Expertise, our source of energy

2016 REFERENCE DOCUMENT

MERSEN

2016 Reference Document

This document is a free translation into English for convenience purposes only of the French reference document filed with the Autorité des Marchés Financiers on March 7, 2017.

General Overview of the Group

1

Message from the Chairman

For Mersen, 2016 was a year of action and transformation to prepare the Group for the future, against a global backdrop that remains challenging for the traditional manufacturing sector.

Performance and operating margins in 2016 were in line with 2015. These results may compare favorably with most of our competitors, but they fall short of our targets.

In terms of sales, which were slightly below our medium-term projections, some promising segments nonetheless performed positively (aeronautics, new energy sources, transportation, etc.).

The operating margin is up significantly on the second half of 2015. This result, which should be seen merely as a step, constitutes the initial impact of the cost cutting measures introduced over a year ago, bearing in mind that the effects of the restructuring carried out during the financial year will take time to materialize. I would, however, like to underline the successful implementation of the Operational Excellence plan.

Much work has been conducted internally, and is expected to bear fruit in the medium term. I would also point to the ongoing renewal of our management, the key to building the Group's future, on the basis of a more effective organization.

The 2016 results are merely the first step on this path. In 2017 Mersen will continue to strive to increase its profitability.

But it will also be focusing its endeavors on the return to growth. We are aware that with a few specific exceptions, the global manufacturing environment is set to remain subdued, so we must rely entirely on our own strengths.

The strategy consists, in particular, in developing our sales in the few sectors that are bucking the general trend and in niche markets that are enjoying strong tailwinds (wind power, solar power, aeronautics, electric vehicles, aerospace, etc.) Innovation and technological developments will be intensified so that we can seek out new customers.

The share price has risen sharply from its all-time low, evidence that the financial markets have understood the transformations that are underway within the Group. I am pleased for our shareholders and hope that the markets will continue to recognize our fundamental strengths. The Board of Directors has decided to propose to the General Meeting of Shareholders to maintain the dividend at € 0.50 per share.

As you are aware, in 2016 we opted to simplify our governance structure in to order improve our responsiveness. In May this year we thus replaced the dual structure with a Board of Directors. We expect to see closer collaboration between the Board and general management.

On behalf of the Board of Directors I would like to thank all of our shareholders for their confidence in us. I would also like to thank the Management and all employees of the Group for the efforts they have made, and reiterate our unwavering support for their management of the Group in this environment, which is set to remain challenging and complex for the foreseeable future.

Hervé Couffin

Message from the Chief Executive Officer

2016 was a year of significant changes for Mersen, with the introduction of a new organizational structure that resulted in changes to the management team and the announcement of a competitiveness plan. These choices helped the Group to improve its efficiency and flexibility.

Sales for the year were €764 million, in line with 2015, in spite of the sharp downturn in the chemicals market during the first half of the year. The strength of our most promising markets, renewable energy, electronics and transportation was confirmed this year, with growth in excess of 5% in Asia. The Group is now more commercially effective than ever, helped by its new organizational structure in the electrical segment.

In this context, the Group generated a current operating margin of 7.8%, in line with the previous year, thanks to the positive effects of the competitiveness plan launched last year. These effects were clearly seen during the second half of the year, with the margin growing strongly in comparison to the same period last year.

The year was also marked by particularly strong cash flow, the result of better management of inventory and investments. This enabled us to reduce our debt significantly, thereby strengthening our financial situation. We also diversified our funding sources throughout the year and extended the maturity of our credit lines, which will enable the Group to finance its strategy.

In 2017 Mersen will continue to strive in the areas of manufacturing efficiency and continuous improvement. We must optimize the use of our manufacturing facilities, while increasing efficiency with respect to our customers. In addition, we hope to gain from our new R&D strategy by accelerating time to market for new products in the coming years.

2017 looks set to bring geopolitical uncertainties and regulatory restrictions that could weigh on the economic environment. However, the Group is confident about its prospects for the coming year as it can draw on its expertise in its dynamic markets, its ability to bring innovations to market rapidly and the deployment of its competitiveness plan.

I would like to express my thanks again to all our staff for their commitment and hard work until now. Thanks to them, Mersen is fully equipped to carry out its strategy and to grow in the current economic climate.

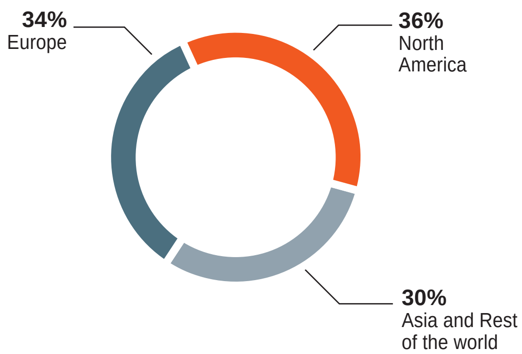
Luc Themelin

KEY FIGURES

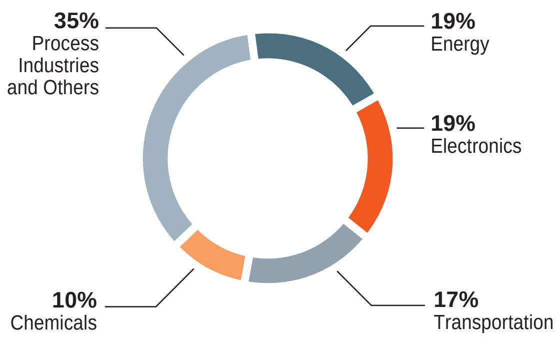
€764m	6,110	35
Sales	Employees	Countries

2016 SALES

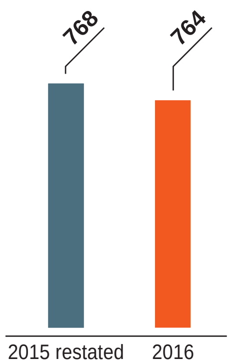
BY GEOGRAPHIC AREA



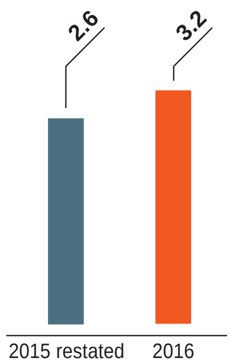
BY MARKET



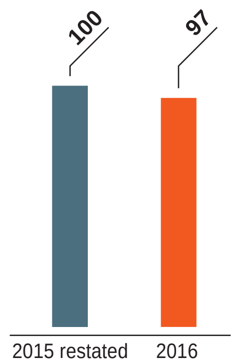
SALES (€m)



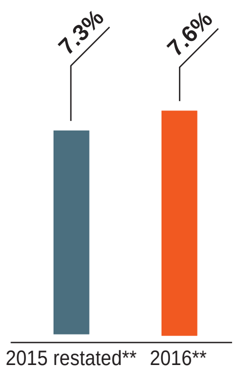
NET INCOME(€m)



EBITDA (€m)

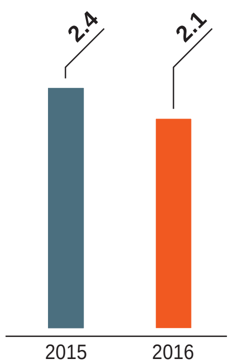


RETURN ON CAPITAL EMPLOYED* (IN %)



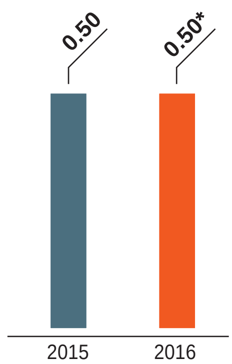
* Operating income before non-recurring items/ average capital employed (net non-current assets including goodwill + WCR).
** Before one-off charges.

DEBT RATIO*



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

DIVIDEND PER SHARE (€)



* Subject to shareholders' approval.

THE GROUP'S PROFILE

1. Expertise

Mersen is a global expert in electrical specialties and advanced materials, and offers manufacturers worldwide innovative solutions that enhance the performance of their offer.

The Group's business activities are currently built around **two areas** of in which it holds leadership positions or is the joint world leader.

The **Advanced Materials** (AM) segment brings together three businesses related to carbon materials – graphite specialties for high-temperature applications, anti-corrosion equipment designed primarily for chemicals, and power transmission technologies.

The **Electrical Power** (EP) segment brings together two businesses related to the electrical market – power management solutions and electrical protection and control.

Both segments offer key solutions and products for our customers' manufacturing processes, as well as a range of associated services and maintenance.

