitive allotment of the shares is contingent upon beneficiaries' presence on the Group's payroll at the end of the vesting period. Awards to members of management and to employees considered by management to have made a significant contribution to the Company's performance are subject to performance conditions. Conversely, the management did not want to set performance conditions for employees who, by the nature of their jobs, contribute less directly to the Company's performance. At December 31, 2017, the number of free shares likely to be allotted definitively stands at 166,800 new shares, representing 0.8% of the current share capital. This includes 84,000 free shares awarded, with performance conditions, as part of the plan approved at the Annual General Meeting of May 18, 2017.

Since May 2015, the Group has also introduced three plans for the awarding of performance-based preference shares granting the right to convert them into ordinary shares to certain categories of employees and corporate officers, mostly members of the Executive Committee. In July 2017, 34,870 preference shares were allocated under the 2015 plan as a result of the partial achievement of the applicable performance conditions. At December 31, 2017 the preference shares awarded under the 2016 and 2017 plans could potentially be converted into a maximum of 257,840 ordinary shares (representing 1.2% of the Company's capital). This includes 128,920 shares under the plan approved at the Annual General Meeting of May 18, 2017.

Outstanding preference shares granted to the Chief Executive Officer, Luc Themelin (under the 2015, 2016 and 2017 plans) totaled 61,600 at December 31, 2017.

In its third resolution, the Company's General Meeting of May 18, 2017 decided to distribute a dividend of €0.50 per share in cash.

Neither the Company, nor its subsidiaries are subject to specific capital constraints under external rules.

As of April 3, 2016, double voting rights are attached to all shares that fulfill both of the following conditions: i) be held in registered form for at least two years, and ii) be fully paid up.

With respect to share-based payments, the plans were evaluated in accordance with IFRS 2.

The characteristics and assumptions used to value the plans are as follows:

| Characteristics/Assumptions | 2014 plan Stock subscription options | 2014 plan performance shares | 2015 plan performance shares | 2015 plan preference shares | 2016 plan performance shares | 2016 plan preference shares | 2017 plan performance shares | 2017 plan preference shares |
|---|---|---|---|---|---|---|---|---|
| Allotment date | 05/21/2014 | 05/21/2014 | 07/09/2015 | 07/10/2015 | 05/11/2016 | 05/11/2016 | 05/18/2017 | 05/18/2017 |
| Availability date | 05/21/2016 | 05/21/2016/ 05/21/2018 | 07/09/2017/ 07/09/2019 | 07/09/2017/ 07/09/2019 | 11/2018/ 11/05/2020 | 11/2018/ 11/05/2020 | 05/18/2019/ 05/18/2021 | 05/18/2019/ 05/18/2021 |
| Expiration date | 05/21/2021 | 05/22/2018 | 07/10/2019 | 07/10/2019 | 05/11/2020 | 05/11/2020 | 05/18/2021 | 05/18/2021 |
| Adjusted exercise price *(€)* | 22.69 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Adjusted share price at allotment date *(€)* | 21.30 | 21.30 | 20.89 | 20.89 | 12.87 | 12.87 | 25.15 | 25.15 |
| Estimated life *(number of years)* | 4.5 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Volatility | 31.00% | 31.00% | 25.90% | 25.90% | 25.9% | 25.9% | 27.7% | 27.7% |
| Dividend per share *(as a % of share price)* | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| Risk-free interest rate | 0.64% | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Exercise period *(number of years)* | 5 | 2/4 | 2/4 | 2/4 | 2/4 | 2/4 | 2/4 | 2/4 |
| Lock-up period *(number of years)* | 2 | 2/0 | 2/0 | 2/0 | 2/0 | 2/0 | 2/0 | 2/0 |
| Adjusted number of options/share allotments | 150,000 | 31,400/ 18,600 | 34,900/ 30,100 | 75,460/ 23,760 | 84,000 | 128,920 | 84,000 | 128,920 |
| Estimated annual cancellation rate at the closing | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% |
| % of shares/options vested following satisfaction of the performance condition | 85% | 0% | 0% | 39% | 100% | 100% | 100% | 100% |
| Estimated number of options at end of vesting period | 129,375 | 44,260 | 56,769 | 87,933 | 81,269 | 123,610 | 78,246 | 117,782 |
| Valuation of options/shares *(€)* | 3.68 | 19.08/18.89 | 18.71/18.53 | 17.73/18.53 | 12.12 | 10.92/11.41 | 23.69 | 21.35/22.31 |
| Valuation as a % of the share price at grant | 17.3% | 89.6%/88.7% | 89.6%/88.7% | 84.9%/ 88.7% | 94.2% | 84.9%/ 88.7% | 94.2% | 84.8%/ 88.7% |

A net charge of €0.6 million was recognized in respect of share-based payments in 2017, comprising:

- a €1.7 million charge relating to existing plans; and
- a €1.1 million gain, which was recorded because the Group expects that the vesting conditions of the free shares and stock options granted under the 2015 plans will not be fully met.

In 2016, a net charge of €0.5 million was recognized in respect of share-based payments, comprising:

- a €1.3 million charge relating to existing plans; and
- a €0.8 million gain, which was recorded because the Group expected that the vesting conditions of the free shares and stock options granted under the 2014 plans would not be fully met.

The expense related to employee share ownership plans was assessed taking into account the discount reflecting the non-transferability cost, in line with the CNC recommendation. The non-transferability cost was assessed by an external consultant and calculated using the applicable borrowing rate in the personal lending market.

## Note 13 Provisions, contingent liabilities and miscellaneous liabilities

| | Dec. 31, 2017 | | Dec. 31, 2016 | |
|---|---|---|---|---|
| *(in millions of euros)* | Non-recurring | Recurring | Non-recurring | Recurring |
| - provision for restructuring | 0.2 | 7.5 | 0.3 | 15.2 |
| - provision for litigation | 0.0 | 1.4 | 0.2 | 0.9 |
| - other provisions | 1.1 | 3.0 | 0.8 | 4.3 |
| **TOTAL** | **1.3** | **11.9** | **1.3** | **20.4** |

| *Recurring and non-recurring* | Dec. 31, 2016 | Provisions set aside/reversals | Uses | Other | Translation adjustments | Dec. 31, 2017 |
|---|---|---|---|---|---|---|
| - provision for restructuring | 15.5 | 1.4 | (8.2) | (0.4) | (0.6) | 7.7 |
| - provision for litigation | 1.1 | 0.7 | (0.4) | 0.0 | 0.0 | 1.4 |
| - other provisions | 5.1 | 2.3 | (3.3) | 0.0 | 0.0 | 4.1 |
| **TOTAL** | **21.7** | **4.4** | **(11.9)** | **(0.4)** | **(0.6)** | **13.2** |

Provisions amounted to €13.2 million at December 31, 2017 compared with €21.7 million at December 31, 2016. This €8.5 million year-on-year decrease reflected reversals of restructuring provisions set aside for the competitiveness plan as the related amounts were expensed (partially offset by additional provisions recognized for this plan).

Provisions and debt linked to ongoing legal proceedings amount to approximately €5 million, including €1.4 million in provisions for litigation.

## Legal proceedings

None of the legal proceedings referred to below led to provisions being set aside, as the Group is not at this stage in a position to assess the financial risk.

**Civil proceedings in Canada**

The lawsuit launched during 2004 in Canada by certain customers against the main Canadian manufacturers of graphite brushes, including Mersen Toronto (a Canadian subsidiary of Mersen) is still in progress and there have been no new developments since 2007 This action was instigated following the CAD 1 million fine that Morgan Crucible Ltd was ordered to pay in July 2004 for anti-trust practices in the graphite brushes sector from 1995 through 1998. In February 2007, the Canadian judge ruled that only Canadian open transportation companies could join the proceedings in progress. The risk related to these proceedings for Mersen Toronto remains non-material.

**Administrative and legal proceedings in France**

In 2013, SNCF launched two procedures against Morgan, SGL, Schunk and Mersen in the Paris Administrative Court and the Paris Commercial Court respectively. SNCF is attempting to secure redress for losses that it allegedly suffered following practices that were sanctioned in December 2003 by the European Commission in connection with brushes for electric motors and products for mechanical applications. In 2014, the Paris Administrative Court rejected all of the claims lodged by SNCF, which appealed the decision. The Paris Commercial Court has decided not to issue its ruling until the Administrative Court of Appeal has made its decision. Mersen disputes all of the allegations and claims submitted by SNCF and both cases are still ongoing.

In 1999, the Group set up a worldwide compliance program to inform and train operational and commercial managers about anti-trust legislation. . This program has been applied since it was developed and it was updated in June 2010 following the Group's change of corporate name and identity. In addition, the Group has put in place very stringent internal control measures and external audits in order to ensure that anti-trust legislation is scrupulously complied with in all of the countries in which it has operations. The Group intends to update its training program in 2018.

**Legal proceedings in France (accident at the Gennevilliers plant on April 7, 2010)**

The criminal investigation launched subsequent to the tragic accident at Mersen's Gennevilliers plant on April 7, 2010 is still ongoing and there were no significant developments in 2017.

The Group is not aware of any other governmental, judicial or arbitration proceedings, including any pending or potential proceedings, that could have or have had in the last 12 months, a material adverse effect on its business activities, financial position or results of operations.

## Tax and customs proceedings

The Group regularly undergoes tax and customs audits carried out by the tax/customs authorities in the countries in which it operates.

In the past, the reassessments issued after tax/customs audits have been for non-material amounts.

At December 31, 2017, the most significant risks concerned the following:

Mersen do Brasil received notice in June 2013 of a customs audit covering the period from January 2008 through December 2012. Following this audit, the customs authorities issued a reassessment notice for an amount (principal and interest) of BRL 11.3 million, corresponding to approximately €2.9 million at the December 31, 2016 exchange rate. The Group has launched a procedure to contest this reassessment.

On December 13, 2016, Mersen Gennevilliers received notice of a reassessment for (i) corporate property tax (CFE) relating to the years 2013 through 2016, and (ii) real estate tax for 2016. A provision for the risk as estimated by the Group was recognized at end-2016 and the reassessment was contested by the Group. The tax authorities accepted the arguments put forward by the Group and settled the dispute on April 26, 2017 by proposing a reduced reassessed amount of €0.3 million, covering real estate tax for 2016 and corporate property tax for 2013 through 2016.

On September 22, 2017, Mersen France SB SAS was issued an accounting audit notice for the period from 2014 through 2016 (and subsequently extended to July 31, 2017) concerning sales taxes and also covering the amount declared for the research tax credit for expenses incurred in 2013 through 2016. No provisions had been recognized for this audit at end-2017.

The €1.2 million recorded under "Miscellaneous liabilities" at December 31, 2017 primarily corresponded to liabilities related to property, plant and equipment.

No other material contingent liabilities were identified at December 31, 2017.

# Note 14 Employee benefits

Under defined contribution plans, the Group is under no obligation to make additional payments on top of the contributions already paid into a fund if the latter does not have sufficient assets to pay out the benefits corresponding to the service provided by employees during the period in progress or during future periods. For these plans, contributions are expensed as incurred.

The Mersen Group's principal pension plans are defined benefit plans and are located in the United States (46% of obligations), the United Kingdom (21% of obligations), France (14% of obligations) and Germany (9% of obligations).

There are two pension plans in the United States:

- The "hourly plan," for shop floor employees
- The "salaried plan," for office employees and closed to new entrants in 2011 because it was replaced by a defined contribution plan. This plan was closed entirely in 2015. The employees are now covered by the defined contribution plan.

These two plans are funded by contributions calculated on the value of the obligation and paid based on a funding plan over seven years. The fund's coverage ratio by assets measured in accordance with local standards is 88% for the salaried plan and 89% for the hourly plan.

There is a pension plan in the United Kingdom that was closed to new entrants in 2006. The level of funding on the debt, calculated in accordance with local rules and based on conservative assumptions, is 96%. Contributions are paid based on a schedule established with the trustees.

These pension funds constitute entities that are legally distinct from the Group. The funds' administrative bodies are composed of employee representatives, retirees and independent directors. They are legally required to act in the best interest of the plan's participants and are responsible for certain fund policies, including the investment, contribution and indexing policies.

In France, the defined benefit plans involve primarily lump-sum retirement payments and long-service awards. These plans are not funded.

There are two pension plans in Germany that are closed to new entrants and are not funded.

The Group's obligations were measured at December 31, 2017 with the assistance of independent actuaries and in accordance with IAS 19.

The assumptions used for the main countries are summarized below:

| 2017 | Discount rate | Average rate of salary increases | Inflation rate |
|---|---|---|---|
| France | 1.20% | Between 2.0% and 6.25% depending on age | 1.8% |
| Germany | 1.20% | 2.50% | 1.8% |
| United States | 3.65% | Not applicable | Not applicable |
| United Kingdom | 2.60% | 3.0% | 3.40% |

| 2016 | Discount rate | Average rate of salary increases | Inflation rate |
|---|---|---|---|
| France | 1.35% | Between 2.0% and 6.25% | 1.8% |
| Germany | 1.35% | 2.5% | 1.8% |
| United States | 4.25% | Not applicable | Not applicable |
| United Kingdom | 2.85% | 2.75% | 2.5%/3.5% |

Mortality assumptions are based on published statistics and mortality tables.

## Reconciliation between assets and liabilities recognized

| | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Actuarial obligation | 178.1 | 186.4 |
| Fair value of plan assets | (109.9) | (112.7) |
| PROVISION BEFORE THE LIMIT ON ASSETS | 68.2 | 73.7 |
| Surplus management reserve | 0.1 | 0.2 |
| PROVISION AFTER THE LIMIT ON ASSETS | 68.3 | 73.9 |

## Breakdown of the Group's obligations at December 31 by geographical area

| | France | Germany | United States | United Kingdom | Rest of the world | Total at Dec. 31, 2017 |
|---|---|---|---|---|---|---|
| Actuarial obligation | 25.1 | 15.5 | 81.3 | 37.5 | 18.7 | 178.1 |
| Fair value of plan assets | (0.4) | 0.0 | (57.1) | (42.5) | (9.8) | (109.8) |
| NET AMOUNT RECOGNIZED | 24.7 | 15.5 | 24.2 | (5.0) | 8.9 | 68.3 |

## Movements in the Group's obligations

| | France | Germany | United States | United Kingdom | Rest of the world | Total |
|---|---|---|---|---|---|---|
| **December 31, 2016** | **24.7** | **16.7** | **82.8** | **39.2** | **23.0** | **186.4** |
| Payments made | (0.9) | (1.1) | (3.6) | (1.7) | (1.0) | (8.3) |
| Expenses recognized, including interest expense | 0.9 | 0.3 | 4.4 | 1.2 | 1.5 | 8.3 |
| Translation adjustment | | | (10.6) | (1.4) | (0.8) | (12.8) |
| Actuarial gains and losses | 0.6 | (0.4) | 8.3 | 0.2 | (0.2) | 8.5 |
| Other movements | (0.2) | | | | (3.8) | (4.0) |
| DECEMBER 31, 2017 | 25.1 | 15.5 | 81.3 | 37.5 | 18.7 | 178.1 |

## Change in plan assets

| | France | Germany | United States | United Kingdom | Rest of the world | Total |
|---|---|---|---|---|---|---|
| **December 31, 2016** | **0.2** | **0.0** | **53.8** | **44.5** | **14.0** | **112.5** |
| Return on plan assets | | | 1.8 | 1.2 | 0.3 | 3.3 |
| Employer contribution | 0.2 | | 6.5 | 0.4 | 0.4 | 7.5 |
| Employee contribution | | | | | | 0.0 |
| Payment of benefits | | | (3.8) | (1.7) | (0.5) | (6.0) |
| Actuarial gains and losses | | | 5.9 | (0.3) | 0.1 | 5.7 |
| Translation adjustment | | | (7.1) | (1.6) | (0.5) | (9.2) |
| Other movements | | | | | (4.0) | (4.0) |
| DECEMBER 31, 2017 | 0.4 | 0.0 | 57.1 | 42.5 | 9.8 | 109.8 |

The plan assets cover primarily the United States plans (48% of total plan assets, with 60% invested in equities and 40% in bonds) and the United Kingdom plans (40% of total plan assets, with 30% invested in equities, 67% in government bonds and 3% in real estate and cash).