These two areas of expertise are geared to serving **markets** that address the challenges of energy efficiency and demographic growth:

- **energy** (solar, wind, hydro and conventional), and in particular renewable energies providing access to new energy sources and complementing conventional sources of energy;
- **electronics,** providing solutions for the manufacture of semiconductors and for power conversion;
- **transportation** (rail, aerospace and electric vehicles), to meet the growing demand for travel among the world's population and for the shipment of goods;
- **chemicals and pharmaceuticals,** to meet the need for plastics used in construction and the auto industry and a very diverse range of products, from paints and flavorings to agrochemicals and fertilizers, and at the request of the pharmaceutical industry;
- it also caters to the **process industries,** supporting their transition towards greater energy efficiency.

2. Ambition and Strategy

Mersen's ambition is to help advance technological progress across the globe.

The Group also relies on its international sales network to strengthen **its leadership positions** on each of its markets and, in particular, on its growth markets – renewable energy, electronics and transportation. To do this, we deploy a strategy of local relationships with the major industry players around the world, for which we develop tailored products. These relationships provide in-depth knowledge of the challenges facing those players and **enable us 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.

To deploy this strategy and reinforce its effectiveness, Mersen relies on the new organizational structure put in place at the beginning of 2016, which makes for closer collaboration within the Group, greater **commercial effectiveness** and stronger **innovation** and cost synergies. It also implements a process of **operational excellence** throughout the world. This on-going improvement process is accompanied by a specific effort focusing on **cash generation**.

This corporate project relies on all of the Group's employees. To that end, we implement a skills development program, particularly in the area of managerial skills, and transmit worldwide the values that are the foundation of our identity.

The Group in 2016

The year was characterized by momentum in our expanding markets (renewable energies, electronics and transportation), which partially offset the significant decline in the chemicals market. Overall, sales were more or less in line with 2015.

1. Markets

1.1. Energy

Mersen is developing solutions to meet the needs of the principal energy sources and renewable energies in particular.

In **solar energy**, the steep decline in cell and polysilicon prices over the past several years has made this energy more cost-efficient and brought it closer towards grid parity in a number of countries. In spite of a general decline in subsidies in most geographical regions, the installation of solar panels thus continued worldwide and remained very brisk in 2016. Approximately 76 GW(1) were installed in 2016, up 40% on 2015, with global installed capacity of almost 300 GW by the end of 2016. This capacity is set to double over the next 10 years.

Mersen is a key partner for the leading polysilicon manufacturers around the world. The Group offers a broad range of products used throughout the solar cell manufacturing process: graphite machined components (purified and sometimes coated), including, for example, the ultra-pure graphite electrodes required to manufacture polysilicon, heating elements, and kiln insulation for the production of crystalline silicon ingots, the principal component of photovoltaic cells. The customers, mainly Chinese, continue to invest in technologies that are helping to improve the efficiency of solar cells, ultimately driving cell prices downwards.

The Group also offers a full range of products and solutions for the conversion and distribution of photovoltaic energy (including bus bars and cooling devices) and for the protection of installations (circuit breakers, fuses and surge protection devices), which address the very specific risks inherent in this kind of electrical equipment and that require the expertise of specialists. The range of surge protection devices, which was enhanced by the acquisitions of Cirprotec in 2014 and ASP in 2015, also enables the Group to position itself with panel builders that protect photovoltaic installations.

In 2016, strong, double-digit growth in solar energy boosted annual sales to almost €40 million. Business was brisk in Asia (China, India and South-East Asia) and in the United States and Africa thanks to the dedication of the special teams put in place by the Group. It was boosted in particular by investment in polysilicon and the new comprehensive range of protection components for 1,500V direct current applications, which Mersen group was one of the first to bring to market at the end of 2015.

In the **wind power** energy segment, installations continued to expand very significantly in 2016. Capacity thus reached almost 487 GW at year-end 2016(2), compared to 428 GW at end 2015, i.e. growth of almost 14 %.

Mersen provides key solutions in many applications: energy conversion and distribution (laminated bus bars and cooling devices), electricity generation (slip-ring assemblies, brushes and brush holders), yaw motors and nacelles (signal transmission systems, brushes and brush holders) and electrical protection (fuses and surge protection devices). The Group also develops maintenance services to optimize wind energy production, including technical diagnostics, equipment verification, installation and replacement of components.

The Group's business was healthy in all regions in 2016. The business continued to grow, and annual sales rose to €46 million.

In Europe, the collaboration with Gamesa is going ahead, after the merger with Siemens, generating impressive performance. GE's acquisition of Alstom also led to opportunities for Mersen: since this merger, GE has been negotiating the installation of new high-power wind turbine manufacturing platforms.

In the United States, the business was supported by deliveries of replacement components to NextEra Energy, the world's largest manager of wind farms. Business with Vestas is growing, mainly as a result of the Group obtaining approval for the 3 MW power range. Performance was remarkable in Brazil too, in spite of strong headwinds in the local economy.

In Asia, the wind energy market grew overall. Mersen supplies the leading wind turbine manufacturers (Gamesa and Suzlon), major equipment suppliers such as ABB and Emerson, and manufacturers in India. The Group supplies replacement parts to major players such as United Power, Envision and Sinovel via a network of repairers. The Group also continued to benefit from the global framework agreement signed with ABB in 2014 for the supply of a comprehensive solution combining slip rings, brush holders and graphite brushes in India.

(1) Source: Photon, GTM Research, Mercom Capital Group

(2) Source: WWEA

However, business in the Chinese market was slower than in previous years, where the electricity grid is now facing shortages of capacity.

Mersen is present in other segments of the renewable energies market, including **hydroelectric** energy. The Group's products and solutions thus address both mature hydroelectric markets (Europe and North America) and new hydro projects in emerging countries (Brazil, India, China and Colombia). Mersen's integrated offer includes brushes, brush-holders and dust aspiration systems, as well as on-site installation services. In 2016 the Group installed its dust aspiration systems in France, Scandinavia, New Zealand and Colombia. In India, it delivered slip rings for the Tehri project via GE/Alstom Hydro for PSP (Pumped Storage Power), supplying large diameter brush rockers.

Opportunities are growing and Mersen's sales are picking up in the **energy storage** by battery segment, which could be a source of strong growth in coming years. The segment is booming both in term of storing energy produced by alternative energy sources and electric vehicles, and the Group is structuring and broadening its offer to meet these new requirements. The new generation of "solar off grid" systems equipped with energy storage should make it possible to efficiently supply local charges with alternating or direct current from industry or from infrastructures. It will be increasingly implemented by power integrators such as Total, Bosch and Tesla, which are investing heavily in micro grid integration.

In **conventional energies**, Mersen is supplying its entire range of products and solutions. Business declined in 2016, principally as a result of the slowdown in the oil industry, primarily in the United States.

As in 2015, the energy market overall contributed 19% of Mersen's 2016 sales.

1.2. Electronics

Mersen is active in two areas of the electronics market.

Mersen's materials segment supplies primarily high-grade and ultra-pure graphite for the manufacture of semiconductors used in power electronics and LEDs. The quality of graphite and Mersen's high-precision machining and coatings help to maximize the yield of the power semiconductor manufacturing process and are also well-suited to the latest generations of components, which are increasingly miniaturized and handle ever higher current and voltage requirements.

The Group is very well positioned with the leading actors in this sector in terms of multiple technologies and at different phases of the semi-conductor manufacturing process, thanks to the development of high-performance processes and its materials, which meet very specific needs:

- MOCVD (Metal Organic Chemical Vapor Deposition): Mersen produces coated graphite supports for MOCVD, a corrosive chemical process that deposits thin layers at high temperatures, used in the production of high-performance LEDs. In 2016, the Group continued its major technological progress for the production of MOCVD supports. Thanks to the development of a specific grade and coatings, its high-precision machining, and its measurement and control techniques, Mersen is recognized as one of the best suppliers in the field and is gaining market share with the Chinese, Taiwanese and American leaders in the sector. The Group also broadened its offer in 2016 by developing large substrates, which are virtually unique in the world and fulfill productivity requirements.
- Ion implantation: Mersen is the world leader in the manufacture of graphite components, particularly through its position as the preferred supplier for Applied Varian, which dominates in this technology. 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.
- Manufacture of compound semi-conductors: Thanks to its high-performing thermal insulation solutions, Mersen is very well positioned with the main producers of silicon carbide monocrystals (SiC). The latter are also involved in the production of other kinds of monocrystals, such as gallium arsenide and calcium fluoride. The development of these high-end semi-conductors is driven by the development of high-performance LEDs, power electronics, and optics.