## Net expense recognized

The net expense recognized for these plans in 2017 was €5.0 million, compared with €3.9 million in 2016, which included €2.3 million in non-recurring gains related to:

- the closure of the defined benefits plan in the Netherlands, replaced by a defined contributions plan;
- a cash payment offered to hourly plan members in the United States.

| | France | Germany | United States | United Kingdom | Rest of the world | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|---|---|---|---|---|
| Current service cost | 1.3 | 0.1 | 0.7 | 0.1 | 0.9 | 3.1 | 3.3 |
| Interest cost | 0.2 | 0.2 | 2.9 | 1.0 | 0.6 | 4.9 | 6.3 |
| Expected return on plan assets | | | (1.9) | (1.1) | (0.3) | (3.3) | (4.1) |
| Administrative costs | | | 0.7 | | | 0.7 | 0.6 |
| Plan amendment | | | 0.2 | | | 0.2 | (2.3) |
| Other movements | (0.6) | | | | | (0.6) | 0.1 |
| **NET EXPENSE FOR THE PERIOD** | **0.9** | **0.3** | **2.6** | **(0.1)** | **1.2** | **5.0** | **3.9** |

The change in actuarial gains and losses arising on the measurement of obligations and plan assets breaks down as follows:

| | France | Germany | United States | United Kingdom | Rest of the world | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|---|---|---|---|---|
| Adjustments linked to changes in demographic | | | 0.5 | (0.2) | (0.3) | 0.0 | (3.9) |
| Adjustments linked to changes in financial | 0.6 | | 7.0 | 1.2 | 0.2 | 9.0 | 10.9 |
| Experience adjustments to obligations | | (0.4) | 0.8 | (0.8) | | (0.4) | 1.9 |
| Experience adjustments to plan assets | | | (5.9) | 0.3 | (0.2) | (5.8) | (9.0) |
| **ACTUARIAL GAINS AND LOSSES** | **0.6** | **(0.4)** | **2.4** | **0.5** | **(0.3)** | **(2.8)** | **(0.1)** |

## Sensitivity analysis

An increase of 0.5 points in discount rates would lead to a reduction of €11.5 million in the estimated actuarial obligation.

An increase of 0.5 points in inflation rates would lead to an increase of €2.5 million in the estimated actuarial obligation.

The breakdown of these sensitivities by country is presented in the table below.

| Impact on the obligation in the case of | 0.5% increase in the discount rate | 0.5% increase in the inflation rate |
|---|---|---|
| France | (0.8) | 1.0 |
| Germany | (0.9) | 0.9 |
| United Kingdom | (3.0) | 1.8 |
| United States | (5.6) | 0.0 |
| Rest of the world | (1.2) | 0.3 |
| **TOTAL** | **(11.5)** | **4.0** |

# Note 15 Net debt

Analysis of total net debt at Dec. 31, 2017

| In millions of euros | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Long- and medium-term borrowings | 154.4 | 161.8 |
| Current financial liabilities [(a)] | 37.8 | 53.0 |
| Financial current accounts | 0.3 | 1.1 |
| Bank overdrafts | 24.1 | 22.1 |
| **TOTAL GROSS DEBT** | **216.6** | **238.0** |
| **Current financial assets** | **(12.6)** | **(6.0)** |
| Cash and cash equivalents | (25.9) | (29.2) |
| **Cash** | **(25.9)** | **(29.2)** |
| **TOTAL NET DEBT** | **178.1** | **202.8** |

*(a) Including €32 million from drawdowns of the commercial paper program that may be substituted at maturity by drawdowns of the Group Syndicated Credit.*

Total consolidated net debt at December 31, 2017 amounted to €178.1 million compared to €202.8 million at year-end 2016.

Of the €216.6 million in total gross debt, €157.3 million stems from the use of the confirmed loans and borrowings, €32 million from drawdowns of the commercial paper program and the remainder chiefly from use of unconfirmed lines (bank overdrafts and other lines).

## Net debt/equity

| (in millions of euros) | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Total net debt | 178.1 | 202.8 |
| Net debt/equity [(a)] | 0.37 | 0.41 |

*(a) Calculated using the covenant method.*

Net debt amounted to 37% of equity at December 31, 2017, compared with 41% at December 31, 2016.

## Reconciliation between changes in net debt shown in the balance sheet and the cash flow statement

| In millions of euros | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| **Prior year debt** | **202.8** | **236.5** |
| Cash generated/(used) by operating and investing activities after tax | (40.2) | (65.2) |
| Cash used by restructurings and litigation | 13.7 | 10.8 |
| Net cash inflows/(outflows) attributable to changes in the scope of consolidation | 0.0 | 0.7 |
| **Cash generated by the operating and investing activities of continuing operations** | **(26.5)** | **(53.7)** |
| Cash generated by the operating and investing activities of divested and discontinued operations | (6.0) | (3.8) |
| Increase/decrease in capital | (3.3) | 1.1 |
| Dividends paid | 12.3 | 10.5 |
| Interest payments | 8.0 | 8.2 |
| Translation adjustments and other | (8.6) | (2.3) |
| Change in scope | 0.0 | 0.0 |
| Other changes | (0.6) | 6.3 |
| **DEBT AT YEAR-END** | **178.1** | **202.8** |

## Financial covenants at December 31, 2017

In connection with its various confirmed borrowings at Group level and in China, Mersen must comply with a number of obligations, which are customary with this type of lending arrangement. Should it fail to comply with some of these obligations, the banks or investors (for the US private placements) may require Mersen to repay the relevant borrowings in advance of term. Under the cross-default clauses, early repayment of one significant borrowing may trigger an obligation for the Group to repay other borrowings immediately.

Mersen must comply with the following financial covenants at June 30 and December 31 each year:

## Financial covenants[a] (consolidated financial statements)

| *(in millions of euros)* | Net debt/ EBITDA | Net debt/ equity* | EBITDA/ net interest expense |
|---|---|---|---|
| **Covenant ratios** | | | |
| Confirmed credit lines, Group | < 3.50 | < 1.3 | - |
| 2011 US private placement | < 3.50 | < 1.3 | > 3 |
| Confirmed credit lines, China | < 3.50 | < 1.3 | |
| **Actual ratios at December 31, 2017** | | | |
| Group syndicated loan | 1.58 | 0.37 | |
| 2011 US Private Placement | 1.58 | 0.37 | 11.98 |
| 2016 German private placement | 1.58 | | |
| Confirmed credit lines, China | 1.58 | 0.37 | |
| **Actual ratios at December 31, 2016** | | | |
| Group syndicated loan | 2.09 | 0.41 | - |
| 2011 US private placement | 2.09 | 0.41 | 9.39 |
| 2016 German private placement | 2.09 | | |
| Confirmed credit lines, China | 2.09 | 0.41 | - |
| **Actual ratios at December 31, 2015** | | | |
| Group syndicated loan | 2.39 | 0.47 | - |
| 2011 US private placement | 2.39 | 0.47 | 10.30 |
| Confirmed credit lines, China | 2.39 | 0.47 | - |

*(a) Method for calculating the covenants: in line with the accounting rules, the net debt shown in the financial statements uses closing rates to calculate the euro-equivalent value of debt denominated in foreign currencies. Net debt has to be recalculated at the average EUR/USD exchange rate for the period if there is a difference of more than 5% between the average exchange rate and the closing rate. To calculate the covenants at June 30, the convention is for EBITDA or gross operating income to be deemed to be EBITDA reported for the first six months of the year multiplied by two.*

At December 31, 2017, there were no material borrowings or liabilities secured by assets or guaranteed by third parties.

## Breakdown by currency of total gross debt at December 31, 2017

Total gross debt at December 31, 2017 stood at €216.6 million and broke down by currency as follows:

| *(By currency)* | % |
|---|---|
| EUR | 53.3 |
| USD | 24.0 |
| GBP | 6.9 |
| RMB | 8.8 |
| Other | 7.0 |

## Breakdown by currency of the drawdowns on credit lines and confirmed long- and medium term borrowings including the short-term portion at December 31, 2017

Operating receivables and payables all mature in less than one year. A breakdown of borrowings by maturity is shown below.

| *(in millions of euros)* | Total | 1 year | 1 to 5 years | > 5 years |
|---|---|---|---|---|
| Borrowings in USD | 41.7 | 0.0 | 41.7 | 0.0 |
| Borrowings in EUR | 97.3 | 0.0 | 37.3 | 60.0 |
| Borrowings in GBP | 1.6 | 0.3 | 1.2 | 0.1 |
| Borrowings in RMB | 16.7 | 6.8 | 9.9 | 0.0 |
| **TOTAL** | **157.3** | **7.1** | **90.1** | **60.1** |
| Amortization of issuance costs at the EIR [a] | (1.1) | | | |
| Fair value of interest-rate derivatives | 0.0 | | | |
| **TOTAL** | **156.2** | | | |

*(a) Effective interest rate.*

Of the €90.1 million in debt due to mature in between one and five years' time, €50.2 million had a maturity of less than two years at December 31, 2017.

| *(in millions of euros)* | Total | O/w maturity < 5 years | O/w maturity > 5 years |
|---|---|---|---|
| Debt | 216.6 | 156.5 | 60.1 |
| Financial assets | (38.5) | (38.5) | 0.0 |
| **Net position before hedging** | **178.1** | **118.0** | **60.1** |
| Fixed-rate debt | 105.5 | 80.4 | 25.1 |
| **Net position after hedging** | **72.6** | **37.6** | **35.0** |

Total net debt at December 31, 2017 breaks down as follows by type of interest rate:

| *(By interest rate)* | % |
|---|---|
| Fixed | 59.3 |
| Floating | 40.7 |

Assuming Mersen's debt and exchange rates remain unchanged at their December 31, 2016 level and taking into account the swaps held in the portfolio, an increase of 100 basis points in floating interest rates would increase the Group's annual interest costs by around €0.7 million. This impact is chiefly related to debt in EUR, as debt in USD is primarily fixed-rate debt.

# Note 16 Fair value of financial instruments

## Fair value hierarchy

The table below analyzes the financial assets and liabilities measured at their fair value on a recurring basis. The levels are defined as follows:

- Level 1: there are quoted prices (not restated) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: fair value measured using inputs other than the quoted prices included in Level 1, which are observable for the asset or the liability, directly or indirectly. The Group determines the fair value of Level 2 for debt instruments by using the cash flow discounting technique, based on contractual cash flows and a market discount rate. The fair value of Level 2 for over-the-counter financial derivative instruments is based on brokers' quoted prices. The Group ensures that these quoted prices are reasonable by discounting estimated future cash flow, using market interest rates that would be applied to similar instruments on the measurement date.
- Level 3: unobservable data regarding the asset or liability. Fair value is determined by applying the discounted cash flow method.

| Dec. 31, 2017 | | Carrying amount | | | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance sheet sections and types of instrument | Note | Assets and liabilities measured at fair value | Assets held to maturity | Assets available for sale | Loans and receivables | Liabilities at amortized cost | Total carrying amount on the balance sheet for the category | Level 1 | Level 2 | Level 3 | TOTAL |
| **Financial assets designated as at their fair value** | | | | | | | | | | | |
| Unlisted equity interests | 9 | | | 2.3 | | | 2.3 | | | 2.3 | 2.3 |
| Derivatives held as current and non-current assets | 3 | 0.8 | | | | | 0.8 | | 0.8 | | 0.8 |
| | | **0.8** | **0.0** | **2.3** | **0.0** | **0.0** | **3.1** | **0.0** | **0.8** | **2.3** | **3.1** |
| **Financial assets not designated as at their fair value** | | | | | | | | | | | |
| Current and non-current financial assets | 15 | | | | 17.1 | | 17.1 | | | | |
| Trade receivables | 11 | | | | 123.4 | | 123.4 | | | | |
| Cash and cash equivalents | 15 | | | | 25.9 | | 25.9 | | | | |
| | | **0.0** | **0.0** | **0.0** | **166.4** | **0.0** | **166.4** | | | | |
| **Derivatives held as current and non-current liabilities** | | | | | | | | | | | |
| Derivatives held as current and non-current liabilities | 3 | (1.2) | | | | | (1.2) | | (1.2) | | (1.2) |
| | | **(1.2)** | **0.0** | **0.0** | **0.0** | **0.0** | **(1.2)** | **0.0** | **(1.2)** | **0.0** | **(1.2)** |
| **Financial liabilities not measured at their fair value** | | | | | | | | | | | |
| Bank borrowings | 15 | | | | | (154.4) | (154.4) | | (153.5) | | |
| Financial current accounts | 15 | | | | | (0.3) | (0.3) | | | | |
| Bank overdrafts | 15 | | | | | (24.1) | (24.1) | | | | |
| Current financial liabilities | 15 | | | | | (37.8) | (37.8) | | | | |
| Trade payables | | | | | | (60.0) | (60.0) | | | | |
| | | **0.0** | **0.0** | **0.0** | **0.0** | **(276.6)** | **(276.6)** | | | | |
| **Carrying amount by category** | | **(0.4)** | **0.0** | **2.3** | **166.4** | **(276.6)** | **(108.3)** | | | | |

| Dec. 31, 2016 | | Carrying amount | | | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet sections and types of instrument** | **Note** | **Assets and liabilities measured at fair value** | **Assets held to maturity** | **Assets available for sale** | **Loans and receivables** | **Liabilities at amortized cost** | **Total carrying amount on the balance sheet for the category** | **Level 1** | **Level 2** | **Level 3** | **TOTAL** |
| **Financial assets designated as at their fair value** | | | | | | | | | | | |
| Unlisted equity interests | 9 | | | 2.3 | | | 2.3 | | | 2.3 | 2.3 |
| Derivatives held as current and non-current assets | 3 | 1.8 | | | | | 1.8 | | 1.8 | | 1.8 |
| | | **1.8** | **0.0** | **2.3** | **0.0** | **0.0** | **4.1** | **0.0** | **1.8** | **2.3** | **4.1** |
| **Financial assets not designated as at their fair value** | | | | | | | | | | | |
| Current and non-current financial assets | 15 | | | | 13.1 | | 13.1 | | | | |
| Trade receivables | 11 | | | | 123.8 | | 123.8 | | | | |
| Cash and cash equivalents | 15 | | | | 29.2 | | 29.2 | | | | |
| | | **0.0** | **0.0** | **0.0** | **166.1** | **0.0** | **166.1** | | | | |
| **Financial liabilities measured at their fair value** | | | | | | | | | | | |
| Derivatives held as current and non-current liabilities | 3 | (1.5) | | | | | (1.5) | | (1.5) | | (1.5) |
| | | **(1.5)** | **0.0** | **0.0** | **0.0** | **0.0** | **(1.5)** | **0.0** | **(1.5)** | **0.0** | **(1.5)** |
| **Financial liabilities not measured at their fair value** | | | | | | | | | | | |
| Bank borrowings | 15 | | | | | (161.8) | (161.8) | | (161.4) | | |
| Financial current accounts | 15 | | | | | (1.1) | (1.1) | | | | |
| Bank overdrafts | 15 | | | | | (22.1) | (22.1) | | | | |
| Current financial liabilities | 15 | | | | | (53.0) | (53.0) | | | | |
| Trade payables | | | | | | (61.6) | (61.6) | | | | |
| | | **0.0** | **0.0** | **0.0** | **0.0** | **(299.6)** | **(299.6)** | | | | |
| **Carrying amount by class** | | **0.3** | **0.0** | **2.3** | **169.3** | **(299.6)** | **(130.9)** | | | | |

Regarding financial derivative instruments, including foreign exchange forward contracts and interest rate swaps: the market comparable measurement technique is used. Fair value is based on brokers' quoted prices. Similar contracts are negotiated on an active market and their price reflects transactions that include similar instruments.