Mersen also offers custom-made power electronics components (sophisticated cooling, interconnection and protection systems) to equipment suppliers that can optimize the design of their power converters. These components are found primarily in speed drives for electric motors in industrial and service facilities, in transmission grid and energy distribution interconnections.

The specialized teams and the design capacity of the Group's engineers, combined with the range of components, including bus bars, ultra-rapid fuses and cooling devices, help to strengthen Mersen's position as a key player in the power electronics market.

Growth was moderate in 2016 as investments were more limited than in 2015, but there is still significant potential. Mersen continues its HVDC activities (technology used for the transportation of high-voltage direct current over long distances) in China and Europe, thanks to its strong positioning in this very specific market. Moreover, an order worth almost €7 million was signed at the end of the year with Siemens in connection with European electricity highway projects.

The electronics market contributed 19% of Group sales in 2016, compared to 18% in 2015.

1.3. Transportation

In 2016 the global **rail** market, which is worth around €120 billion[1], continued to grow by 2%-3%.

Growth in this market is principally being driven by demographics and growing urban populations, mainly in emerging countries, aging and saturated infrastructures and the need for network interoperability. Environmental concerns also constitute a significant driver of growth.

Western Europe remains the largest market in geographic terms, followed by North America and Asia-Pacific. The strongest annual growth was recorded in the Asia-Pacific region, especially in India (12%) and China (6%).

Mersen's solutions are mainly destined for rolling stock, and also rail infrastructure. Its applications include supplying energy to motors (brushes and brush-holders, pantograph strips and third-rail shoes) or via converters (cooling devices, laminated bus bars and fuses).

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.

This positioning thus enabled the Group to win orders such as the BART (Bay Area Rapid Transit) project with Bombardier, for rail transportation in the San Francisco area. This USD 8.5 million contract is for the supply of cooling devices and laminated bus bars over the next five years. The Group met the "Buy in America" requirement, one of the project's determining factors, thanks to its presence in Canada and the United States. Mersen also posted strong growth in the field of replacements in the collection segment: third-rail shoes for the Taipei and Singapore subways and pantograph strips for Tenitalia (Italy), CPTM (Brazil) and Indian Railways (India), etc.

Simultaneously, the Group continued to deploy its maintenance services. With this type of service, Mersen is able to demonstrate its expertise to its customers, while offering them the full breadth of its product range. In 2016, the Group continued its partnership with the London Underground to maintain its trains; it will thus also become the Underground's supplier of brushes.

The Group extended its reach in the rail sector in 2016 by signing an agreement for a joint venture company with Harbin Electric Carbon, a recognized player in the Chinese market. Harbin Electric Carbon has a sales network throughout China and a modern production site. Mersen will drive its growth by exploiting the Harbin brand, which is recognized in China, through certification of its products, and via a top quality industrial platform, especially in the railway market.

With over 3% new planes every year on average, activity in the **air transportation** segment continued to grow in 2016. Mersen gained from this growth, and also from the increase in air traffic, which constitutes a potential growth area for replacement products.

In this segment, Mersen provides extremely advanced components able to withstand extreme environments while also satisfying the industry's very demanding and strict requirements from a safety perspective. These components include refractories, carbon-carbon composite products for braking, seals, coolers and laminated bus bars for air conditioning systems, and carbon brushes for rotating electrical machinery (primarily starters and APUs[2]). The Group's materials and heat processing solutions are also used in the manufacturing processes for special alloy reactor blades.

The Group works with many leading industry subcontractors to the major aircraft manufacturers, such as Meggit and Safran. In 2016, it continued its efforts to win approval for its products on new motors, so that they will be ready when they come onto the market.

In the fast-growing **electric vehicle** segment, Mersen supplies passive protection and connection components for batteries (fuses, cooling devices and laminated bus bars). The Group more than doubled its sales in 2016, to around €10 million. It has also developed a particularly innovative product that meets the need to protect high voltage batteries in the event of a shock or proven electrical faults. This cutting-edge technology offers interesting potential growth prospects in the coming years.

Lastly, in the **space** segment, Mersen supplies silicon carbide mirrors and structures for telescopes. Thanks to its unique properties, such as lightness and exceptional thermomechanical stability, silicon carbide (SiC) is particularly favored for space applications.

Seventeen space telescopes equipped with the Group's all-SiC components are already in space. Business was very brisk in 2016, as in 2015, with record order volumes. For example, the Group signed an emblematic subcontracting contract with Airbus Defence and Space for the production of the optical instrument for the MicroCarb satellite for monitoring CO2 emissions.

The transportation market contributed 17% of Mersen's sales in 2016, compared to 16.5% in 2015.

(1) Source : UNIFE – Accessible market volume in €bn (Rolling stock, Infrastructures, Signaling systems, Services)

(2) Auxiliary Power Units

1.4. Chemicals and Pharmaceuticals

Mersen is currently positioned to supply these markets with an extensive range of custom-made graphite and reactive metal equipment (including heat exchangers, columns, and reactors) that perform heat exchange and reaction functions and transfer highly corrosive and high-temperature fluids. 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.

The Group suffered two years of sharp falls between 2013 and 2015 (down around 25% per year) as a result of lingering overcapacity in the global market, after years of substantial investment. Major mergers in the chemicals industry are also impacting on investment decisions. All regions have been affected.

2016 was better, with sales stabilizing in the second half of the year, against a market backdrop that was depressed but no longer in free fall. The Group had successes in Japan and the Middle East in particular, and also in services and maintenance in North America.

The Group is well positioned in certain markets:

- In the chlor-alkali market, a key market for Mersen, the Group won several contracts for upgrading electrolysis systems in line with EU regulations. Some capacity investments were also made in Brazil and Egypt.
- Fertilizer continues to be a significant market for the Group, which manufactures graphite equipment used in producing phosphoric acid, an intermediate product in the fertilizer production process. This market remains globally buoyant, driven by population growth and improving agricultural yields. It is still growing for Mersen, in particular as a result of its business in Morocco with its long-standing customer, OCP (Office Chérifien des Phosphates). Graphite tube heat exchangers (Polytubes®) were shipped to Turkey, Brazil and the Middle East.
- The Group also delivers heat exchangers and absorption columns for the isocyanate market (TDI/TMI), intermediates in the production of polyurethane foam used in the textile, construction, and automobile industries, among others. This segment is still growing, in spite of signs of overcapacity. A few orders were signed in 2016, mainly in China.
- Mersen also received a few orders from the specialty chemicals sector (herbicides, food additives, paint and active ingredients) in Europe, the United States and Japan.

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 reactive metals. This market has strong potential in Europe and the United States.

This sector contributed 10% of sales in 2016, compared to 11% in 2015.

1.5. Process industries and other markets

Process industries – oil and mineral extraction, iron and steel production, cement production, paper production and glassmaking – constitute the Group's original market. They are increasingly emphasizing energy efficiency through continuous process improvement and energy savings.

Mersen supplies this industry with its entire range of products: brushes, brush-holders, industrial fuses, cooling devices, laminated bus bars, surge protection devices, thermal insulation products, heat exchangers, and custom-made graphite components. The Group also provides services and maintenance solutions.

In terms of energy saving solutions, Mersen's solutions help to regulate and optimize the operation of high-power motors used in metallurgy and mineral extraction.

Business in this market was mixed overall in 2016.

In oil and gas extraction, the drop in business was extremely harsh, after years of major investment. The Group, which had profited significantly from the dynamism in this segment in previous years, particularly in the United States and Canada, is still feeling the effects of this slowdown.

However, the Group met with success with certain applications such as electrical discharge machining and lasers:

- The Group is well positioned in the electrical discharge machining market throughout the world, thanks to specific grades of graphite for high-precision parts. Electrical discharge machining is a technique for manufacturing molds used in plastics processing, the auto industry, metallurgy and glass molding for smartphones, which require a tool made of high-quality, wear-resistant graphite. Group sales continued to grow as expected in this market thanks to increasing market share facilitated by continuous improvement in its materials' performance and the efficiency of its distribution network.
- Mersen is also expanding in related markets such as laser optics, where silicon carbide is used for high-precision mechanisms. At the start of 2016 the Group secured a substantial order to supply laser mirrors to be installed in a new generation of revolutionary scanners. Mersen has designed an exceptionally accurate, streamlined scanning mechanism capable of producing images that are used for monitoring and documenting a wide variety of high precision environments. This market offers significant growth potential, albeit for limited volumes.

The Group generated 35% of our sales on this market in 2016, compared to 35.5% in 2015.

2. A robust global network providing opportunities

Mersen is present on all continents, and in 2016 generated 36% of its sales in North America, 34% in Europe, 25% in Asia-Pacific and 5% in Africa and Latin America.

This global coverage is the result of a strategy to establish close relationships with the leading industry players. Mersen is in a position to support them in their international growth, but also to satisfy potential “buy local” requirements. In addition, the Group’s positioning means that it can also benefit from growth in local markets where it holds leadership positions.

In 2016, the situation was mixed, depending on the region. In Europe sales were on a par with 2015, with strong growth in solar energy but less favorable results in rail transportation. The situation in North America improved slightly towards the end of the year. However, sales were down almost 5% over the full year due to the fall in electrical distribution and the oil industry. Lastly, Asia posted strong growth, especially in China, India and Japan thanks to the electric vehicle, electronics and rail transportation markets.

3. A culture of expertise and innovation

The new organizational structure put in place by Mersen in 2016 features a new Technology, Research, Innovation and Business Support department, which is henceforth represented on the Executive Committee. Its objective is to foster a culture of innovation within the Group, anticipate market trends and ensure that all resources are implemented to meet customers’ expectations. It is also responsible for ensuring optimum allocation of resources to projects and accelerating time to market.

This culture of innovation stems from the Group’s close relationship with its customers and the combination of its knowledge of the challenges they face and Mersen’s technology watch. Many innovations are produced in response to their increasingly exacting requests, leading to new designs and technologies, which are sometimes developed jointly.

Whether it is incremental, adjacent or cutting-edge, innovation is essential for the Group’s development and contributes to its growth.

It is also stimulated by highly motivating events, such as development days and Innovation Challenges, held each year within the Group to reward the most promising initiatives in terms of future development.

The major innovations finalized in 2016 or still under development include:

- The development of new grades of low-cost graphite for ingot manufacturing processes in the electronics industry;
- The development of new grades of ultra-fine graphite for molding curved glass for smartphones;
- Further development of electrical protection hybrid technologies for direct current applications (including energy storage, solar photovoltaic and rail traction), combining electronic circuit breaking and mechanical circuit breaking/blocking in the same product;
- The development of a bespoke high performance cooling solution with embedded heat pipe technology for rail transportation;
- The development of laminated bus bars suitable for the operating environments of very high temperature power converters;
- The broadening of our range of (block or tube) Silicon Carbide heat exchangers to better address the requirements of corrosive chemicals and pharmaceuticals applications.

Business activities at a glance

Advanced Materials (AM)

- Sales of €412 million.
- 54% of total sales.
- World no. 1[1] in graphite anticorrosion equipment.
- World no. 1[1] in brushes and brush-holders for industrial electric motors.
- World no. 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, and power plants) and transportation (rail, aeronautics, aerospace, and maritime). 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. Priorities

- Develop high value-added applications employing isostatic graphite and other materials.
- Accelerate the development of downstream production activities in graphite (including surface treatment and precision machining)
- Become a leading supplier of finished, high-quality products for the solar energy and electronics sectors.
- Continue to develop complete solutions, including services and maintenance for corrosive and high-temperature chemicals and pharmaceuticals.
- Accelerate the development of high-growth products (a comprehensive range for wind power and rail collection), organically through innovation or through acquisitions, and in specific geographical regions (South-East Asia).
- Strengthen operational excellence in order to improve competitiveness and offset the impact of overcapacity in graphite and in the trough of the chemicals cycle.
- Further extend the Group's expertise in Silicon Carbide into new industrial applications (laser, etc.).

1.3. Main competitors

(in alphabetic order):

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

1.4. Main customers

(in alphabetic order):

- Airbus Defense & Space
- Applied Materials
- BASF
- Bayer
- Cree Research
- Jacobs
- Gamesa
- GE Wind
- Hitachi
- Nawsa
- OCP
- Safran
- Samsung
- Solvay
- Technip
- Voith
- Wacker Chemie
- Yingli Green Energy

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

2. Electrical Power (EP)

- Sales of €352 million.
- 46% of total sales.
- World no. 1[(1)] supplier of passive components for the power electronics market.
- World no. 2[(1)] in industrial fuses.

(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:

- Electrical current 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 fuses that are integrated around power electronics components.

2.2. Priorities

- Pursue continued growth worldwide, particularly in Asia.
- Maintain and consolidate a strong, profitable position on “mature” products such as industrial fuses (thanks in particular to an optimized supply chain and costs).
- Accelerate the development of high-growth products (surge protection devices and bundle offer for power conversion) organically via innovation, or through acquisitions.
- Support the development of electric vehicles and renewable energy, in particular through a new range of products and solutions.

2.3. Main competitors

(in alphabetic order):

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

2.4. Main customers

(in alphabetic order):

- ABB
- Affiliated Distributors
- Alstom
- Arcelor Mittal
- Bombardier
- Imark Group
- Holcim-Lafarge
- Mitsubishi
- Rexel
- Rockwell Automation
- Safran
- Schneider
- Siemens
- Senvion
- Sonepar
- Thales
- Vestas
- Weg

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

2

Introduction

The Group is committed to a responsible policy with regard to its **social, environmental and societal environment.**

Mersen's employees, their knowledge, and their expertise are central to achieving our economic goals. Developing **human capital** is key to each of our development priorities and is essential to our growth.

The Group conducts its industrial activities to ensure that they have a minimum impact on the **environment**, while simultaneously stepping up our contribution to sustainable development, specifically to the development of renewable energies and energy efficiency.

Last, the Group respects the local and regional communities where it has a presence and seeks to ensure that its activities are a source of regional development.

Human Resources policy

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. HR plan

Every five years, the Human Resources department determines the policy that guides work in a manner consistent with Group strategy. The 2016-2020 master HR 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

In the wake of the changes to Mersen's management guidelines in 2015, the company decided to reformulate its professional values and behavior policy applicable to all employees. The do this, the Executive Committee used discussions with managers and the 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. Subsequent to this a survey was conducted in the summer to compare these values with those encountered on a daily basis, or those that appeared essential to Mersen's future. This survey, which is the first to have been conducted at all the sites worldwide, created both a local and global vision. A total of 64% of employees took part in the survey, a good result for an international group with diverse languages and cultures. Feedback sessions were then set up to identify opportunities for progress and to implement improvement plans.

Ethics Code

The former Ethics Charter was re-baptized the Ethics Code to highlight the mandatory nature of the process to each employee. This document 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.

The fundamental principles of the ILO (International Labour Organization), which the Group has committed to adhering to under current legislation, were reaffirmed in this new Code. These fundamental rights and principles cover 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.

1.1.2. Recruitment and induction processes central to the policy to reinforce the common culture

Recruitment

Rallying to the company's principles and values is an essential selection criterion as of the recruitment phase, to the same extent as technical qualifications.

The recruitment process for managers has now been harmonized across all the Group's companies to make it as streamlined and professional as possible. With a heightened presence on social networks (LinkedIn, Viadeo and Xing), the Group is improving the visibility of its job postings and is thus 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. This program begins on the first day on the job, starting with a welcome kit containing all documents and information necessary to the employee's successful and rapid integration, including the new Group welcome booklet. The program is subsequently adopted 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. One training module outlining policies and tools related to safety at Mersen is mandatory for each new hire. For engineers and management staff, the 'Project Management at Mersen" module is also mandatory. Lastly, new managers must attend training in the new management guidelines.

In 2016, the Group reinforced its integration process. New management staff were invited to a two-day integration seminar. The first day featured an introduction to Mersen and its businesses by its executive staff and the second focused on a visit to an industrial site.

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.

FOCUS

Custom training programs for sensitive jobs

To compensate for the lack of operators with training levels appropriate to its requirements and to meet the specific requirements of its workshops, the Gennevilliers site in France has developed a customized training program conceived in partnership with an industrial and technological training center, that is CQPM qualified (Metallurgical qualification certificate).

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 the strong commitment in the area of health and safety, as well as in improving working conditions and the prevention of psycho-social and hardship risks. The health and safety of employees was cited as being the most important of our employees' values experienced daily in the survey carried out during the summer. 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)]. Safety, improved working conditions and the prevention of psychosocial risks and occupational stress represent a major focus for the Group's social policy. 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 English, Chinese, Spanish, and French).

(1) The health and safety policy is presented at the end of this section.