## Note 17 Non-recurring income and expenses

Non-recurring income and expenses break down as follows:

| *In millions of euros* | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Competitiveness plan | (8.6) | (22.3) |
| Disputes and other expenses | (1.7) | (4.2) |
| **TOTAL** | **(10.3)** | **(26.5)** |

Non-recurring income and expenses represented a net expense of €10.3 million in 2017 and primarily included:

- €8.6 million in expenses related to the competitiveness plan.
- Costs related to disputes and other non-recurring expenses representing a material amount, totaling €1.7 million and mainly corresponding to:
  - €2.6 million in impairment of internally-developed assets;
  - a €0.5 million net reversal of provisions for significant disputes, notably including a reversal of a provision for a tax dispute in France; and
  - €0.4 million in reversals of provisions for impairment of assets brought back into service in China.

In 2016, non-recurring income and expenses represented a net expense of €26.5 million and primarily included:

- €22.3 million in expenses related to the competitiveness plan.
- Costs related to disputes and other non-recurring expenses representing a material amount, totaling €4.2 million and mainly concerning:
  - tax and VAT disputes in France and China:
  - losses related to a customer in Chapter 11 proceedings in the United States;
  - significant, non-recurring commercial disputes;
  - conversely, disposal gains from the sale of unused industrial buildings, which were mainly related to the Transform Plan.

The expenses arising from the competitiveness plan were measured using a process mapped out and overseen by the Group's Executive Committee.

# Note 18 Segment reporting

## Operating income

| *In millions of euros* | Advanced Materials (AM) | | | Electrical Power (EP) | | | Total for continuing operations | | |
|---|---|---|---|---|---|---|---|---|---|
| | Dec. 31, 2017 | Dec. 31, 2016 restated | Dec. 31, 2016 published | Dec. 31, 2017 | Dec. 31, 2016 restated | Dec. 31, 2016 published | Dec. 31, 2017 | Dec. 31, 2016 restated | Dec. 31, 2016 published |
| Sales to third parties | 446.6 | 411.8 | 411.8 | 362.6 | 347.2 | 351.8 | 809.2 | 759.0 | 763.6 |
| Sales breakdown | 55.2% | 54.3% | 53.9% | 44.8% | 45.7% | 46.1% | 100.0% | 100.0% | 100.0% |
| Amortization of revalued intangible assets | (0.5) | (0.5) | | (0.7) | (0.7) | | (1.2) | (1.2) | 0.0 |
| **Segment operating income before non-recurring items** | **49.6** | **31.6** | **32.1** | **39.9** | **38.5** | **40.6** | **89.5** | **70.1** | **72.7** |
| Recurring unallocated costs | | | | | | | (14.9) | (12.8) | (12.8) |
| **Segment operating margin before non-recurring items*** | **11.1%** | **7.7%** | **7.8%** | **11.0%** | **11.1%** | **11.5%** | | | |
| Recurring operating income from continuing operations | | | | | | | 74.6 | 57.3 | 59.9 |
| Operating margin from continuing operations before non-recurring items | | | | | | | 9.2% | 7.5% | 7.8% |
| Segment non-recurring income and expense | (1.1) | (17.0) | (17.0) | (9.2) | (9.6) | (9.6) | (10.3) | (26.6) | (26.6) |
| Amortization of revalued intangible assets | | | (0.5) | | | (0.7) | | 0.0 | (1.2) |
| **Segment operating income** | **48.5** | **14.6** | **14.6** | **30.7** | **28.9** | **30.3** | **79.2** | **43.5** | **44.9** |
| Segment operating margin* | 10.9% | 3.5% | 3.5% | 8.5% | 8.3% | 8.6% | | | |
| EBITDA margin (1) | 17.8% | 14.6% | 14.6% | 13.5% | 13.7% | 13.9% | | | |
| Non-recurring unallocated costs | | | | | | | 0.0 | 0.1 | 0.1 |
| **Operating income from continuing operations** | | | | | | | **64.3** | **30.8** | **32.2** |
| Operating margin from continuing operations | | | | | | | 7.9% | 4.1% | 4.2% |
| Net finance income | | | | | | | (10.0) | (11.0) | (11.0) |
| Current and deferred income tax | | | | | | | (15.1) | (11.5) | (11.9) |
| **Net income from continuing operations** | | | | | | | **39.2** | **8.3** | **9.3** |

** Segment operating margin = Operating income/Segment sales to third parties.*
*(1) The Group's EBITDA represents combined segment operating income before non-recurring items plus segment depreciation and amortization.*

## Breakdown of sales and sales trends by geographical area

| *In millions of euros* | Dec. 31, 2017 | % | Dec. 31, 2016 restated | % |
|---|---|---|---|---|
| France | 67.1 | 9% | 63.4 | 8% |
| Rest of Europe | 196.0 | 24% | 191.0 | 25% |
| North America | 282.4 | 35% | 273.4 | 36% |
| Asia | 228.7 | 28% | 193.9 | 26% |
| Rest of the world | 35.0 | 4% | 37.3 | 5% |
| **TOTAL** | **809.2** | **100%** | **759.0** | **100%** |

No single customer accounts for over 10% of the Group's sales. The number one customer accounted for 3.1% of the Group's sales.

The Group's activities are not subject to any significant seasonal variation.

## Segment assets

| *In millions of euros* | AM | EP | Dec. 31, 2017 |
|---|---|---|---|
| Net non-current assets | 399.5 | 170.8 | 570.3 |
| Inventories | 106.8 | 52.0 | 158.8 |
| Trade receivables | 67.0 | 56.4 | 123.4 |
| Other operating receivables | 9.6 | 7.8 | 17.4 |
| **TOTAL SEGMENT ASSETS** | **582.9** | **287.0** | **869.9** |
| Deferred tax assets | | | 28.2 |
| Long-term portion of current tax assets | | | 7.7 |
| Short-term portion of current tax assets | | | 5.0 |
| Other current assets | | | 0 |
| Current financial assets | | | 12.6 |
| Current derivatives | | | 0.5 |
| Investment assets | | | 0 |
| Cash and cash equivalents | | | 25.9 |
| Assets held for sale and discontinued operations | | | 0.1 |
| **TOTAL UNALLOCATED ASSETS** | | | **80.0** |
| **TOTAL** | | | **949.9** |

### Segment liabilities

| *In millions of euros* | AM | EP | Dec. 31, 2017 |
|---|---|---|---|
| Trade payables | 30.6 | 29.4 | 60.0 |
| Other operating payables and miscellaneous liabilities | 49.2 | 32.7 | 81.9 |
| Non-current and current provisions | 7.6 | 5.6 | 13.2 |
| Employee benefit obligations | 50.3 | 18.0 | 68.3 |
| **TOTAL SEGMENT LIABILITIES** | **137.7** | **85.7** | **223.4** |
| Deferred tax liabilities | | | 20.5 |
| Long and medium-term borrowings | | | 154.4 |
| Non-current derivatives | | | 0.2 |
| Short-term portion of current tax liabilities | | | 2.8 |
| Other current financial liabilities | | | 37.8 |
| Current derivatives | | | 1.0 |
| Financial current accounts | | | 0.3 |
| Bank overdrafts | | | 24.1 |
| Liabilities related to assets held for sale and discontinued operations | | | 1.4 |
| **TOTAL UNALLOCATED LIABILITIES** | | | **242.5** |
| **TOTAL** | | | **465.9** |

## Note 19 Payroll costs and headcount

Group payroll costs (including social security contributions, provisions for pension obligations and retirement compensation) came to €257.3 million in 2017 compared with €244.1 million in 2016.

Based on a constant scope of consolidation and constant exchange rates, payroll costs (including for temporary staff) were 6.5% higher than in 2016. This year-on-year increase includes a 29% rise in bonuses and profit sharing for 2017 as the annual results far exceeded the Group's internal targets. Excluding this impact, payroll costs rose by 5%.

### Headcount of consolidated companies at end of period by geographical area

| Geographical area | Dec. 31, 2017 | % | Dec. 31, 2016 | % |
|---|---|---|---|---|
| France | 1,303 | 20% | 1,418 | 23% |
| Rest of Europe | 759 | 12% | 754 | 12% |
| North America (including Mexico) | 2,012 | 32% | 1,855 | 31% |
| Asia | 1,723 | 27% | 1,584 | 26% |
| Rest of the world | 587 | 9% | 499 | 8% |
| **TOTAL** | **6,384** | **100%** | **6,110** | **100%** |

The Group's headcount increased by 274 in 2017, mainly reflecting higher business volumes during the year. By region, movements in headcount were as follows:

- There were increases in North America (157 people), Asia (139 people – mainly as a result of the Mersen Hatan site in China being brought into service in 2017), Europe (5 people) and the rest of the world (88 people).
- Conversely, there was a decrease in France (with 29 departures due to the sale of Mersen Gorcy and 86 other departures, primarily stemming from the competitiveness plan).

## Headcount of consolidated companies at end of period broken down by category

| Categories | Dec. 31, 2017 | % | Dec. 31, 2016 | % |
|---|---|---|---|---|
| Engineers and managers | 1,183 | 18% | 1,168 | 19% |
| Technicians and supervisors | 1,004 | 16% | 1,010 | 16% |
| Employees | 562 | 9% | 585 | 10% |
| Blue-collar workers | 3,635 | 57% | 3,347 | 55% |
| **TOTAL** | **6,384** | **100%** | **6,110** | **100%** |

# Note 20 Operating income

An analysis of operating income by category of income and expense is shown in the following table:

| *In millions of euros* | 2017 | 2016 (restated) |
|---|---|---|
| Product sales | 780.1 | 731.5 |
| Trading sales | 29.1 | 27.5 |
| **TOTAL SALES** | **809.2** | **759.0** |
| Other operating revenues | 7.6 | 8.0 |
| Cost of trading sales | (20.4) | (19.1) |
| Raw material costs | (211.6) | (200.5) |
| Costs on other operating revenues | (2.4) | (1.8) |
| Manufacturing costs | (142.6) | (137.5) |
| Salaries, incentives and profit-sharing | (257.3) | (244.1) |
| Other expenses * | (63.9) | (75.5) |
| Financial components of operating income | (3.3) | (4.8) |
| Depreciation and amortization | (38.3) | (36.8) |
| Impairment losses and provisions | (6.8) | (17.2) |
| Gains/(losses) on asset disposals | (5.9) | 1.1 |
| **OPERATING INCOME** | **64.3** | **30.8** |

Provisions are specified in note 13

*Other expenses decreased sharply year on year, due to the fact that non-recurring expenses were lower than in 2016.

# Note 21 Financial income and expenses

| **Recognized in the income statement** *In millions of euros* | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Amortization of bond issuance expenses | (0.3) | (0.4) |
| Interest paid on debt | (7.1) | (7.3) |
| Short-term financial expenses | (0.2) | (0.4) |
| Commission on debt | (0.6) | (0.8) |
| Ineffective portion of interest-rate hedges | (0.2) | |
| Net interest relating to employee benefit obligations | (1.6) | (2.1) |
| Interest income from bank deposits | | |
| **NET FINANCE EXPENSE** | **(10.0)** | **(11.0)** |

The net finance expense shown above includes the following amounts related to assets and liabilities that are not stated at fair value through profit or loss.

| | | |
|---|---|---|
| Total interest income from financial assets | 0.0 | 0.0 |
| Total interest expense from financial liabilities | (10.0) | (11.0) |
| **Net finance expense** | **(10.0)** | **(11.0)** |

| **Recognized directly in equity** *In millions of euros* | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Change in fair value of currency hedges | (1.1) | 1.1 |
| Change in fair value of interest rate hedges | 0.1 | 0.2 |
| Change in fair value of commodity hedges | (0.1) | 0.4 |
| Impact on changes recognized in equity | 0.1 | (0.5) |
| **Net finance expense recognized directly in equity, net of tax** | **(1.0)** | **1.2** |

# Note 22 Income tax

| *In millions of euros* | Dec. 31, 2017 | Dec. 31, 2016 restated |
|---|---|---|
| Current income tax | (15.6) | (12.9) |
| Deferred income tax | 0.7 | 2.2 |
| Withholding tax | (0.2) | (0.8) |
| **Total tax expense** | **(15.1)** | **(11.5)** |

The Group has:

- One consolidated tax group in France;
- One consolidated tax group in the United States;
- Two tax consolidation groups in Germany;
- One consolidated tax group in the United Kingdom (group relief).

The tax rate on the Group's continuing operations – excluding (i) the impact on deferred taxes of the income tax cuts in France and the United States that were voted in at end-2017, and (ii) impairment of deferred taxes related to non-recurring, non-deductible and/or non-recognizable losses – was 32% in 2017 (30% in 2016).

## Analysis of income tax expense

| *In millions of euros* | Dec. 31, 2017 |
|---|---|
| **Net income** | **40.0** |
| Net income from assets held for sale/discontinued operations | 0.8 |
| **Net income from continuing operations** | **39.2** |
| Income tax expense/(benefit) on continuing operations | (15.1) |
| **TOTAL INCOME TAX EXPENSE/(BENEFIT)** | **(15.1)** |
| **TAXABLE INCOME** | **54.3** |
| Current tax rate in France | 34.43% |
| Theoretical tax benefit/(expense) (taxable income x current income tax rate in France) | (18.7) |
| Difference between income tax rate in France and other jurisdictions | 2.5 |
| Transactions qualifying for a reduced rate of taxation | |
| Permanent timing differences | (1.7) |
| Effect on deferred taxes of the reduction in the US income tax rate | 14.5 |
| Impact of the deferred tax asset ceiling | (10.0) |
| Other | (1.7) |
| **ACTUAL INCOME TAX BENEFIT (EXPENSE) RECOGNIZED** | **(15.1)** |

The impact of the deferred tax asset ceiling (€10 million) includes writedowns of deferred tax assets in France, Germany, Austria and Brazil.

The deferred tax assets and liabilities recognized in the statement of financial position are as follows:

| *In millions of euros* | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Deferred tax assets | 28.2 | 38.1 |
| Deferred tax liabilities | (20.5) | (29.6) |
| **Net position** | **7.7** | **8.5** |

Deferred tax movements in 2017 were as follows:

| *(in millions of euros)* | Dec. 31, 2016 | Net income | Other comprehensive income | Other | Translation adjustments | Dec. 31, 2017 |
|---|---|---|---|---|---|---|
| Employee benefit obligations | 19.6 | (1.0) | (4.2) | (0.2) | (0.5) | 13.7 |
| Depreciation of non-current assets | (43.7) | 14.7 | 0.0 | 0.0 | 3.6 | (25.4) |
| Tax-regulated provisions | (0.9) | 0.8 | 0.0 | (0.1) | 0.0 | (0.2) |
| Impact of tax losses | 28.4 | (7.9) | 0.0 | (0.2) | 0.0 | 20.3 |
| Impairment losses | (0.6) | (0.1) | 0.0 | 0.0 | 0.0 | (0.7) |
| Other | 5.7 | (5.8) | 0.1 | 0.6 | (0.6) | (0.0) |
| **DEFERRED TAX IN THE STATEMENT OF FINANCIAL POSITION - NET POSITION** | **8.5** | **0.7** | **(4.1)** | **0.1** | **2.5** | **7.7** |

** (- liabilities/+ assets).*

Deferred tax assets were recognized based on their recoverability. France and Germany were the main countries affected.