This module presents and explains 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. These rules have translated into 18 languages in order to be understood, assimilated and adopted by all Group employees, regardless of location.

A mapping of potentially fatal risks has been carried out in all of Mersen's subsidiaries. In follow-up to that work, each Group facility held a training course in 2015 on fatal risks relevant to that site. More specific training was provided to employees who work on highly specific equipment or environments.

As part of 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, whose adoption may become mandatory. This represents the minimum requirements that each facility must put in place and maintain.

Most Group managers also incorporate at least one safety objective in their annual targets.

In early 2016, the Group implemented a Fatal Risks Safety Inspection. The purpose of these inspections, which are in addition to the Managers' Safety Inspections already in place for several years now, is to carry out a safety inspection during operations where a risk of a serious or fatal accident exists. In particular, this involves operations described in the golden rules of safety. The purpose is to ensure that these operations are carried out in compliance with established rules in order to reduce the risk of a fatal accident to a minimum.

In the second half of 2016, the Group rolled out the "Job Hazard Analysis" method on all sites, which is used in carrying out an analysis of the risks involving operators. At the end of the analysis, all operators will be well aware of the risks pertaining to them and actions to implement to prevent accidents.

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 prevention while providing remedial measures where necessary. Actions of analysis, prevention and risk regulation may be launched at the departmental level or at a site, in cooperation with the workplace health and safety committees and occupational health services.

Many Group facilities prioritized improved ergonomics at workstations in 2016. 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 diseases, and absenteeism. Their objective is to take action as early as possible to prevent risks.

Facilities such as St. Mary's 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 treatments were also offered during working hours at certain plants.

After a 2012 analysis of French employees' exposure to occupational stress factors, a three-year agreement to prevent such stress within the Mersen Group was signed in 2013, in anticipation of the implementation of legal requirements. Its goal is to retain Mersen employees for as long as possible and keep them healthy in the company by reducing co-exposure and improving workstation design when possible. The agreement will be renegotiated in 2017.

A charter calling for improved work-life balance has been deployed in France. It addresses four issues: scheduling of meetings, maternity/paternity leave, flexible working hours, and work-at-home. In France, as in the US, work-at-home arrangements have been established for several dozen employees.

These various measures, which take a resolutely long-term view, emphasize prevention. They contribute to maintaining a relatively low absenteeism rate within the Group.

BEST PRACTICE

First osteopathy, now sophrology to improve well-being at work

In 2014, the plant in La Mure (France) implemented osteopathy treatments in partnership with the Institut Supérieur d'Ostéopathie of Lyon. As the success of this initiative was clearly confirmed in 2015 and 2016, the site decided to round out the system with sophrology sessions, a personal development technique for employees who want it and a way to improve employees' quality of life.

Absenteeism

As a percentage	2016[(1)]	2015[(2)]
Absenteeism rate	3.6%	3.3%

(1) Scope included in HRIS excluding the site of Rochester.
(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 establishment makes diversity a natural part of the company. There is diversity in peoples' origins, in cultures and ways of thinking amongst staff, all of which stimulate creativity in the Group. This is useful for getting a better grasp of what customers want on a worldwide scale.

Mersen promotes a corporate culture that highlights mutual respect and recognition of the intrinsic value of each individual, regardless of origin. This conduct is solidly rooted in our values. It is manifestly evident at the U.S. Boonton site, where people from 25 different nationalities work side by side daily to bring prosperity to the company.

The human resources staff strives to ensure equal opportunities, while maintaining and strengthening the multi-disciplinary capabilities of teams.

As a signatory in 2010 of the French corporate diversity charter, the Group has undertaken to combat all forms of discrimination by safeguarding respect for and promoting diversity. Mersen holds discussions on best practices with other businesses within the A.F.M.D. (French association of diversity managers), of which it is a member. In parallel, by subscribing to the principles of the UN Global Compact, the Group is committed to contributing to the worldwide elimination of all discrimination in the area of employment and occupation (Principle 6).

While Mersen's corporate culture is strong, it is adapted in each country to fit in with the local culture 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	2016	2015
Plant managers/local nationality	90%	91%

Gender balance

Gender balance has been clearly identified and stated by Mersen as a priority area for improvement. Constant effort is required to integrate more women in all our business lines, including production. Many initiatives have been introduced in recent years, including hiring, career tracking, communication, awareness-raising among managers, compensation, greater flexibility for parents in professional life, organizational modifications and workstation improvements to reduce physical constraints to the extent possible, thus enabling female operators to work there.

In 2015, management and all union organizations renewed their commitment to gender equality in the workplace by signing a new agreement. This document also sets the objective 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 24% in the Board of Directors and Executive Committee governance bodies.

As a percentage	December 31, 2016	December 31, 2015
Women on corporate governance bodies	24%	25%

A women's network created in 2010, 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.

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 relying on EnAble India to train Group employees on 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.

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 changes observed in certain markets and their short- and medium-term outlook, Mersen is faced with a difficult situation, especially with regard to its French sites. It is imperative to the Group that it adapt to an increasingly restrictive environment that forced it to implement competitiveness safeguard measures in 2016. As the Group is attached to its human values, it ensured that the measures were carried out in keeping with high quality labor dialogue and that all was done to find solutions that minimized their social impact.

These measures resulted in the elimination of 130 jobs in France at the Pagny-sur-Moselle and Saint-Bonnet-de-Mure sites. Negotiations were held with labor officials at both sites, resulting in important agreements regarding social support measures. The agreements called for initial voluntary departures, with the objective of avoiding forced layoffs to the greatest extent possible. The manner in which voluntary departures are to occur is set out in these agreements.

In addition, the Group continued to implement the arrangements established in 2014, which were 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. Rallying collective intelligence through an organization that promotes collaboration

1.2.1. New structural organization that seeks to pool resources and synergies

At the beginning of 2016, a new organization was implemented to accelerate the Group's development and assist in arbitrating between the numerous projects underway. First, two areas of expertise and five business were reconfigured with the intent of improving efficiency and reactivity on the markets, while simultaneously pooling certain resources and reinforcing synergies. Next, an innovation and business support department was established 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 with relation to competitors through advanced technology mastered by the Group. Lastly, in order to support business development in high potential areas, an Asian and BRIC department was set up. These two new functions, in addition to the Operational Excellence function, are now associated with the Group's Executive Committee.

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. Their complexity requires that we use a common project management method. This method, the Global Project Standard (GPS), allows the Group to complete these highly complex projects. A project group established in early 2015, which includes operational employees from the various business lines and project management experts, revised the methodology, training and deployment systems in the Group.

Thanks to the e-learning training system, as many employees as possible can become familiar with the methodology's major principles. The training system was rolled out between September and December 2015 to all the Group's engineers and managers. Starting in 2016, all new managers will be required to take this training. More comprehensive classroom modules were set up for the project teams on the basis of this shared methodology.

Furthermore, to accelerate the roll out of the method and ensure that its assimilation has a lasting effect, advisors were designated in each of the units to provide methodological support to the project groups.

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 will meet twice yearly, set several objectives: pursue the objective of improving productivity by reducing costs, improving safety of equipment and capitalize and consolidate the extensive expertise in the area.

BEST PRACTICE

The technical community

A community of machining staff was set up in 2016 to add value and strengthen technical knowhow and to promote the exchange of best practices on the basis of this very specific expertise, which is essential to the Group. It was defined around setting up regular meetings and implementing collaboration tools. The emergence of this community also contributes to motivating and building loyalty amongst employees.

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. In 2016, Mersen improved its internal communications process by setting up four telephone interviews 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.

The internal publication “Inside Mersen” is available in French, English, Spanish and Chinese. It is available in an interactive electronic format on the intranet. Information is also passed on using complementary theme-based publications concerning 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. The new set of Group management guidelines, referred to as “Open Manager”, was produced in 2015 and describes what managerial qualities and behavior is 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 management is concerned; corporate executives, middle managers and supervisors are all essential players in the Group transformation process in a world undergoing globalization where information circulates rapidly.

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 this way, the Group has brought on board a certain number of executives and managers in its two areas of expertise to work in its strategic marketing and site manager functions. In the United States, over one half of site management staff has been renewed.

In 2017, the Group will pursue its support policy for management teams by implementing appropriate training programs.

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 discussions between the employee and direct management 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 HRIS can be used to manage online forms and facilitates annual reviews.

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, due to a change in the environment or other reasons

Training in conducting annual reviews was held in several countries, from Asia to the Americas, 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; and,
- Promote Group culture and develop a strong Group identity.