Given the short-term outlook on certain markets and geographic regions and consistent with local tax rules and/or market practices, certain tax losses were not capitalized as deferred taxes. The bulk of these losses derived from France (€69 million), China (€28 million), Germany (€11 million) and Brazil (€6 million).

## Note 23 Earnings per share

Basic and diluted earnings per share are presented below:

| Continuing operations and assets held for sale | Dec. 31, 2017 | Dec. 31, 2016 restated |
|---|---|---|
| Numerator: net income used to compute basic earnings per share (net income for the period in millions of euros) | 37.6 | 1.8 |
| Denominator: weighted average number of ordinary shares used to compute basic earnings per share | 20,612,368 | 20,428,364 |
| Adjustment for dilutive potential ordinary shares: unexercised options | 734,391 | 894,647 |
| Weighted average number of ordinary shares used to compute diluted earnings per share | 21,346,759 | 21,323,011 |
| Basic earnings per share *(€)* | 1.83 | 0.09 |
| Diluted earnings per share *(€)* | 1.76 | 0.08 |

| Continuing operations | Dec. 31, 2017 | Dec. 31, 2016 restated |
|---|---|---|
| Numerator: net income used to compute basic earnings per share (net income for the period in millions of euros) | 36.8 | 6.9 |
| Denominator: weighted average number of ordinary shares used to compute basic earnings per share | 20,612,368 | 20,428,364 |
| Adjustment for dilutive potential ordinary shares: unexercised options | 734,391 | 894,647 |
| Weighted average number of ordinary shares used to compute diluted earnings per share | 21,346,759 | 21,323,011 |
| Basic earnings per share *(€)* | 1.78 | 0.34 |
| Diluted earnings per share *(€)* | 1.72 | 0.32 |

After adjusting net income for the items set out below, earnings per share for 2017 and 2016 would be as follows:

| Continuing and discontinued operations | Dec. 31, 2017 | Dec. 31, 2016 restated |
|---|---|---|
| Basic earnings per share *(€)* | 1.88 | 1.36 |
| Diluted earnings per share *(€)* | 1.81 | 1.31 |

| Continuing operations | Dec. 31, 2017 | Dec. 31, 2016 restated |
|---|---|---|
| Basic earnings per share *(€)* | 1.88 | 1.36 |
| Diluted earnings per share *(€)* | 1.81 | 1.31 |

| Adjustments to net income | Dec. 31, 2017 | Dec. 31, 2016 restated |
|---|---|---|
| **Net income** | **37.6** | **1.8** |
| Non-recurring expenses for the competitiveness plan, net of tax | 6.4 | 21.1 |
| Non-recurring expenses related to discontinued operations | (0.8) | 5.1 |
| Net loss from discontinued operations | | |
| Non-recurring impact on deferred taxes | (4.5) | |
| **Restated net income** | **38.7** | **28.0** |

# Note 24 Dividends

The General Meeting of the Shareholders of May 18, 2017 decided to distribute a dividend of €0.5 per share for fiscal 2016. In July 2017, the Group paid out cash dividends totaling €10.2 million.

The dividend proposed in respect of fiscal 2017 stands at €0.75 per share, representing an aggregate amount of €15.5 million.

# Note 25 Leases

## 1 - Finance leases

***Carrying amount by asset category***

| *(in millions of euros)* | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Buildings | 0 | 0 |

## 2 - Leases where the Group is lessee (operating leases)

***Schedule of minimum payments***

| *(in millions of euros)* | Total at Dec. 31, 2017 | < 1 year | > 1 year | O/w 5 years or more |
|---|---|---|---|---|
| Minimum payments | 30.2 | 7.8 | 22.4 | 4.2 |

Minimum payments represent the amount of certain future property lease payments up until the expiration of the lease prior to any renewals. The leases concerned do not contain any clauses relating to debt restrictions or dividend payments.

Lease payments related to vehicles, forklift trucks and software have not been included as the related lease contracts are currently being analyzed in preparation for the application of IFRS 16 in 2019.

The €31.9 million decrease in minimum payments compared with December 31, 2016 was mainly due to lease depreciation.

# Note 26 Related party disclosures

Mersen SA is a holding company that manages its equity interests in subsidiaries and affiliates and the Group's financing activities, and charges subsidiaries for services related to the intangible assets and property, plant and equipment that it owns.

Mersen SA belongs to the Mersen group, which encompasses 88 consolidated and non-consolidated companies in 33 countries.

Transactions between the Group's consolidated companies are eliminated for consolidation purposes.

## 1 - Relations with non-consolidated companies

Group sales to non-consolidated companies amounted to €3.1 million in 2017, unchanged from 2016.

Management and administrative fees invoiced by the Group to non-consolidated companies (recorded as a deduction from administrative expenses in the consolidated income statement) amounted to less than €0.1 million in 2017 (€0.3 million in 2016).

The amounts receivable by the Group from its non-consolidated subsidiaries came to €1.1 million at December 31, 2017, while amounts payable stood at €1.1 million.

At December 31, 2017, Mersen granted shareholders' advances to non-consolidated subsidiaries amounting to €0.1 million (identical to 2016).

## 2 - Compensation and benefits paid to key management personnel

The table below includes annual compensation for the Group's Chief Executive Officer for 2017. In 2016, compensation included that of the two members of the Management Board, which was dissolved on May 11, 2016.

| *(In millions of euros)* | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Salaries, bonuses, benefits in kind | 0.8 | 0.8 |
| Top-up pension plan payments(1) | 0.2 | 0.2 |
| Other long-term employee benefits | | |
| **TOTAL** | **1.0** | **1.0** |

*(1) By contract, the Chief Executive Officer is entitled to the benefit of a top-up pension plan, defined as follows: Provided that the person is still employed by the Group upon his/her retirement, this regime guarantees a top-up pension income of 10-20%, depending on length of service, of the basic reference salary during the final three years prior to retirement plus a flat-rate of 50% of the maximum bonus. The actuarial obligation was assessed at December 31, 2017 at €4.1 million (€3.9 million at December 31, 2016).*

Should his appointment be terminated, the Chief Executive Officer will receive a severance payment of no more than 0.5 times the total gross compensation and benefits paid to him in respect of the 36-month period preceding termination, subject to the attainment of performance criteria. He will also receive a monthly no-compete payment equal to 50% of his last gross fixed monthly compensation, payable over 12 months.

In addition, the following share-based payments were granted to the Chief Executive Officer:

- Stock options: 62,345 stock subscription options were granted to the Chief Executive Officer in 2009 and 2014.

The options granted in 2007 expired in 2017.

| | 2009 Plan Tranche 12 |
|---|---|
| Date of Board of Directors' meeting | January 22, 2009 |
| Total number of shares allotted | 32,345 |
| Subscription price | 17.53 |
| Start of option exercise period | February 2013 |
| Expiration date | February 2019 |

| | 2014 Plan Tranche 13 |
|---|---|
| Date of the Management Board's meeting | May 21, 2014 |
| Total number of shares allotted | 30,000 |
| Subscription price | 22.69 |
| Start of option exercise period | May 2016 |
| Expiration date | May 2021 |

- Bonus shares: table of past allotments to the Chief Executive Officer below: no bonus shares were allotted to the Chief Executive Officer in respect of the 2015, 2016 and 2017 plans.
- Bonus preference shares: table of past allotments to the Chief Executive Officer.

| | 2015 plan |
|---|---|
| Date of the Management Board's meeting | July 9, 2015 |
| Total number of preference shares allotted | 183 |
| Maximum equivalent in number of ordinary shares after conversion subject to the achievement of performance criteria and share price trends. | 20,130 |
| Reference price at allotment date: | |
| Ordinary shares subject to achievement of performance criteria | 17.73 |
| Ordinary shares | 4.92 |
| Definitive allotment date (end of the vesting period) | July 9, 2017 |
| End of lock-up period | July 9, 2019 |

| | 2016 plan |
|---|---|
| Date of the Management Board's meeting | May 11, 2016 |
| Total number of preference shares allotted | 188 |
| Equivalent in number of ordinary shares after conversion subject to achievement of performance criteria | |
| Maximum equivalent in number of ordinary shares after conversion subject | 1,880 |
| to the achievement of performance criteria and share price trends. | 18,800 |
| Reference price at allotment date: | |
| Ordinary shares subject to achievement of performance criteria | 10.92 |
| Ordinary shares | 1.52 |
| Definitive allotment date (end of the vesting period) | May 11, 2018 |
| End of lock-up period | May 11, 2020 |

| | 2017 plan |
|---|---|
| Date of the Management Board's meeting | May 18, 2017 |
| Total number of preference shares allotted | 189 |
| Equivalent in number of ordinary shares after conversion subject to achievement of performance criteria | |
| Maximum equivalent in number of ordinary shares after conversion subject | 1,890 |
| to the achievement of performance criteria and share price trends. | 18,900 |
| Reference price at allotment date: | |
| Ordinary shares subject to achievement of performance criteria | 21.35 |
| Ordinary shares | 6.44 |
| Definitive allotment date (end of the vesting period) | May 18, 2019 |
| End of lock-up period | May 18, 2021 |

# Note 27 Off balance sheet commitments

## A - Financial commitments and liabilities

| *(in millions of euros)* | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| **Commitments received** | | |
| Guarantees and endorsements | 0.0 | 0.0 |
| Other commitments received | 0.0 | 0.0 |
| **TOTAL** | **0.0** | **0.0** |
| **Commitments given** | | |
| Collateralized debts and commitments | 0.0 | 0.0 |
| Market guarantees | 20.0 | 19.5 |
| Payment guarantee on acquisitions | 0.0 | 0.0 |
| Other guarantees | 21.2 | 22.0 |
| Other commitments given | 3.9 | 2.7 |
| **TOTAL** | **45.1** | **44.2** |

The above table summarizes the Group's off balance sheet commitments

### Nature

The "Other guarantees" item, which amounted to €21.2 million, notably includes an €18 million guarantee covering the maximum daily drawings by subsidiaries under the European cash pooling arrangements.

### Maturity

Off balance sheet commitments with a maturity of over one year amounted to €25.8 million. They include the €18 million guarantee linked to the cash pooling system, which remains in force for as long as the cash pooling agreements are in place. Market guarantees generally last for less than one year, except for a few market guarantees, the duration of which does not exceed three years.

### Control

Under the Group's internal control organization, Group companies are not authorized to enter into transactions giving rise to off balance sheet commitments without obtaining the prior approval of the Group's Finance department and, where appropriate, the Executive Committee. Nonetheless, certain Group companies have the option of issuing market guarantees not exceeding €150,000 with a maturity of less than two years without prior authorization in the normal course of their business activities. These guarantees are listed in the documents completed by the companies as part of the account consolidation procedure.

As far as the Company is aware, no material off balance sheet commitments under the accounting standards in force have been omitted.

## B - Title retention clause

None.

# Note 28 Subsequent events

None.

# Note 29 Approval of the financial statements

The Group's consolidated financial statements for the year ended December 31, 2017 were approved by the Board of Directors at its meeting on March 6, 2018.

# Note 30 Fees paid to the Statutory Auditors and members of their networks by the Group

| | KPMG | | Deloitte | |
|---|---|---|---|---|
| | Statutory auditors and their network | | Statutory auditors and their network | |
| | Fees | % | Fees | % |
| **Audit of individual company financial statements and consolidated financial statements and limited review of half-yearly financial statement** | | | | |
| • Issuer | 163 | 16% | 163 | 14% |
| • Consolidated subsidairies | 636 | 64% | 813 | 67% |
| **SUB-TOTAL A** | **799** | **80%** | **976** | **81%** |
| **Other regulatory and legal requirements services** | | | | |
| • Issuer | 3 | 0% | 3 | 0% |
| • Consolidated subsidairies | 5 | 1% | 1 | 0% |
| **SUB-TOTAL B** | **8** | **1%** | **4** | **0%** |
| **Other services at the request of the issuer** | | | | |
| • Issuer | 96 | 10% | 2 | 0% |
| • Consolidated subsidairies | 95 | 10% | 223 | 19% |
| **SUB-TOTAL C** | **191** | **19%** | **225** | **19%** |
| **OTHER SERVICES (1)**<br>**SUB-TOTAL D = B + C** | **199** | **20%** | **229** | **19%** |
| **TOTAL E = A + D** | **998** | **100%** | **1,205** | **100%** |

***(1) Type of services:*** *independant third-party mission, due diligence procedures carried out before acquisition, acounting consultancy mission, fiscal services, non-legally required certification.*

# Statutory Auditors' report on the consolidated financial statements for the year ended December 31, 2017

To the Shareholders,

## 1. Opinion

In compliance with the engagement entrusted to us by your General Meeting, we have audited the accompanying consolidated financial statements of Mersen SA for the year ended December 31, 2017.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2017 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit and Accounts Committee.

## 2. Basis for opinion

### Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements" section of our report.

### Independence

We conducted our audit engagement in compliance with the independence rules applicable to us for the period from January 1, 2017 to the date of our report and in particular we did not provide any non-audit services prohibited by article 5(1) of Regulation (EU) No 537/2014 or the French Code of Ethics (*Code de déontologie*) for Statutory Auditors.

## 3. Justification of assessments – Key audit matters

In accordance with the requirements of articles L.823-9 and R.823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the consolidated financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the financial statements.

### Measurement of goodwill

**Notes 2-F1, 2-V, 6 and 7 to the consolidated financial statements**

#### Description of risk

As of December 31, 2017, goodwill amounted to €265.2 million against a total balance sheet of €949.9 million.

As indicated in Note 2-F1 to the consolidated financial statements, goodwill is tested for impairment whenever there is an internal or external indication of a loss of value or otherwise at least once a year by comparing the carrying amount of the relevant assets with their value in use.

Value in use is determined from discounted projections of future operating cash flows over five years, and a terminal value. The discount rate used for these calculations is the weighted average cost of capital after tax for each cash generating unit (CGU). Details of the assumptions used are provided in Note 7 to the consolidated financial statements.

We deemed the measurement of goodwill to be a key audit matter due to the materiality of these assets in the Group's financial statements and the method of determining their value in use, which relies primarily on estimates, in turn requiring management to use assumptions and/or judgments, as described in Note 2-V to the consolidated financial statements. We focused in particular on the goodwill allocated to the Group's Anti-Corrosion Equipment (ACE) CGU due to the narrow margin of the impairment test result.

The methods used to perform impairment tests are described in Note 2-F1 and details about the assumptions used are given in Note 7 to the consolidated financial statements.

#### How our audit addressed this risk

We verified the methods used to perform these impairment tests, with a particular focus on the ACE CGU.

We critically assessed the procedure for implementing impairment tests and in particular:

- examined the process for drawing up and approving business plans;
- analyzed the consistency of cash flow forecasts with past performance, the market outlook, and the forecasts provided to the Board of Directors;
- with the guidance of our valuation experts, assessed the reasonableness of the assumptions used by management to determine discount rates;
- reviewed the sensitivity analyses performed for the impairment tests.

Lastly, we also verified the appropriateness of the disclosures provided in the notes to the consolidated financial statements.

### Provisions for claims and disputes

#### Notes 2-L, 2-V and 13 to the consolidated financial statements

#### Description of risk

The Group operates in multiple countries, therefore requiring it to comply with the regulations applicable in those countries. The products manufactured by the Group are subject to specifications and non-compliance with those specifications can expose the subsidiaries to liability claims from customers pertaining to defective products or late penalties for project-related sales. Accordingly, the Group undertakes an assessment of the risks arising out of liabilities, disputes or litigation related to its activities that are liable to have a material impact on its business and financial position.

As described in Notes 2L, "Provisions", 2V, "Use of estimates", and 13, "Provisions, contingent liabilities and miscellaneous liabilities", to the consolidated financial statements, provisions and liabilities relating to ongoing claims and litigation amounted to around €5 million as of December 31, 2017, of which €1.4 million in provisions for litigation, and correspond to management's risk best estimates.