This tool evolves continuously to provide daily support to the Group’s HR and managerial community. In addition, in order to reinforce the quality of data transmitted each month by all subsidiaries and to ensure the proper application of HRIS procedures and standards, an HR audit method was implemented and tested in 2016. It will be rolled out beginning in 2017; from now on, every year an internal site audit will be carried out throughout the Group.

1.3.3. Training

In addition, 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-training;
- 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 and management;
- Reduce training costs;
- Promote interactivity and collaborative work within the Group.

Mersen Academy is accessible through an individual or collective access license that grants students access to the e-learning programs available on the platform.

In 2016, new programs were added to the Mersen Academy offer, especially access to self-service training in English. English has become essential for all management staff who wish to progress in a Group with a major international dimension and growing international and multi-cultural exchanges. Management staff have access to a broad range of modules in English on the e-learning platform that are tailored to their jobs. In addition, a more specific support system is offered that features goal-oriented progress validated at the beginning and end of the courses.

These training programs working with IT and office tools such as Office, messaging systems, etc. are also available on a self-service basis on the Mersen Academy platform.

Everyone can find what they need to become a major player in their own development.

The Group also promotes qualifying training programs via joint qualification certificates in the business areas, such as metallurgy, chemistry and others, 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).

FOCUS

Developing employees' skills

At the Mersen plant in Juarez (Mexico), employees may obtain training to prepare for and obtain elementary and middle-school diplomas. A teacher certified by Mexico's national education system comes to the plant for two to three hours each day and helps those who volunteer for the training to prepare for their exams. In 2016, 22 employees obtained their diploma (eight at elementary school level and 14 at middle-school level). The site also finances a scholarship for four employees who wish to obtain higher education degrees.

In all, the Group devoted 1% of its total payroll to training in 2016, i.e. an average of 12.3 hours of training per employee.

The hours noted below do not include training via the Group's e-learning platform, Mersen Academy, which amount to 1,615 training hours for 819 active employees spread out around the world, and which represents an average of two hours of training per learner.

Training	2016[(1)]	2015[(2)]
Spending on training as a % of total payroll costs		
Group total	1.0%	1.1%
• *Of which France*	1.4%	1.8%
Average number of hours per employee		
Group total	12.3	13.7
• *Of which France*	*10.1*	*13.3*

(1) Scope included in HRIS excluding the sites of Yantai.
(2) Scope excluding the following site: Terrassa (Spain).

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.

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.

1.4. 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 skill set.

Based on the Group's forward human resources planning process and consistent with the strategic planning process, 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. In 2016, the framework was reviewed and rounded out to take into account the organizational changes announced.

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 the area 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. An initial e-learning program was offered in late 2014 to all Procurement employees through the new Mersen Academy training platform. This was completed in 2016, with certification of the participants.
- In the area of annual performance evaluations, employees with the same position will be evaluated in terms of the same skills. This will strengthen the objectivity and soundness of the Group's evaluation process.

This guide is also a valuable hiring tool as it allows us to fine-tune the description of the skills sought.

1.4.2. 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 modification 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.

Exchanges with outside experts are also encouraged. For example, the Group entered into a partnership with French laboratories, productivity clusters, universities and engineering schools under a Unique Interministerial Fund (FUI) project. This collaborative project, FE²E (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 large-scale changes – both markets and 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 attached directly to the CEO of the Group. This function aims at better anticipating product and solutions issues of the future, and will allow for more efficient arbitrage and monitoring of R & D projects. It will also contribute to better identifying key experts in the Group.

After one year of existence, 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.

1.4.3. Knowledge transmission

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, the purpose of the action plan under the Contrat de Génération legislation, which was signed in September 2013 for a period of three years, is to promote the hiring of young people under permanent employment contracts, while ensuring that senior employees' knowledge and skills are passed on. The Group intends to play an active role in pursuing this three-part objective through various commitments. The Group has thus committed, in France, to hiring 30 employees under the age of 27 under permanent work contracts. In addition, over 50 internships for young people on degree courses and 50 apprenticeships or vocational training contracts were offered in 2016. An assessment of this action plan is presented 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. For example, Mersen Korea entered into an agreement with a government agency to hire people aged 19 to 34 as interns, as in the United States at the Greenville and Rochester sites, which entered into partnerships with local universities. An Austrian university of applied sciences also works with the Hittisau site in that country engaging people in work-study programs. In Tunisia, the facility offers 12-24 month internships to young people, who may be hired at the end of the internship if their qualifications meet the company's criteria.

Simultaneously, given the challenges associated with training young people, the Group provides tailored guidance for those selected. A new assignment – mentor/advisor – has been created to welcome new hires into the company to provide this guidance.

With regard to senior employees, in France the company is continuing the mentoring program introduced in the 2009 agreement promoting the employment of seniors.

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 transmission. 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.

FOCUS

Apprenticeships are a tool for training and for detecting talent

Through the partnership developed several years ago with the work-study training center Proméo, the Amiens site in France takes in young people each year to train for jobs in the industry. The best collaborators are recruited with a permanent work contract at the end of their apprenticeship. This type of end-of-apprenticeship recruiting that makes it possible to judge both how much expertise and personal skills have been acquired is practiced in other sites as well, such as in Spain, Tunisia and India.

(1) Optimized and Realistic Economic Carbon Fiber.

FOCUS

Promoting the retention of senior employees

The skills of senior employees are often an advantage to the company. Keeping them at work is achieved through their motivation and regard for them. Different sites use tailored mechanisms for this category of persons: financial incentives in China and in India, reducing their working hours in exchange for consulting at St. Mary's in the United States, incentives for training in Brazil and in Rochester, USA, etc.

1.5. A motivating compensation policy

1.5.1. Enable employees to share in the Group's success

The salary increase policy is defined by site and by country based on local criteria, specifically inflation. The average increase for basic salaries in 2016 was 2.7% compared to 2015.

In France, employee incentive and profit-sharing agreements take into account the Group's financial results, thus acknowledging the individual contribution made by each employee to Mersen's performance. Beyond financial incentives, Mersen reaffirms its desire to involve employees in ongoing improvement through "technical" incentive payments, intended to reward improved performance, which reflects employees' work and contribution. The development of technical incentive payments is predicated on collective criteria, such as productivity and safety improvements, customer satisfaction linked to product and service quality, ability to meet deadlines, innovation and reductions in non-quality costs. In addition, financial incentive payments are linked to attainment of operating margin targets at the business unit and/or divisional level.

Similar mechanisms are also used in the rest of Europe, in Germany, Spain and Tunisia, in North America, including Canada, the United States and Mexico and in the Pacific, in Australia.

Managers' bonuses, regardless of location worldwide, are related to the cash flow from operations generated by their business unit and/or their division and to another collective objective (generally, the operating margin), as well as results obtained relative to their annual individual targets, particularly those related to safety, productivity and participation in value-creating projects. This policy ensures that a mix of the Group's values, strategic directions, and financial objectives are taken into account on a daily basis.

1.5.2. Ensure employees' social protection

Mersen is committed to ensuring that its employees obtain high-quality social protection with regard to health care and pensions.

In France, this is reflected in agreements negotiated to address employees' needs, in compliance with national regulations. Supplemental pension schemes, which complement the system required by law, illustrate the Group's sustained commitment to help every employee prepare for retirement. They also represent a major attraction for potential employees. They cover the entire employee population while taking into account their specific characteristics. The PERCO plan introduced in 2010 covers all the Group's employees in France. It provides for matching employer contributions that are highly advantageous for those employees whose ability to save is the most limited. Proposals were made in 2015 to improve this employer matching contribution scale, increase the number of days of leave that may be included in the PERCO, and simplify the system's procedures. The goal of these changes, which were addressed in a February 2015 labor/management agreement, is to encourage employees to save more in anticipation of retirement.

The "Article 83" plan, which concerns all executives and equivalent grade staff in France, was introduced at the Group's French facilities in 2009. Since 2014, the contributions that fund this Article 83, which were limited to tranche B of compensation, were extended to tranche C at the employer's decision. In 2015, the management tools used for employee savings contributions were reviewed and tools offering a more attractive return were chosen.

In the US-based subsidiaries, executives hired before April 2011 benefited, until December 2015, from a defined benefit retirement plan fully paid by the company. Those who joined after April 2011 may participate in a company defined contribution retirement plan. Given the significant provisions required for the defined benefit retirement plan, in 2015 the Group transferred the employees concerned into the defined contribution plan. This reflects a major trend in recent years across the United States. In the interest of equity, the Group increased the company contribution rate for those categories of employees who are more affected by the reform. The reform, which began in spring 2015, took effect on January 1, 2016.

A similar reform was initiated by our Dutch subsidiary in fall 2014. Employees, whose retirement plan guaranteed them 70% of their last salary on the day of their departure, were offered a retirement plan based on a benefit calculated on the average of the salaries earned throughout their career. This reform took effect in 2015. In addition, employees hired starting in 2013 are offered an additional retirement plan, on a defined contribution basis, most of which is paid by the company. This plan also took effect in 2015.

Last, the Group created or strengthened social protection out of a concern for equity and to attract and retain talented employees in countries where such protections do not exist. Over the last three years, we thus established health coverage for all our employees in Brazil, China, and Tunisia. In fall 2015, specific coverage for executive managers at Mersen's China subsidiaries was added with the goal of retaining these key managers.

In 2015, two major changes were made to standardize the health and welfare systems that had coexisted within a single region. Ten supplemental welfare plans coexisted in France, based on employee status (management/non-management) or subsidiary. A general standardization effort was initiated in May 2015, which in October 2015 resulted in a labor/management agreement signed by all union organizations standardizing the welfare system for all employees, regardless of status, and applicable to all Mersen subsidiaries in France. This plan, which is handled by the same insurer responsible for the supplementary health coverage, took effect in 2016. In the United States, the coexisting health plans were also standardized in 2015, simultaneously guaranteeing a level of coverage comparable to that in major American companies.

The Group wanted to improve its communications on the compensation policy within Mersen. On an experimental basis, an Individual Account Statement was implemented at Group headquarters in 2014, and extended to all employees at French facilities in 2015. The Statement compiles all the components of compensation, whether direct (salary, bonus, and premiums), differed (incentive and profit-sharing), or handled by the employer in the form of employer contributions (employer contributions to welfare benefits, such as retirement and mutual insurance and welfare systems).

2. Workforce and facilities

Mersen employed 6,110 employees at December 31, 2016, in approximately 35 countries.

2.1. Geographical analysis of the workforce (at December 31)

Country	2016	2016 (%)	2015	Difference
Europe	2,172	35.5%	2,246	-74
• *Of which France*	*1,418*	*23.2%*	*1,469*	*-51*
North America	1,855	30.4%	1,937	-82
Asia-Pacific	1,584	25.9%	1,657	-73
Africa and South America	499	8.2%	535	-36
TOTAL	**6,110**	**100.0%**	**6,375**	**-265**

The workforce fell by 265 people.

In 2016, 1,097 people were hired around the world, including on fixed-term contracts, and 344 were laid off (scope consolidated within the HRIS).

Based on the reporting scope, women accounted for 36% and senior employees for 15% of the workforce, with no change compared to 2015.

	2016 *	2015 *
Group headcount		
• o/w women (as a %)	36%	36%
• o/w seniors 55 and older (as a %)	15%	15%

** Scope included in HRIS*

2.2. Age pyramid (at December 31)*

Age brackets	Men	Women	Total
Under 25	4.4%	7.5%	**5.5%**
25 to 29	9.6%	13.5%	**11.0%**
30 to 34	14.2%	15.0%	**14.5%**
35 to 39	14.6%	13.7%	**14.3%**
40 to 44	13.1%	12.0%	**12.7%**
45 to 49	14.4%	11.9%	**13.5%**
50 to 54	13.3%	12.5%	**13.0%**
55 to 57	6.2%	6.4%	**6.3%**
58 to 59	3.6%	4.0%	**3.8%**
Over 60	6.5%	3.5%	**5.4%**

Scope included in HRIS

The average age of Group employees is 41.7.

2.3. Headcount broken down by category

Categories	Dec. 31, 2016	%	Dec. 31, 2015	%
Engineers and managers	1,168	19%	1,231	19%
Technicians and supervisors	1,010	16%	994	16%
Employees	585	10%	617	10%
Blue-collar workers	3,347	55%	3,533	55%
TOTAL	6,110	100%	6,375	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 and large runs and local workshops, which meet the highly specific needs of their local customers. They break down as follows by geographical area:

Country	2016	o/w facilities with more than 125 employees	2015
Europe	21	5	21
• *Of which France*	*9*	*4*	*9*
North America	13	3	13
Asia-Pacific	13	3	14
Africa and South America	5	2	5
TOTAL	52	13	53

2.5. Outsourcing

The Group partially outsources the manufacture of its products. The value of outsourcing in 2016 totaled approximately €62 million, including labor subcontracting for assembly, machining and welding and for the manufacture of components such as metal, plastic and ceramic parts.

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

	2016	2015	2014
Workforce	1,418	1,469	1,490
• o/w fixed-term contracts	15	24	33

3.2. Recruitment

	2016	2015	2014
Recruitment	69	119	133
• o/w fixed-term contracts	11	19	48

3.3. Temporary workers

	2016	2015	2014
Average headcount	139	157	132
% of the headcount	10%	11%	9%

3.4. Overtime

	2016	2015	2014
Overtime	20,948	15,765	22,366
% of hours worked	1.0%	0.7%	1.0%

3.5. Absenteeism

	2016	2015	2014
Absenteeism rate	5.6%	4.9%	5.3%
• o/w illness	4.6%	4.1%	4.1%

3.6. Part-time work

	2016	2015	2014
Percentage of employees working part-time (as a %)	5.3%	5.4%	6.0%

3.7. Disabled employees

	2016	2015	2014
Workers with a disability (as a %)	5.9%	5.2%	4.7%

3.8. Organization of working hours

In France, an agreement on executives' working hours was signed in 2011 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 2011 agreement also provides for an annual review between a manager and his/her employees covering issues including the organization of work, work load and fluctuations in daily activities.

Health and Safety policy

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 medium-term goal remains to achieve to **Excellence** in health and safety.

1. Organization of the function

The Group's health and safety function is now part of the Risk, Internal Audit and Safety department. This structure reflects the Group's commitment to improving the effectiveness of the safety policy by enabling the function to benefit from the Group's experience and expertise in industrial risk management and by implementing internal control methods to the safety policy.

The function relies on a Group Safety Committee, composed of the member of the Executive Committee. It reports to the committee on a monthly basis. This close relationship allows it to be highly responsive and demonstrates senior management's unstinting commitment to health and safety. It 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 Group Safety Committee. These correspondents are also responsible for reporting to the Group on local environmental and health and safety changes.

Most of the plants also have a dedicated health and safety officer who helps to implement the policy formulated by Group management.

	2016	2015
Companies with a dedicated Health & Safety officer	90%	83%

Every month, the Risk, Internal Audit and Safety department circulates a publication dedicated to safety reviewing the latest trends in Mersen's safety indicators and highlighting best practices. It is sent to plant managers and safety managers It is also available on the Group's intranet.

2. 2016 Achievements

In 2015, the Health and Safety department, in collaboration with an external firm, assessed the Group's strengths and weaknesses in the area of safety. Following this assessment, an action plan was drawn up. It was implemented in 2016. For the record, the primary actions were the following:

- Revising our Golden Rules to improve the clarity of the definitions for improved understanding
- Creating a Safety Visit tool focused on fatal risks;
- Strengthening the instructions for sensitive equipment; and,
- Defining a Group standard tool to detect risks at each workstation.

In parallel with these actions, the Group Health and Safety department implemented a professional risks assessment process dubbed Job Hazard Analysis (JHA). This process made employees more aware by associating the risk analysis with the level of safety at their workstation. The process was initiated in 2016 and will be fully rolled out in the sites in 2017.

FOCUS

New tools to reinforce risk prevention

New methods were put in place in 2016 to bolster risk assessment processes that already exist at all sites, but which are often restricted to the primary risks.
The Job Hazard Analysis (JHA) aims to reinforce prevention by involving each collaborator in analyzing the specific risks they are exposed to at their workstation.
The Fatal Risks Safety Inspection consists of an inspection-audit of operations with inherent risk of a fatal accident and of regularly checking that prevention mechanisms in place are correctly applied.

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 2016, Group units reported approximately 1,280 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 and Safety department conducted 13 site safety audits in 2016.

In addition, the number of safety visits rose by 10% compared to 2015, reaching 3,807, or 65 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.