Given the degree of judgment required from management to assess the risks corresponding to the Group's legal, regulatory, contractual and constructive obligations, we deemed these provisions to be a key audit matter.

#### How our audit addressed this risk

We familiarized ourselves with (i) the procedures implemented by the Group to identify and catalog all claims made against it and that are liable to have a material impact on its business and financial position, (ii) the resulting risk assessment prepared by the Group, and (iii) the corresponding documentation.

Where applicable, we corroborated the Group's analyses with external confirmation obtained from the Group's outside legal counsel.

We examined the principal risks identified and assessed the reasonableness of management's risk assessment.

Lastly, we also verified the appropriateness of the disclosures provided in the notes to the consolidated financial statements.

## 4. Verification of the information pertaining to the Group presented in the management report

As required by law and in accordance with professional standards applicable in France, we have also verified the information pertaining to the Group presented in the management report of the Board of Directors.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

## 5. Report on other legal and regulatory requirements

### Appointment of the Statutory Auditors

We were appointed Statutory Auditors of Mersen SA by the General Meetings held on June 5, 1986 for Deloitte & Associés and May 12, 2004 for KPMG.

As of December 31, 2017, Deloitte & Associés and KPMG were in the thirty-second year and the fourteenth year of total uninterrupted engagement, respectively.

## 6. Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for preparing consolidated financial statements presenting a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for implementing the internal control procedures it deems necessary for the preparation of consolidated financial statements free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it expects to liquidate the company or to cease operations.

The Audit and Accounts Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems, relating to accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

## 7. Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements

### Objective and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in article L.823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of management of the company.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgment throughout the audit.

They also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the consolidated financial statements;

- Assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- Evaluate the overall presentation of the consolidated financial statements and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. The Statutory Auditors are responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed thereon.

## Report to the Audit and Accounts Committee

We submit a report to the Audit and Accounts Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Accounts and Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements and which therefore constitute key audit matters. These matters are described in this report.

We also provide the Audit and Accounts Committee with the declaration provided for in article 6 of Regulation (EU) No 537-2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit and Accounts Committee.

The Statutory Auditors

| | |
|---|---|
| Paris La Défense, March 6, 2018 | Neuilly-sur-Seine, March 6, 2018 |
| KPMG Audit | Deloitte & Associés |
| *Department of KPMG S.A.* | |
| Philippe Cherqui | Laurent Odobez |
| *Partner* | *Partner* |

# 7 Parent company financial statements

# INCOME STATEMENT

| *(in € thousands)* | 2017 | 2016 |
|---|---|---|
| **OPERATING REVENUES (1)** | | |
| Revenues | | |
| Other revenues | 1,425 | 1,541 |
| **TOTAL SALES** | **1,425** | **1,541** |
| Operating subsidies | 0 | 0 |
| Reversals of operating provisions | 2 | 44 |
| Transferred operating costs | 456 | 930 |
| Other income | 14,724 | 12,972 |
| **TOTAL 1** | **16,607** | **15,487** |
| **OPERATING EXPENSES (2)** | | |
| Other purchases | 1 | 7 |
| External charges | 15,448 | 17,342 |
| Taxes other than income tax | 577 | 543 |
| Wages and salaries | 1,098 | 1,289 |
| Social security charges | 431 | 495 |
| Depreciation, amortization and charges to provisions: | | |
| - against fixed assets: depreciation and amortization | 28 | 70 |
| - for liabilities and charges: charges to provisions | 491 | 386 |
| Other expenses | 344 | 364 |
| **TOTAL 2** | **18,418** | **20,486** |
| **OPERATING INCOME (TOTAL 1 - 2)** | **(1,811)** | **(4,999)** |

| *(in € thousands)* | 2017 | 2016 |
|---|---|---|
| **FINANCIAL INCOME (3)** | | |
| Income from participating interests | 28,982 | 53,350 |
| Other income from fixed assets | (41) | 124 |
| Other interest and related income | 2,630 | 1,684 |
| Reversals of depreciation, amortization and charges to provisions | 4,402 | 1,265 |
| Foreign exchange gains | 5,849 | 4,389 |
| **TOTAL 3** | **41,822** | **60,812** |
| **FINANCIAL EXPENSE (4)** | | |
| Depreciation, amortization and charges to provisions | 14,111 | 22,985 |
| Interest and related expenses | 6,459 | 5,371 |
| Foreign exchange losses | 5,443 | 4,463 |
| **TOTAL 4** | **26,013** | **27,970** |
| **NET FINANCIAL INCOME (3 - 4)** | **15,809** | **27,993** |
| **INCOME BEFORE TAX AND NON-RECURRING ITEMS** | **13,998** | **22,994** |
| **EXCEPTIONAL INCOME** | | |
| Management transactions | 178 | 124 |
| Capital transactions | 789 | 1,222 |
| Reversals of provisions and transferred costs | 1,131 | 498 |
| **TOTAL 5** | **2,098** | **1,844** |
| **EXCEPTIONAL CHARGES** | | |
| Management transactions | 198 | 772 |
| Capital transactions | 1,183 | 456 |
| Depreciation, amortization and charges to provisions | 19 | 91 |
| **TOTAL 6** | **1,400** | **1,319** |
| **NET EXCEPTIONAL INCOME (TOTAL 5 - 6)** | **698** | **525** |
| **INCOME TAX** | **(3,441)** | **(2,319)** |
| **NET INCOME FOR THE YEAR** | **18,137** | **25,838** |
| **TOTAL INCOME** | **60,527** | **78,143** |
| **TOTAL EXPENSES** | **42,390** | **52,305** |

# Balance sheet

## ASSETS

| *(in € thousands)* | Dec. 31, 2017 Gross | Dec. 31, 2017 Depreciation and amortization | Dec. 31, 2017 Net | Dec. 31, 2016 Net |
|---|---|---|---|---|
| **FIXED ASSETS** | | | | |
| **Intangible fixed assets** | | | | |
| Concessions, patents, licenses, brands | 7,618 | 7,618 | 0 | 0 |
| **SUB-TOTAL** | **7,618** | **7,618** | **0** | **0** |
| **Property, plant and equipment** | | | | |
| Other | 344 | 113 | 231 | 246 |
| Property, plant and equipment in progress | 0 | | 0 | 0 |
| Advances and down payments | 0 | | 0 | 0 |
| **SUB-TOTAL** | **344** | **113** | **231** | **246** |
| **Financial fixed assets** [(a)] | | | | |
| Participating interests | 545,606 | 97,395 | 448,211 | 431,994 |
| Loans and advances to participating interests | 111,601 | | 111,601 | 126,474 |
| Other fixed assets | 5 | | 5 | 5 |
| Other | 2,689 | 2 | 2,687 | 1,456 |
| **SUB-TOTAL** | **659,901** | **97,397** | **562,504** | **559,929** |
| **TOTAL A** | **667,863** | **105,128** | **562,735** | **560,175** |
| **CURRENT ASSETS** | | | | |
| **Advances and down payments paid on orders** [(b)] | 2 | | 2 | 0 |
| Trade receivables and related accounts [(b)] | 999 | | 999 | 1,150 |
| Other [(b)] | 41,087 | 706 | 40,381 | 52,534 |
| Investment securities | 0 | | 0 | 0 |
| Cash and cash equivalents | 1,021 | | 1,021 | 1,177 |
| **ACCRUALS** | | | | |
| Prepaid expenses [(b)] | 656 | | 656 | 322 |
| **TOTAL B** | **43,765** | **706** | **43,059** | **55,183** |
| Deferred costs D | 949 | | 949 | 760 |
| Foreign currency translation losses E | 5,440 | | 5,440 | 10,779 |
| **TOTAL (A+B+C+D+E)** | **718,017** | **105,834** | **612,183** | **626,897** |

*(a) Due in less than one year: 2,460*
*(b) Due in over one year: 5,413*

## LIABILITIES AND SHAREHOLDERS' EQUITY

| *(in € thousands)* | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| **SHAREHOLDERS' EQUITY** | | |
| Share capital | 41,274 | 40,944 |
| Issue premium | 211,526 | 208,858 |
| Merger premium | 8,252 | 8,252 |
| Revaluation reserve | 3,252 | 3,252 |
| Unavailable reserves | 5,177 | 5,177 |
| Statutory reserve | 4,158 | 4,158 |
| Other reserves | 82,684 | 66,948 |
| Retained earnings | 20 | 135 |
| Net income for the year | 18,137 | 25,838 |
| Tax-regulated provisions | 197 | 179 |
| **TOTAL A** | **374,677** | **363,741** |
| **PROVISIONS FOR LIABILITIES AND CHARGES** | | |
| Provisions for liabilities | 1,110 | 381 |
| Provisions for charges | 3,868 | 3,378 |
| **TOTAL B** | **4,978** | **3,759** |
| **FINANCIAL LIABILITIES** [(a)] | | |
| Bond issues | 2,329 | 2,329 |
| Borrowings from credit institutions [(b)] | 12,780 | 7,500 |
| Other borrowings | 171,375 | 192,142 |
| Trade payables and related accounts | 1,075 | 1,263 |
| Tax and social security liabilities | 2,033 | 2,266 |
| Amounts due on fixed assets | 4 | 1 |
| Other financial liabilities | 38,091 | 43,149 |
| **ACCRUALS** | | |
| Prepaid income | 4 | 0 |
| **TOTAL C** | **227,691** | **248,650** |
| Foreign exchange translation gains D | 4,837 | 10,747 |
| **TOTAL (A+B+C+D)** | **612,183** | **626,897** |

*(a) Due in over one year: 148,114; due in less than one year: 85,573*
*(b) Including current bank loans and overdrafts: 12,780*

# Notes to the balance sheet and income statement

## Summary of the notes to the financial statements

## Note 1 Accounting principles and methods

The financial statements of Mersen SA for fiscal year 2017 have been prepared in accordance with the provisions of French law, in particular Regulation no. 2014-03 of June 5, 2014 of the Autorité des Normes Comptables (French accounting standards authority), approved by ministerial order of September 8, 2014 on the official French chart of accounts.

The principal accounting methods used are as follows:

### A - Share issuance costs

Share issuance costs are set off in full against share issue premiums.

### B - Intangible fixed assets and property, plant and equipment

Fixed assets are stated at acquisition or production cost.

They are depreciated or amortized over their estimated useful life.

Differences between depreciation for tax and accounting purposes are recognized under accelerated depreciation and recorded under exceptional expenses, with a corresponding adjustment to tax-regulated provisions under liabilities on the balance sheet.

Generally speaking, the following useful lives are adopted:

- software and other intangible fixed assets: 5 years
- fixtures and fittings: 10 years
- office equipment and furniture: 5 years or 10 years

Where there is evidence of impairment, an impairment test is conducted comparing the net book value of the intangible fixed asset or of the item of property, plant and equipment with its current value. Where this current value has fallen below net book value, an impairment loss is recognized to bring the net book value into line with its current value. No such impairment losses were recognized during the fiscal year.

### C - Participating interests and other fixed assets

Gross value comprises the contribution value or acquisition cost of the asset. An impairment loss may be recognized where the book value of an asset exceeds its value in use, with the latter determined by reference to:

- primarily, the share of each subsidiary's equity; and
- where necessary, the economic value determined by reference to the future cash flows including the activity carried out and the outlook for developments.

Expenses related to the acquisition of participating interests and other fixed assets are included in the cost of securities.

Impairment losses and reversals of impairment in investments, as well as provisions related to participating interests, are recorded under financial items. When participating interests are sold, the reversals of impairment on them are recognized under exceptional items so as not to unbalance net financial income and exceptional items.

### D - Current assets - receivables

Doubtful receivables are written down to reflect the probable loss.

### E - Foreign currency transactions

At the balance sheet date, foreign currency assets and liabilities are stated at the official exchange rate at December 31. A corresponding adjustment is recorded under foreign currency translation gains or losses.

Unrealized currency gains or losses do not affect net income. This said, a provision is set aside to cover the risk arising from unhedged unrealized foreign currency losses related to these foreign currencies.

### F - Provisions for liabilities and charges

Provisions for liabilities and charges are set aside to cover litigation, disputes, guarantee and risk-related commitments arising during the normal course of the Company's business and likely to give rise to an outflow of resources.

Accordingly, provisions were set aside to cover all significant risks that the situation or events known at December 31, 2017 rendered likely to occur.

### G - Costs deferred over several periods

Bond issuance costs are allocated over the estimated average life of the relevant borrowing.

### H - Pension obligations and retirement indemnities

Top-up pension obligations under "closed" defined benefit plans covering part of the workforce are recognized in the form of a provision. Obligations to still active employees are recorded under provisions for liabilities and charges. Obligations to retired employees are transferred to a deferred cost account.

A provision for charges is set aside to cover the Company's commitment arising from top-up pension obligations specifically related to the Group's senior managers.

Retirement indemnities and long-service awards payable under collective bargaining agreements are recognized under provisions for liabilities and charges.

Retirement indemnities and long-service awards are calculated on an annual basis by independent actuaries in accordance with the provisions of the collective bargaining agreement for the French chemicals industry and the CNC recommendation issued on April 1, 2003. The projected unit credit method is used for this purpose. It takes into account using actuarial assumptions the employee's probable future length of service, level of salary costs, life expectancy and the rate of staff turnover. The obligation is discounted at an appropriate discount rate. The obligation is partially funded through payments to an external organization under a collective life insurance policy, the assets of which are stated at fair value.

Retirement indemnities are recognized using the corridor method.

The principal assumptions used in this calculation are as follows:

- future salary costs are calculated based on current salaries including an annual rate of salary increases of 2.00 % and additional age-related increases;
- changes in actuarial assumptions are taken into account only where they fall outside the corridor and are amortized over the expected average remaining working life of plan members;
- discounting to present value at a rate of 1.20%;
- an average cost ratio of 40% to 45%;
- staff turnover calculated by age bracket;
- return on plan assets: 2.75 %;
- mortality table used: TGHF05.

## I - Stock repurchases

The stock repurchased by Mersen under the liquidity agreement entered into with a financial institution is shown under other fixed assets, in line with French accounting regulations.

An impairment loss in these shares is recognized when the cost of acquiring the stock exceeds the average share price during the final month of the fiscal year.

Any shares repurchased in order to be canceled in the future are also recognized under fixed assets for their acquisition value.

When these repurchased shares are sold under a liquidity agreement, gains and losses are recognized under exceptional items.

The Company may also repurchase treasury shares on the market in order to grant them to certain employees. These are recorded as investment securities at their acquisition value, in accordance with French law.

## J - Exceptional items

The Company has adopted the official French chart of accounts. Exceptional items encompass items not arising during the normal course of the Company's business. Accordingly, exceptional items comprise the book value of and proceeds from the disposal of fixed assets, accelerated tax depreciation and exceptional fixed asset write-downs, non-recurring indemnities, fines and penalties, as well as expenses related to these non-recurring events.

## K - Stock subscription options and bonus share allotments

The Company has put in place stock option and bonus share allotment plans for certain employees.

When stock subscription options are exercised by beneficiaries, the new shares are issued and accounted for in the same manner as a conventional issue of shares. The share premium is equal to the difference between the subscription price paid by the employee and the increase in the share capital.

When bonus shares are allotted to beneficiaries, the new shares are issued and accounted for in the same manner as an increase in capital through the capitalization of reserves. The par value of the shares is added to the share capital account, and the surplus is recorded under unavailable reserves.

The Company may also repurchase treasury shares on the market. In this case, a provision for expenses is recorded when this is likely to give rise to an outflow of resources for the Company and is equal to the loss expected upon allotment of the securities to the employees affected by the plan.

# Note 2 Analysis and commentary

## Income statement

### Sales and other revenues

Revenues (€1,425 thousand) primarily derive from services billed in France and abroad. Other revenues (€14,724 thousand) relate primarily to royalties from trademarks and intangibles.

### Operating income

The operating loss of €1,811 thousand reflects the holding company's operating costs less the income of the trademark.

### Net financial income

Financial income of €15,809 thousand was significantly lower than the €27,993 thousand recorded in the previous financial year. This was mainly due to the decrease in dividends received from subsidiaries.

### Exceptional items

The exceptional income was €698 thousand.

### Income tax

The Company recorded a 2017 income tax benefit of €3,441 thousand resulting from the consolidation of Mersen and its French subsidiaries for tax purposes.

## Balance sheet

In addition to the notes shown below, the following comments apply:

### Financial assets

The increase in net value of €2,560 thousand results mainly from a €24,951 thousand capital increase for certain subsidiaries, offset by impairment of securities for €8,734 thousand and subsidiary loan repayments.

### Debt

The Company's total net debt at December 31, 2017 was down compared with 2016.

| *(in € thousands)* | Dec. 31, 2017 | Dec. 31, 2016 |
|---|---|---|
| Bank overdrafts | 12,120 | 7,287 |
| Bond issue | 2,329 | 2,329 |
| Other borrowings | 170,977 | 191,719 |
| Other financial liabilities [(a)] | 37,531 | 42,616 |
| **Total debt** | **222,957** | **243,951** |
| Cash and cash equivalents | (1,021) | (1,177) |
| Other receivables [(b)] | (29,618) | (42,985) |
| **Marketable securities, cash and cash equivalents** | **(30,639)** | **(44,162)** |
| **Loans to subsidiaries** | **(111,330)** | **(126,182)** |
| **Other financial fixed assets** | **(2,685)** | **(1,411)** |
| Net debt | 78,303 | 72,196 |
| o/w: - due in over one year | 29,976 | 20,866 |
| - due in less than one year | 48,327 | 51,330 |

*(a) Financial advances received recognized under «Other financial liabilities».*
*(b) Financial advances made recognized under «Other receivables».*

## Note 3 Fixed assets

| *(in € thousands)* | FIXED ASSETS | | | | DEPRECIATION, AMORTIZATION AND CHARGES TO PROVISIONS | | | |
|---|---|---|---|---|---|---|---|---|
| Accounts | Gross value at beginning of period | Increases | Decreases | Gross value at end of period | Total at beginning of period | Increases | Decreases | Total at end of period |
| **Intangible fixed assets** | | | | | | | | |
| Start-up costs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Concessions, patents, licenses, brands, processes, rights | 7,618 | 0 | 0 | 7,618 | 7,618 | 0 | 0 | 7,618 |
| Assets in progress | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **TOTAL 1** | **7,618** | **0** | **0** | **7,618** | **7,618** | **0** | **0** | **7,618** |
| **Property, plant and equipment** | | | | | | | | |
| Buildings and technical installations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other property, plant and equipment | 332 | 12 | 0 | 344 | 86 | 27 | 0 | 113 |
| Assets in progress | 0 | 12 | 12 | 0 | 0 | 0 | 0 | 0 |
| Advances and down payments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **TOTAL 2** | **332** | **24** | **12** | **344** | **86** | **27** | **0** | **113** |
| **Financial assets** | | | | | | | | |
| Participating interests | 520,655 | 24,951 | 0 | 545,606 | 88,661 | 12,874 | 4,140 | 97,395 |
| Loans and advances to participating interests | 126,474 | 18,945 | 33,818 | 111,601 | 0 | 0 | 0 | 0 |
| Other fixed assets | 5 | 0 | 0 | 5 | 0 | 0 | 0 | 0 |
| Other financial fixed assets | 2,588 | 10,424 | 10,323 | 2,689 | 1,132 | 2 | 1,132 | 2 |
| **TOTAL 3** | **649,722** | **54,320** | **44,141** | **659,901** | **89,793** | **12,876** | **5,272** | **97,397** |
| **TOTAL** | **657,672** | **54,344** | **44,153** | **667,863** | **97,497** | **12,903** | **5,272** | **105,128** |

## Note 4 Provisions

| *(in € thousands)* Accounts | Amount at beginning of period | Charges | Reversals of provisions used | Reversals of provisions not used | Amount at end of period |
|---|---|---|---|---|---|
| **Tax-regulated provisions** | | | | | |
| Accelerated tax depreciation | 179 | 19 | 1 | 0 | 197 |
| **TOTAL 1** | **179** | **19** | **1** | **0** | **197** |
| **Provisions for liabilities and charges** | | | | | |
| Retirement indemnities | 55 | 0 | 2 | 0 | 53 |
| Long-service awards | 4 | 1 | 0 | 0 | 5 |
| Senior manager pensions | 1,979 | 327 | 0 | 0 | 2,306 |
| Professional fees | 800 | 0 | 0 | 0 | 800 |
| Risk related to liability guarantee | 500 | 0 | 0 | 0 | 500 |
| Risk related to CL PI | 26 | 0 | 0 | 0 | 26 |
| Risk related to Mersen RUS | 94 | 0 | 0 | 0 | 94 |
| Personnel costs | 40 | 164 | 0 | 0 | 204 |
| Foreign exchange loss | 261 | 990 | 261 | 0 | 990 |
| **TOTAL 2** | **3,759** | **1,482** | **263** | **0** | **4,978** |
| **Provisions for impairment** | | | | | |
| Mersen do Brasil participating interest | 14,147 | 5,729 | 0 | 0 | 19,876 |
| Mersen France SB participating interest | 15,090 | 3,700 | 0 | 0 | 18,790 |
| Mersen Italia participating interest | 1,500 | 3,018 | 0 | 0 | 4,518 |
| Mersen Maroc participating interest | 1,186 | 427 | 0 | 0 | 1,613 |
| Mersen Deutschland Holding KG participating interest | 13,604 | 0 | 0 | 4,140 | 9,464 |
| Other participating interests | 43,134 | 0 | 0 | 0 | 43,134 |
| in shares held in treasury | 2 | 2 | 2 | 0 | 2 |
| Bonds | 1,130 | 0 | 1,130 | 0 | 0 |
| Mersen Rus short-term credit facility | 706 | 0 | 0 | 0 | 706 |
| **TOTAL 3** | **90,499** | **12,876** | **1,132** | **4,140** | **98,103** |
| **TOTAL** | **94,437** | **14,377** | **1,396** | **4,140** | **103,278** |

## Note 5 Maturity schedule of assets and liabilities

| *(in € thousands)* **Amounts due to the Group** | Gross balance sheet value | Due in one year or less | Due in over one year |
|---|---|---|---|
| Loans and advances to participating interests | 111,601 | 271 | 111,330 |
| Other financial fixed assets | 2,689 | 2,189 | 500 |
| Trade receivables | 999 | 999 | 0 |
| Other receivables | 41,087 | 35,674 | 5,413 |
| Prepaid expenses | 656 | 656 | 0 |
| **TOTAL** | **157,032** | **39,789** | **117,243** |

| *(in € thousands)* **Amounts payable by the Group** | Gross balance sheet value | Due in one year or less | Due in over one year | Over five years ahead |
|---|---|---|---|---|
| Bond issue | 2,329 | 0 | 0 | 2,329 |
| Borrowings from credit institutions | 12,780 | 12,780 | 0 | 0 |
| Other borrowings | 171,375 | 32,399 | 78,976 | 60,000 |
| Trade payables and related accounts | 1,075 | 1,075 | 0 | 0 |
| Tax and social security liabilities | 2,033 | 1,221 | 400 | 412 |
| Amounts due on fixed assets | 4 | 4 | 0 | 0 |
| Other financial liabilities | 38,091 | 38,091 | 0 | 0 |
| Prepaid income | 4 | 4 | 0 | 0 |
| **TOTAL** | **227,691** | **85,574** | **79,376** | **62,741** |

## Note 6 Information about related parties

The amounts shown in the columns below are taken from the balance sheet and income statement items referred to in the left-hand column.

| *(in € thousands)* **Balance sheet and income statement** | Amount for related parties at least 50%-owned | Amount for participating interests (less than 50%-owned) |
|---|---|---|
| Loans and advances to participating interests | 111,602 | 0 |
| Trade receivables | 999 | 0 |
| Borrowings from credit institutions | 404 | 0 |
| Other receivables | 29,732 | 66 |
| Cash and cash equivalents | 158 | 0 |
| Trade payables | 1 | 0 |
| Other financial liabilities | 37,743 | 0 |
| Financial expense | 14,027 | 0 |
| Financial income | 34,583 | 42 |

## Note 7 Revaluation reserve

| *(in € thousands)* | |
|---|---|
| **Revaluation reserves** | |
| At beginning of period | 3,252 |
| Reversed during period | 0 |
| At end of period | 3,252 |

## Note 8 Accrued income and expenses

| *(in € thousands)* | | |
|---|---|---|
| **1. Amount of accrued income included in the balance sheet items below** | | |
| Loans and advances to participating interests | | 271 |
| Other financial fixed assets | | 2 |
| Other receivables | | 181 |
| Cash and cash equivalents | | 562 |
| **TOTAL** | | **1,016** |
| **2. Amount of accrued expenses included in the balance sheet items below** | | |
| Borrowings from credit institutions | | 399 |
| Other borrowings | | 660 |
| Operating trade payables and related accounts | | 855 |
| Tax and social security liabilities | | 1,982 |
| Investment trade payables and related accounts | | 1 |
| Other financial liabilities | | 345 |
| **TOTAL** | | **4,242** |
| **3. Amount of prepaid income and expenses** | **Expenses** | **Income** |
| Operating items | 656 | 0 |
| Financial items | 0 | 4 |
| **TOTAL** | **656** | **4** |
| **4. Costs deferred over several periods** | | |
| Bond issuance expenses at Jan. 1, 2017 | 760 | |
| Bond issuance expenses 2017 | 434 | |
| 2017 amortization of bond issuance costs | (245) | |
| **TOTAL** | **949** | |

## Note 9 Share capital

### Share Capital

The share capital is made up of 20,637,041 fully paid-up shares each with a par value of €2.

In 2017, 165,772 shares stemmed from the exercise of the stock options granted to certain employees. It should be noted that 902 bonus preference shares were also issued in 2015, of which 585 were canceled in 2017. After conversion, these shares will entitle their holders to 34,870 new or existing ordinary shares in the Company.

In November 2007, the Company completed the issue of a €40 million bond comprising 1,000 bonds convertible into new shares and/or exchangeable for existing shares through the attached warrants (“OBSAAR” bonds) with a nominal unit value of €40,000. Each bond carries 114 BSAAR warrants, representing a total of 114,000 warrants sold to the Group’s senior managers. This could ultimately lead to the issuance of a maximum of 123,120 shares (owing to the change in the exchange ratio linked to the capital increases completed in 2009), i.e. around 0.63% of the Company’s share capital and voting rights. The sale of the warrants to the Group’s senior executives has made for a significant reduction in the interest rates on the bond.

On May 21, 2010, a simplified exchange offer was launched for the BSAR warrants issued in 2007. Under the offer, the 2007 BSAR warrants could be tendered in exchange for 2010 BSAR warrants (redeemable warrants entitling holders to subscribe for new shares and/or acquire existing shares).

2007 BSAR holders were able to choose between the following two alternatives when tendering their 2007 BSAR warrants:

- Exchange option: five 2007 BSAR warrants in return for two 2010 BSAR warrants;
- Combination option: one 2007 BSAR warrant plus a cash payment of €1.50 in return for one 2010 BSAR.

At its meeting on July 15, 2010, the Management Board formally noted, based on the results of this offer, that the final number of 2007 BSAR warrants tendered stood at 113,771. These BSAR warrants were automatically canceled. Given this outcome and the decisions made by the 2007 BSAR holders, the Management Board decided at the same meeting to issue 103,331 2010 BSAR warrants, which matured on July 16, 2017.

### Stock subscription options and bonus share allotments

On a regular basis, Group managers are offered the opportunity to subscribe stock subscription options, subject to achieving specific earnings targets, or bonus shares, provided that they remain with the Group for a certain period of time.

Two stock option plans were set up on February 11, 2009, and May 21, 2014. The employee categories benefiting from these options are to be determined by the Management Board each time that it makes use of the authorization.

Four bonus share allotment plans were set up on May 21, 2014, July 9, 2015, May 11, 2016 and May 18, 2017.

Three bonus preference share plans were set up on July 9, 2015, May 11, 2016 and May 18, 2017.

The bonus share allotment plans and exercise of the stock options plans were fulfilled primarily through the issuance of new shares. As a result, no expenses or liabilities were recognized during the fiscal year in respect of these plans.

When the shares are repurchased on the market, a provision for expenses is recorded when this is likely to give rise to an outflow of resources to the employee, in the amount corresponding to the loss expected for the Company.

The characteristics of the stock options plans are as follows:

| Characteristics/Assumptions | 2009 Stock options plan | 2014 Stock options plan |
|---|---|---|
| Allotment date | 02/11/2009 | 05/21/2014 |
| Availability date | 02/11/2013 | 05/21/2016 |
| Expiration date | 02/11/2019 | 05/21/2021 |
| Adjusted exercise price *(€)* | 17.53 | 22.69 |
| Adjusted share price at allotment date *(€)* | 17.95 | 21.30 |
| Estimated life *(number of years)* | 8 | 4.5 |
| Volatility | 38.1% | 31.0% |
| Dividend per share *(as a % of share price)* | 2.5 | 3.0 |
| Risk-free interest rate | 3.26% | 0.64% |
| Exercise period *(number of years)* | 4 | 5 |
| Lock-up period *(number of years)* | 0 | 2 |
| Adjusted number of options/share allotments | 366,582 | 150,000 |
| Estimated annual cancellation rate at year-end 2004 | | |
| Estimated annual cancellation rate at year-end 2005 | | |
| Estimated annual cancellation rate at year-end 2006 | | |
| Estimated annual cancellation rate at year-end 2007 | | |
| Estimated annual cancellation rate at year-end 2008 | | |
| Estimated annual cancellation rate at year-end 2009 | 7.0% | |
| Estimated annual cancellation rate at year-end 2010 | 7.0% | |
| Estimated annual cancellation rate at year-end 2011 | 7.0% | |
| Estimated annual cancellation rate at year-end 2012 | 7.0% | |
| Estimated annual cancellation rate at year-end 2013 | End of the plan | |
| Estimated annual cancellation rate at year-end 2013 | End of the plan | |
| Estimated annual cancellation rate at year-end 2014 | End of the plan | 5.0 % |
| Estimated annual cancellation rate at year-end 2015 | End of the plan | 5.0 % |
| % of shares/options vested after performance condition satisfied [(a)] | 100 | 85 |
| Estimate of the number of options/shares ultimately vested in 2005 | | |
| Estimate of the number of options/shares ultimately vested in 2006 | | |
| Estimate of the number of options/shares ultimately vested in 2007 | | |
| Estimate of the number of options/shares ultimately vested in 2008 | | |
| Estimate of the number of options/shares ultimately vested in 2009 | 274,222 | |
| Estimate of the number of options/shares ultimately vested in 2010 | 314,391 | |
| Estimate of the number of options/shares ultimately vested in 2011 | 338,055 | |
| Estimate of the number of options/shares ultimately vested in 2012 | 361,191 | |
| Estimate of the number of options/shares ultimately vested in 2013 | 361,191 | |
| Estimate of the number of options/shares ultimately vested in 2014 | 361,191 | 142,505 |
| Estimate of the number of options/shares ultimately vested in 2015 | 361,191 | 129,375 |
| Estimate of the number of options/shares ultimately vested in 2016 | 361,191 | 112,200 |
| Estimate of the number of options/shares ultimately vested in 2017 | 361,191 | 112,200 |
| Valuation of options/shares | €6.11 | €3.68 |
| Valuation as a % of the share price on allotment | 34.1 % | 17.3 % |

*(a) The definitive performance condition for the 2014 bonus share allotment plan is 0%.*

The characteristics of the bonus share allotment plans were as follows:

| Characteristics/Assumptions | 2014 Bonus shares plan | 2015 Bonus shares plan |
|---|---|---|
| Allotment date | 5/21/2014 | 07/9/2015 |
| Availability date | 05/21/2016 | 07/9/2017 |
| | 05/21/2018 | 07/9/2019 |
| Expiration date | 05/22/2018 | 07/10/2019 |
| Adjusted exercise price *(€)* | 0.00 | 0.00 |
| Share price at allotment date *(€)* | 21.30 | 20.89 |
| Estimated life *(number of years)* | 4 | 4 |
| Volatility | 31.0% | 25.9% |
| Dividend per share *(as a % of share price)* | 3.0 | 3.0 |
| Risk-free interest rate | N/A | N/A |
| Exercise period *(number of years)* | 2 - 4 | 2 - 4 |
| Lock-up period *(number of years)* | 2 - 0 | 2 - 0 |
| Number of options/shares allotted | 50,000 | 65,000 |
| Estimated annual cancellation rate at year-end 2014 | 5.0 % | N/A |
| Estimated annual cancellation rate at year-end 2015 | 5.0 % | 5.0 % |
| Estimated annual cancellation rate at year-end 2016 | | 5.0 % |
| Estimated annual cancellation rate at year-end 2017 | | 5.0% |
| % of shares/options vested after performance condition satisfied [(a)] | 0 | 0 |
| Estimate of the number of options/shares vested in 2014 | 44,876 | |
| Estimate of the number of options/shares vested in 2015 | 44,260 | 56,769 |
| Estimate of the number of options/shares vested in 2016 | 0 | 59,182 |
| Estimate of the number of options/shares vested in 2017 | 0 | 0 |
| Valuation of options/shares | €19.08 - €18.89 | €18.71 - €18.53 |
| Valuation as a % of the share price on allotment | 89.6% / 88.7% | 89.6% / 88.7% |

*(a) The definitive performance condition for the 2014 bonus share allotment plan is 0%.*
*(b) The definitive performance condition for the 2015 bonus share allotment plan is 0%, rather than the 100% expected previously.*

| Characteristics/Assumptions | 2016 Bonus shares plan | 2017 Bonus shares plan |
|---|---|---|
| Allotment date | 05/11/2016 | 05/18/2017 |
| Availability date | 05/11/2018 | 05/18/2019 |
| | 05/11/2020 | 05/18/2021 |
| Expiration date | 05/12/2020 | 05/19/2021 |
| Adjusted exercise price *(€)* | 0.00 | 0.00 |
| Share price at allotment date *(€)* | 12.87 | 25.15 |
| Estimated life *(number of years)* | 4 | 4 |
| Volatility | 25.9 % | 27.7% |
| Dividend per share *(as a % of share price)* | 3.0 | 3.0 |
| Risk-free interest rate | N/A | N/A |
| Exercise period *(number of years)* | 2 - 4 | 2 - 4 |
| Lock-up period *(number of years)* | 2 - 0 | 2 - 0 |
| Number of options/shares allotted | 84,000 | 84,000 |
| Estimated annual cancellation rate at year-end 2014 | N/A | N/A |
| Estimated annual cancellation rate at year-end 2015 | N/A | N/A |
| Estimated annual cancellation rate at year-end 2016 | 5.0 % | N/A |
| Estimated annual cancellation rate at year-end 2017 | 5.0% | 5.0% |
| % of shares/options vested after performance condition satisfied [(a)] | 100 | 100 |
| Estimate of the number of options/shares vested in 2016 | 78,324 | N/A |
| Estimate of the number of options/shares vested in 2017 | 81,269 | 78,246 |
| Valuation of options/shares | €12.12 - €12.12 | € 23.69 - € 23.69 |
| Valuation as a % of the share price on allotment | 94.2 % / 94.2 % | 94.2 % / 94.2 % |

*(a) The provisional performance condition for the 2016 and 2017 bonus share allotment plan is 100%.*

| Characteristics/Assumptions | 2015 Preference share plan | 2016 Preference share plan |
|---|---|---|
| Allotment date | 07/9/2015 | 05/11/2016 |
| | 07/9/2017 | 05/11/2018 |
| Availability date | 07/9/2019 | 05/11/2020 |
| Expiration date | 07/10/2019 | 05/12/2020 |
| Adjusted exercise price *(€)* | 0.00 | 0.00 |
| Adjusted share price at allotment date *(€)* | 20.89 | 12.87 |
| Estimated life *(number of years)* | 4 | 4 |
| Volatility | 25.9 % | 25.9 % |
| Dividend per share *(as a % of share price)* | 3.0 | 3.0 |
| Risk-free interest rate | N/A | N/A |
| Exercise period *(number of years)* | 2 - 4 | 2 - 4 |
| Lock-up period *(number of years)* | 2 - 0 | 2 - 0 |
| Adjusted number of preference shares allotments | 902 | 1,172 |
| Adjusted number of ordinary share allotments | 99,220 | 128,920 |
| Estimated annual cancellation rate at year-end 2015 | 5.0 % | |
| Estimated annual cancellation rate at year-end 2016 | 5.0 % | 5.0 % |
| % of shares/options vested after performance condition satisfied [(a) (b)] | 39 | 100 |
| Estimate of the number of ordinary shares ultimately vested in 2015 | 87,933 | N/A |
| Estimate of the number of ordinary shares ultimately vested in 2016 | 89,376 | 117,429 |
| Estimate of the number of ordinary shares ultimately vested in 2017 | 34,175 | 123,610 |
| Valuation of guaranteed ordinary shares | €17.73 - €18.53 | €10.92 - €11.41 |
| Valuation of non-guaranteed ordinary shares [(c)] | €4.92 - €5.14 | €1.52 - €1.59 |
| Valuation as a % of the guaranteed ordinary share price on allotment | 84.9 % / 88.7% | 84.8 % / 88.7% |
| Valuation as a % of the non-guaranteed ordinary share price on allotment | 23.6 % / 24.6 % | 11.8 % / 12.3 % |

*(a) The definitive performance condition for the 2015 bonus preference share allotment plan is 39%.*
*(b) The provisional performance condition for the 2016 bonus preference share allotment plan is 100 %.*
*(c) The non-guaranteed shares are subject to performance conditions.*

| Characteristics/Assumptions | 2017 Preference share plan |
|---|---|
| Allotment date | 05/18/2017 |
| | 05/18/2019 |
| Availability date | 05/18/2021 |
| Expiration date | 05/19/2021 |
| Adjusted exercise price *(€)* | 0.00 |
| Adjusted share price at allotment date *(€)* | 25.15 |
| Estimated life *(number of years)* | 4 |
| Volatility | 27.7% |
| Dividend per share *(as a % of share price)* | 3.0 |
| Risk-free interest rate | N/A |
| Exercise period *(number of years)* | 2 - 4 |
| Lock-up period *(number of years)* | 2 - 0 |
| Adjusted number of preference shares allotments | 1,172 |
| Adjusted number of ordinary share allotments | 128,920 |
| Estimated annual cancellation rate at year-end 2017 | 5.0% |
| % of shares/options vested after performance condition satisfied [(a)] | 100 |
| Estimate of the number of ordinary shares ultimately vested in 2017 | 117,782 |
| Valuation of guaranteed ordinary shares | € 21.35 - € 22.31 |
| Valuation of non-guaranteed ordinary shares | € 6.44 - € 6.73 |
| Valuation as a % of the guaranteed ordinary share price on allotment | 84.9 % / 88.7% |
| Valuation as a % of the non-guaranteed ordinary share price on allotment | 25.6 % / 26.8 % |

*(a) The provisional performance condition for the 2017 bonus preference share allotment plan is 100 %.*
*(b) The non-guaranteed shares are subject to performance conditions.*

## Statement of changes in equity

| *(in € thousands)* | |
|---|---|
| **Opening equity at January 1, 2017** | **363,741** |
| Net income for the year | 18,137 |
| Change in tax-regulated provisions | 18 |
| Issue of new shares | 2,998 |
| Dividend payment | (10,217) |
| **Closing equity at December 31, 2017** | **374,677** |

# Note 10 Commitments

## Commitments and contingencies

| *(in € thousands)* | |
|---|---|
| **Commitments given** | |
| Guarantee *for* euro cash pooling arrangement | 18,000 |
| Guarantee for the syndicated and bilateral loans to Chinese companies | 27,679 |
| Counter guarantee given to Mersen Deutschland Holding on guarantees | 8,000 |
| Counter guarantee given to Mersen USA BN on guarantees | 9,000 |
| Security deposit paid to Ganton covering the Mersen USA Newburyport subsidiary | 2,085 |
| Rental guarantee covering Mersen Hittisau building | 4,143 |
| Lease for Mersen SA building | 3,064 |
| Other guarantees and deposits | 813 |
| **TOTAL** | **72,784** |
| **Commitments received** | **0** |
| **TOTAL** | **72,784** |

## Other reciprocal commitments

| *(in € thousands)* | |
|---|---|
| **Reciprocal commitments given** | |
| Currency hedges | 39,516 |
| Commodity hedges | 24 |
| **TOTAL** | **39,540** |
| **Reciprocal commitments received** | |
| Currency hedges | 68,111 |
| Commodity hedges | 24 |
| **TOTAL** | **68,135** |

## Employee benefits

***Retirement indemnities, long-service awards and defined-benefit top-up pension plans***

| *(in € thousands)* | |
|---|---|
| Present value of plan obligations at 12/31/2017 | 5,939 |
| Mathematical value of plan assets | (308) |
| Unrecognized actuarial gains and losses | (2,355) |
| **TOTAL** | **3,276** |

# Note 11 Leases

The Company did not hold any finance leases in progress at December 31, 2017.

# Note 12 Executive compensation

The compensation and benefits paid to members of the Management and Supervisory Boards for 2017, either directly by the Company or indirectly by certain subsidiaries, came to €1,145 thousand.

Net top-up pension obligations for senior managers came to €4,141 thousand.

# Note 13 Average headcount

| | Salaried employees | Seconded employees |
|---|---|---|
| Executives | 3 | 0 |
| Supervisors and technicians | 2 | 0 |
| **TOTAL** | **5** | **0** |

# Note 14 Analysis of tax expense

| *(in € thousands)* | Income before tax | Tax payable |
|---|---|---|
| Current | 13,998 | 0 |
| Exceptional | 698 | 0 |
| Tax benefit received from subsidiaries consolidated for tax purposes | | 3,441 |

## Increase and decrease in future tax liability

| *(in € thousands)* | Beginning of period | Change during period | End of period |
|---|---|---|---|
| Accelerated tax depreciation | (1) | 0 | (1) |
| Provision for GPC pension obligations | 925 | (192) | 733 |
| Top-up pension provision | 241 | (61) | 180 |
| Provision for senior manager pension obligations | 1,979 | 327 | 2,306 |
| Retirement indemnities | 55 | (2) | 53 |
| Paid vacation | 13 | 4 | 17 |
| Class action professional fees | 800 | 0 | 800 |
| Bond loan depreciation | 1,130 | (1,130) | 0 |
| Tax base or future tax credit (significant items) | 5,142 | (1,054) | 4,088 |
| Group French tax deficit | 114,179 | 11,382 | 125,561 |
| Total | 119,321 | 10,328 | 129,649 |
| Future short-term tax rate adopted | 34.43 % | | 34.43 % |
| Future long-term tax rate (2019) | 28.92% | | 32.02% |
| Future long-term tax rate (2020) | 28.92% | | 28.92% |
| Future long-term tax rate (2021) | 28.92% | | 27.37% |
| Future long-term tax rate (after 2022) | 28.92% | | 25.83% |
| Amount of future tax receivable | 35,122 | | 34,619 |

# Note 15 Tax consolidation

As of January 1, 2013, Mersen forms a consolidated tax group as defined in Article 223 A et seq. of the French General Tax Code. This tax group chiefly comprises Mersen France SB, Mersen France La Mure, Mersen France Gennevilliers, Mersen France Amiens, Mersen France PY and Mersen Corporate Services.

Tax expense is calculated for each subsidiary every year as if the company were not a member of the tax group. This tax expense thus takes into account the losses recorded by the subsidiary during the period for which it has belonged to the tax group, which it can offset pursuant to ordinary law.

No arrangements have been made for repayment of tax to a loss-making subsidiary based on each subsidiary's current situation. In addition, no compensation is provided for should a loss-making subsidiary leave the group.

The tax benefit recorded by the parent company primarily reflects tax payments made by subsidiaries in profit less the tax liability payable by the tax group to the tax administration.

Subsidiaries are jointly and severally liable for payment of their tax to the French treasury, should Mersen default on payment.

# Note 16 Foreign currency translation

| *(in € thousands)* | Amounts | O/w differences offset by hedges or by global by hedges or by global | Other | Provisions for liabilities and charges |
|---|---|---|---|---|
| On financial fixed assets | 808 | | | 808 |
| On miscellaneous borrowings | 4,632 | 4,632 | | |
| **TOTAL** | **5,440** | **4,632** | | 808 |
| On financial fixed assets | 4,632 | 4,632 | | |
| On miscellaneous borrowings | 204 | | 204 | |
| **TOTAL** | **4,836** | **4,632** | **204** | |
| On bank currency hedging (unrealized loss) | 183 | | | 183 |
| **TOTAL** | **183** | | | **183** |

# Note 17 Treasury shares

Under the liquidity agreement established with Exane BNP, the Company held 24,673 treasury shares at December 31, 2017.

# Note 18 Information about exceptional items

## Exceptional income

| *(in € thousands)* | |
|---|---|
| **Management transactions** | |
| Personal pensions for non-active workers | 176 |
| Other | 2 |
| **SUB-TOTAL** | **178** |
| **Capital transactions** | |
| Gains on the sale of treasury shares | 789 |
| **SUB-TOTAL** | **789** |
| Reversal of impairment of 2 C company receivables | 1,130 |
| Other | 1 |
| **SUB-TOTAL** | **1,131** |
| **TOTAL** | **2,098** |

## Exceptional charges

| *(in € thousands)* | |
|---|---|
| **Management transactions** | |
| GPC pensions for non-active workers | 198 |
| **SUB-TOTAL** | **198** |
| **Capital transactions** | |
| Losses on the sale of treasury shares | 53 |
| Loss of 2 C company receivables | 1,130 |
| **SUB-TOTAL** | **1,183** |
| Allowance for accelerated tax depreciation | 19 |
| **SUB-TOTAL** | **19** |
| **TOTAL** | **1,400** |

# Note 19 Information about risk factors

The financial risk management policy is approved by the Chief Executive Officer based on proposals submitted by the finance department. Currency and commodity hedging transactions are carried out subject to strictly defined procedures.

## Liquidity risk

Mersen has the following principal financing agreements:

- A multi-currency syndicated bank loan, set up in July 2012 and amended in 2014 and 2017. The amount of this facility is €200 million with a five-year maturity and payable at maturity in July 2022.
- A United States Private Placement (USPP) of $100 million negotiated in November 2011 with an American investor, with one tranche of $50 million on a ten-year maturity and another tranche of $37.2 million and a maturity of eight years, both payable upon maturity. The investor will receive a fixed rate of interest.
- A German private placement (Schuldschein) of €60 million set up in November 2016 with a pool of European and Asian investors and a seven-year maturity, payable upon maturity. Investors receive interest at the variable Euribor plus a credit margin.

Furthermore, as part of its policy of diversifying financing resources, Mersen set up a commercial paper program in March 2016, for a maximum amount of €220 million, which on December 31, 2017 was drawn down to €32 million with maturities inferior to one year, and which can at maturity be substituted by drawdowns from the Group Syndicated Loan.

## Interest rate risk

The interest rate risk management policy consists in establishing positions from time to time as a function of the direction of interest rates.

## Commodity risk

Certain Group companies purchase raw materials or components comprising commodities, such as non-ferrous metals like copper, silver and zinc. Copper and silver are the two metals accounting for the largest purchases.

The commodity price risk management policy currently consists in arranging forward commodity purchases with prime banking institutions. These are passed on symmetrically to the subsidiaries involved in commodity purchasing.

## Currency risk

The currency risk management policy consists, based on a complete inventory of inter-company and external risks, in arranging forward currency purchases with prime banking institutions.

Except in special cases, the hedges arranged with banks are centralized with the parent company and passed on symmetrically to the relevant subsidiaries to hedge trading flows based either on specific orders or on annual budgets.

# Note 20 Consolidation

Mersen is fully consolidated by the Mersen group.

# LIST OF SUBSIDIARIES AND SHAREHOLDINGS INVESTMENTS

| *(in € thousands)* **Detailed information (gross book value exceeding 1% of the share capital)** | Share capital | Shareholders' equity excluding the share capital | % of share capital owned | Carrying amount In Mersen's books: Gross | Carrying amount In Mersen's books: Net | Dividends received by the company | Loans and advances, net | Guarantees and sureties given |
|---|---|---|---|---|---|---|---|---|
| Mersen France SB SAS | 37,780 | 1666 | 100 | 69,589 | 50,799 | | 40,000 | |
| Mersen France Amiens SAS | 22,477 | 5,465 | 100 | 25,402 | 25,402 | 2,922 | | |
| Mersen France Gennevilliers SAS | 14,482 | (7,247) | 100 | 23,896 | 23,896 | | | |
| Mersen Corporate Services SAS. (France) | 3,574 | 878 | 100 | 3,646 | 3,646 | 348 | | |
| Mersen France PY SAS | 10,339 | (1,605) | 100 | 43,321 | 28,944 | | | |
| Mersen Boostec (France) | 3,243 | 7,302 | 95.07 | 11,792 | 11,792 | | | 20 |
| Mersen Deutschland FFM AG (Germany) | 10,021 | 7,732 | 10 | 1,635 | 1,635 | | | |
| Mersen Deutschland Holding GmbH & Co KG (Germany) KG (Germany) | 17,849 | 1,387 | 100 | 28,700 | 19,236 | | 414 | 8,000 |
| Mersen Argentina SA (Argentina) (Argentina) | 55 | 393 | 97.99 | 962 | 807 | | | |
| Mersen Oceania Pty Ltd (Australia) | 717 | 2,626 | 100 | 702 | 702 | 425 | | |
| Mersen do Brasil Ltda (Brazil) | 10,145 | (6,331) | 100 | 25,172 | 5,296 | | | |
| Mersen Canada Dn Ltee/Ltd (Canada) | 1,283 | 4,476 | 100 | 1,322 | 1,322 | | 4,987 | |
| Mersen China Holding Co Ltd (China) | 119,606 | (52,118) | 100 | 106,148 | 83,932 | | | |
| Mersen Korea Co. Ltd (South Korea) | 3,813 | 8,447 | 100 | 12,060 | 11,540 | 1,967 | | |
| Cirprotec (Spain) | 1,000 | 4,793 | 51 | 5,143 | 5,143 | 706 | | |
| Mersen Ibérica SA (Spain) (Spain) | 2,404 | 4,178 | 50.02 | 680 | 680 | 317 | | |
| Mersen Ibérica Bcn SA (Spain) (Spain) | 2,043 | 1,997 | 100 | 2,396 | 2,396 | 206 | | |
| Mersen USA Bn Corp. (United States) | 158,390 | 37,411 | 100 | 68,926 | 68,926 | 12,705 | 51,280 | 9,000 |
| Mersen UK Holdings Ltd (United Kingdom) | 7,020 | (550) | 100 | 903 | 903 | | | |
| Mersen Scot. Holding Ltd (United Kingdom) | 75,011 | (1,045) | 100 | 75,409 | 75,409 | | 11,158 | |
| Mersen India Pvt Ltd (India) | 680 | 12,179 | 100 | 11,443 | 11,225 | | | |
| Mersen Italia Spa (Italy) | 5,500 | 1,572 | 100 | 11,590 | 7,072 | 500 | | |
| Mersen Fma Japan KK (Japan) | 371 | 8,784 | 8.70 | 2,977 | 917 | 193 | | |
| Mersen Maroc SARL (Morocco) | 535 | (422) | 100 | 1,725 | 112 | | | |
| Mersen Mexico Monterrey S. de R.L. de C.V. (Mexico) | 1,210 | (59) | 100 | 1,149 | 1,149 | | | 125 |
| Mersen South Africa Pty Ltd (RSA) | 71 | 766 | 54.77 | 813 | 813 | | | |
| Mersen Rus (Russia) | 677 | (950) | 100 | 1,200 | 0 | | | |
| Mersen Nordic AB (Sweden) | 203 | 1,186 | 100 | 551 | 551 | 677 | | |
| Mersen Istanbul Sanayi Urunleri AS (Turkey) | 628 | 1,484 | 100 | 5,016 | 2,907 | | | |
| **Aggregate information (regarding other subsidiaries and participating interests)** | | | | | | | | |
| **Subsidiaries (at least 50%-owned)** | | | | | | | | |
| in France | | | | 138 | 61 | | | |
| Outside France | | | | 1,020 | 818 | 2,331 | | |
| **Shareholdings (10% to 50%-owned)** | | | | | | | | |
| outside France | | | | 180 | 180 | 42 | | |
| **Other shareholdings (less than 10%-owned)** | | | | 0 | 0 | | | |
| **TOTAL** | | | | **545,606** | **448,211** | **23,339** | **107,839** | **17,145** |

Note: Information on sales and income has been omitted intentionally because of the serious harm that could result from its release in a highly-competitive international environment.

# Statutory Auditors' report on the financial statements for the year ended December 31, 2017

To the Shareholders,

## Opinion

In compliance with the engagement entrusted to us by your General Meeting, we have audited the accompanying financial statements of Mersen SA for the year ended December 31, 2017.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2017 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit and Accounts Committee.

## Basis for opinion

### Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the financial statements" section of our report.

### Independence

We conducted our audit engagement in compliance with the independence rules applicable to us for the period from January 1, 2017 to the date of our report and in particular we did not provide any non-audit services prohibited by article 5(1) of Regulation (EU) No 537/2014 or the French Code of Ethics (*Code de déontologie*) for Statutory Auditors.

## Justification of assessments – Key audit matters

In accordance with the requirements of articles L.823-9 and R.823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the financial statements.

## Valuation of equity interests

**Notes 1-C and 3 to the parent company financial statements**

## Description of risk

The balance of equity interests at December 31, 2017 amounted to €448 million out of a total of €612 million, making them one of the largest assets on the balance sheet. Equity interests are initially stated at cost and are impaired based on their value in use, corresponding to the amount the Company would be prepared to pay for the interest if it were to acquire it outright.

As indicated in Note 1-C to the financial statements, the Company estimates the value in use of each interest at the end of the reporting period to determine whether it has fallen below the carrying amount.

The analysis undertaken depends on a multi-criteria approach taking into account:

- the share of each subsidiary's equity;
- where necessary, the economic value determined by reference to the future cash flows including the activity carried out and its future prospects;

Due to the inherent uncertainty relating to (i) the method of determining value in use, which relies primarily on estimates, in turn requiring management to use assumptions and judgments, and (ii) the achievement of these forecasts, we deemed the valuation of equity interests to be a key audit matter.

## How our audit addressed this risk

In order to assess the reasonableness of the estimated value in use of equity interests and based on the information provided to us, our audit work consisted primarily in verifying that the appropriate method and underlying data were used by management to make the estimates, and, depending on the subsidiary concerned:

***For valuations based on historical data:***

- verifying that recorded equity can be reconciled with the financial statements of the entities concerned;

***For valuations based on forecast data:***

- obtaining forecast future cash flows from operations and free cash flows of the entities concerned, as established by local management, and assessing their consistency with the forecasts prepared by general management;
- checking the consistency of the assumptions used with the economic environment at the end of the reporting period and at the date of preparation of the financial statements;
- verifying that the values based on forecast cash flows were adjusted to account for the debts of the entity in question.

We also tested the accuracy of management's calculations of value in use.

## Verification of the management report and of the other documents provided to the shareholders

In accordance with professional standards applicable in France, we have also performed the specific verifications required by French law.

### Information given in the management report with respect to the Company's financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors and in the other documents provided to the shareholders with respect to the financial position and the financial statements.

### Report on corporate governance

We attest that the Board of Directors' report on corporate governance sets out the information required by articles L.225-37-3 and L.225-37-4 of the French Commercial Code.

Concerning the information given in accordance with the requirements of Article L.225-102-1 of the French Commercial Code relating to remuneration and benefits received by corporate officers and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling it or controlled by it. Based on this work, we attest to the accuracy and fair presentation of this information.

### Other information

In accordance with French law, we have verified that the required information concerning the identity of the shareholders and holders of the voting rights has been properly disclosed in the management report.

# Report on other legal and regulatory requirements

## Appointment of the Statutory Auditors

We were appointed Statutory Auditors of Mersen SA by the General Meetings held on June 5, 1986 for Deloitte & Associés and May 12, 2004 for KPMG.

As of December 31, 2017, Deloitte & Associés and KPMG were in the thirty-second year and the fourteenth year of total uninterrupted engagement, respectively.

# Responsibilities of management and those charged with governance for the financial statements

Management is responsible for preparing financial statements presenting a true and fair view in accordance with French accounting principles, and for implementing the internal control procedures it deems necessary for the preparation of financial statements free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it expects to liquidate the company or to cease operations.

The Audit and Accounts Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems, relating to accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

# Responsibilities of the Statutory Auditors relating to the audit of the financial statements

## Objective and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in article L.823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of management of the company.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgment throughout the audit. They also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the financial statements;

- Assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- Evaluate the overall presentation of the financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

## Report to the Audit and Accounts Committee

We submit a report to the Audit and Accounts Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit and Accounts Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements and which therefore constitute key audit matters. These matters are described in this report.

We also provide the Audit and Accounts Committee with the declaration provided for in article 6 of Regulation (EU) No 537-2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit and Accounts Committee.

The Statutory Auditors

| | |
|---|---|
| Paris La Défense, March 6, 2018 | Neuilly-sur-Seine, March 6 mars 2018 |
| KPMG Audit | Deloitte & Associés |
| *Department of KPMG S.A.* | |
| Philippe Cherqui | Laurent Odobez |
| *Partner* | *Partner* |

# Five-year financial summary

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **1. Share capital at year-end** | | | | | |
| Capital *(in € thousands)* | 41,274 | 40,944 | 41,234 | 41,234 | 41,633 |
| Number of shares outstanding | 20,637,041 | 20,471,854 | 20,692,054 | 20,616,834 | 20,816,364 |
| Par value of shares *(€)* | 2 | 2 | 2 | 2 | 2 |
| **2. Overall result of operations** *(in € thousands)* | | | | | |
| Income before tax, depreciation, amortization, charges to provisions and employee profit-sharing Income tax | 23,810 | 45,244 | 32,395 | 29,191 | 9,801 |
| Income tax | (3,441) | (2,319) | (2,168) | (1,608) | (1,500) |
| Employee profit sharing | 0 | 0 | 0 | 0 | 0 |
| Net income after tax, depreciation, amortization and charges to provisions | 18,137 | 25,838 | 14,296 | 30,604 | 1,762 |
| Total earnings paid out [(a)] | 14,446 | 10,236 | 10,317 | 10,308 | 9,259 |
| **3. Overall result of operations per share** *(€)* | | | | | |
| Net income after tax and employee profit-sharing, but before depreciation, amortization and charges to provisions | 1.32 | 2.32 | 1.67 | 1.49 | 0.54 |
| Net income after tax, depreciation, amortization and provisions | 1.30 | 1.26 | 0.69 | 1.48 | 0.08 |
| Dividend paid on each share | 0.70 | 0.50 | 0.50 | 0.50 | 0.45 |
| **4. Employees** | | | | | |
| Average headcount | 5 | 5 | 5 | 5 | 5 |
| Total payroll costs *(in € thousands)* | 1,098 | 1,289 | 1,077 | 1,078 | 954 |
| Amount paid for welfare benefits *(in € thousands)* | 431 | 495 | 358 | 404 | 371 |

*(a) In January 2016, reduction in the number of securities for 55,200 shares*

# 8 ADDITIONAL INFORMATION

# Information included by reference

The following information is included by reference in this annual report:

## 1. Fiscal 2016

Included in annual report no. D-17-0133 submitted to the Autorité des Marchés Financiers on March 7, 2017 are:

- the consolidated financial statements for fiscal 2016 prepared in accordance with the IFRSs in force in 2016, together with the Statutory Auditors' reports on the consolidated financial statements, pages 142 to 194;
- the annual financial statements for 2016, together with the Statutory Auditors' reports on the annual financial statements, pages 198 to 219;
- the 2016 management report, pages 124 to 139.

## 2. Fiscal 2015

Included in annual report no. D-16-0120 submitted to the Autorité des Marchés Financiers on March 8, 2016 are:

- the consolidated financial statements for fiscal 2015 prepared in accordance with the IFRSs in force in 2015, together with the Statutory Auditors' reports on the consolidated financial statements, pages 130 to 184;
- the annual financial statements for 2015, together with the Statutory Auditors' reports on the annual financial statements, pages 185 to 209;
- the 2015 management report, pages 113 to 128.

# Officer responsible for the reference document

Luc Themelin, Chief Executive Officer

Mersen
Tour Eqho, 2 avenue Gambetta
F-92066 Paris La Défense
Tel.: + 33 (0)1 46 91 54 19

# Statement by the officer

I certify that, having taken all reasonable care to ensure that such is the case, the information contained in this document is, to the best of my knowledge, in accordance with the facts and contains no omission likely to affect its import.

I certify that, to the best of my knowledge, these financial statements have been prepared in accordance with the relevant accounting standards and give a true and fair value of the assets and liabilities, financial position and the results of operations of the Company and of all the entities included in the consolidation, and that the management report on pages 70 to 94 presents a faithful picture of the business trends, earnings and financial position of the Company and of all the entities included in the consolidation, as well as a description of the principal risks and uncertainties they are facing.

The consolidated accounts regarding the fiscal year ending December 31, 2017, presented in this document, were addressed in a report by the auditors, which appears on pages 206 and 209.

I obtained an end-of-assignment letter from the Statutory Auditors, Deloitte & Associés and KPMG Audit ID, stating that they have completed their verification of the information related to the financial position and financial statements provided in the annual report, and read through this entire report.

Luc Themelin

# Auditors and fees

## 1. Statutory Auditors

**Deloitte & Associés**
185, avenue Charles-de-Gaulle
92200 Neuilly-sur-Seine

Date of first term: 1986

Date of last renewal: 2016

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2021)

Represented by Laurent Odobez

**KPMG Audit, Département de KPMG SA**
Tour Eqho – 2 avenue Gambetta
F-92066 Paris La Défense

Date of first term: 2004

Date of last renewal: 2016

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2016)

Represented by Philippe Cherqui

## 2. Alternate Auditors

**BEAS**
195, avenue Charles-de-Gaulle
92200 Neuilly-sur-Seine Cedex

Date of first term: 2004

Date of last renewal: 2016

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2021)

**Salustro Reydel**
Tour Eqho – 2 avenue Gambetta
F-92066 Paris La Défense

Date of first term: 2016

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2021)

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GLOBAL EXPERT
IN ELECTRICAL POWER
& ADVANCED MATERIALS

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