	2016	2015	Change
Number of safety visits	3,807	3,445	+ 10%

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. Risk mapping

The safety risk mapping is updated annually for each Group unit. Revisions to this mapping thus incorporate possible new risks resulting from changes to equipment or organizations. This risk survey was assessed as part of the Group safety audits. It is also reviewed systematically after each accident to verify that the cause of the accident has been listed.

A mapping of potentially fatal risks was established in 2014 for all Group units. The individuals who face these kinds of risk participated in an awareness-raising program.

The risk mapping is described in the Chairman's report, in Chapter 3 of this document.

4. Risk prevention

The Group continues its employee training in best practices in PAH protection (Polycyclic Aromatic Hydrocarbons) at the Group's main production facilities that face these risks. Some production now uses materials with 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.

In compliance with legislative directives, an agreement on the prevention of occupational stress was signed in early 2013 in France.

BEST PRACTICE

Preventing bad posture: a vest with an audible alarm

Some operators exposed to handling risks are equipped with safety vests that can detect improper posture. The vest emits an alarm when people adopt improper positions, which allow them to shift their posture and avoid hurting themselves.

5. Safety training and audit

An e-learning safety program was developed in 2013 and implemented in 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 safety audit program continued in 2016. Thirteen 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. It is an opportunity to create awareness among employees, and instill the safety culture.

In order to enhance its efforts and progress of safety on each of the Group's sites, Mersen has changed its system of safety award system. When a production facility exceeds a number of days without an accident, the Executive Committee offers it a commemorative plaque. This plaque honors the facility's performance and is a reminder to all partners of the importance Mersen assigns to safety. In 2016, the Group achieved the following benchmarks for numbers of days without a lost-time accident:

- Two sites with more than 3,000 days
- Nine sites with more than 2,000 days and less than 3,000 days
- Fifteen sites with more than 1,000 days and less than 2,000 days
- Nine sites with more than 500 days and less than 1,000 days

In all, 35 sites, representing around two thirds of all sites, had over 500 days without a lost-time accident

BEST PRACTICE

Embed safety in people's minds using illustrations

A huge safety tree towers over the entry of the production facility of the Chinese subsidiary ASP, which was acquired in 2015. It contains the rules and commitments regarding safety and each collaborator signs one of the sheets to signify their involvement at all times in promoting safety.

6. Safety indicators

In 2016, the Group obtained the best results in its history with regard to the number of lost-time accidents (TF1 and TF2).

The Group did, however, suffer a fatal accident in the United States and the death of a subcontractor's employee at one of the Group's French sites.

Of the Group facilities, 83% reached the end of the year without a lost-time occupational accident in 2016.

6.1. Number of lost-time occupational accidents per million man-hours (TF1)

Thanks to ongoing efforts to strengthen the Group's safety culture and the adoption of additional tools, we achieved a TF1 rate of 0.91 lost-time accidents per million hours worked in 2016. This is the best rate the Group has ever achieved. It fell by more than 25% compared to 2015 and by 54% compared to 2014.

The Group has improved its performance by more than 66% over five years.

The Group asked its units to implement a fatal risks safety inspections program. In the first year, 841 inspections were held in all Mersen sites, an average of 15 inspections per year and per site. We also asked them to bolster employee training, particularly for new hires, through the e-learning safety program. This strong message, delivered as soon as an employee joins Mersen, is an important method for creating awareness of this safety culture among employees.

The Group also continued its incident risk detection program.

TF1	2016	2015	2014
Number per million hours worked	0.91	1.24	1.96

6.2. Number of occupational accidents with or without lost time per million man-hours (TF2)

The rate of accidents with and without lost time is 4.1 accidents per million hours worked. This figure fell slightly with respect to 2015, by around 5%, and is the best result ever recorded by Mersen.

Strengthened equipment protection systems, lifting aids, and training (e-learning and awareness-raising regarding risks) have sharply reduced the number of accidents with and without lost time. The basic work involved in incident detection contributes significantly to improved performance and to a stronger Group safety culture. For the second time, the Group fell below 60 accidents, with and without lost time, for nearly 13 million hours worked with 54 accidents.

Mersen has improved its performance by nearly 40% over five years.

TF2	2016	2015	2014
Number per million hours worked	4.1	4.3	6.2

Number	2016	2015	2014
Number of occupational accidents with lost time concerning temporary staffing agency employees*	3	4	3

(*) For a total of 964,000 hours worked in 2016, 1,165,000 in 2015 and 960,000 in 2014.

6.3. Number of working days lost to occupational accidents per thousand man-hours (TG)

The severity rate achieved is second best level ever. The Group however did suffer a fatal accident on one of its sites. It is recorded under a format of 365 additional lost-time days.

Following significant work in 2015 to create awareness of fatal risks, safety inspections focusing on this type of risk were implemented in 2016. All employees were trained on these risks based on their work environment.

For several years, the Group has taken steps to protect all of the machines and equipment following the risk mapping and audits. It has also emphasized how important it is for employees to wear the safety equipment provided.

All of these measures have contributed to achieving a total of 0.081 days lost/1,000 hours worked – or 81 days for 1 million hours worked.

TG	2016	2015	2014
Number per million hours worked	0.08	0.047	0.18

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. Furthermore, France represents a significant percentage of the Group's employees, with 1,418 staff at end 2016.

In France, musculoskeletal disorders occupy the lion's share of occupational illnesses. The Group is pursuing its efforts to reduce this risk, particularly by means of working to associate ergonomics at workstations with employees

Number	2016	2015
Number of employees suffering from an occupational disease*	7	12

(*) Out of a workforce of 1,418 in 2016 and 1,469 employees in 2015.

Societal policy

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 a 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 battle against corruption.

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 December, 2016. 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 insight on a regular basis into whether these rules are applied properly. Over the last three years, 92% of Group sites were covered by an internal audit; the other companies that were not covered were of insignificant size.

The purchasing department also set up a supplier audit system, covering questions related to compliance with the Ethics Code and incorporating rules of compliance with the ILO's fundamental rights of workers.

At the same time, concrete measures have been implemented to raise teams' awareness about a number of risks associated with unlawful practices. Training related to the competition law was provided regularly and an intensification of this program is planned for the period 2017-2018.

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 jobs in the Group, including purchasing, sales and logistics were trained worldwide in 2016. Since 2016, a press review in French and English relating to fraud has been sent monthly to Group manages throughout 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 concerning the internal control policy in the Group.

1. Local initiatives

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, by hosting people on workplace induction or work-study programs;
- Sponsorship of humanitarian operations and contributions to charitable action 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 of the Optitec photonic and imaging competitive 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, as a whole, helps integrate them into the local community. By working with local suppliers as a priority, in implementation of 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 attending courses provided by employees and participation at job forums and conferences. It also includes regular offers of apprenticeships within the company.

In terms of training, the Group is 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 led to the hiring of six people in 2015 and three in 2016. In the United States, the subsidiary in St. Mary's, Pennsylvania got involved with the local education committee to play a consulting role in view of guiding training initiatives. In Greenville, Michigan, Mersen works with teachers at a local school to inform them of jobs and the resources to contribute to promote the employability of their students. In Toronto, Canada, the site supports the JobStart association to help jobless people find work that meets their ambitions.

Equivalent initiatives are being carried out throughout the world, as at the U.S. Greenville site, which works with the local Chamber of Commerce to offer training to young jobless people.

Strong relationships were formed with engineering schools and universities, such as Mersen Boostec in France, which participates in a large European Doctorate program, GraWIITon, at Newburyport, U.S., where the R&D department associates with Northeastern University and in Japan, where Mersen have developed a partnership with the Nagoya University of Technology.

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 Spain, the Cirprotec facility participated in the charitable work of the Fondation Vincente Ferrer (FVF), involving efforts to combat malnutrition in the Kurnool region of India. Thanks to this initiative, an average of 952 people benefits from the program every month.

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. This year, contributions were directed to a fund supporting children and adolescents with serious illnesses.

In India, Mersen continues to support government initiatives to provide training (in embroidery, sewing and hairdressing) for employees' wives, with the added benefit of getting jobs that will provide additional income for the families. 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.

Environmental approach

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 sustainable development sector, such as renewable energy, energy efficiency, and clean mass transit. In 2016, that sector represented approximately 38% 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 the energy transition. Thanks to solutions such as furnace insulation and heat recovery systems, the Groups helps to reduce the production and consumption costs associated with its customers' manufacturing processes. We also supply components that are central to speed variation systems and thus optimize the yield of industrial facilities.

Our 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 accident 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 incidents and good internal and external examples** for a Quality and Continuous Progress approach based on feedback from experience;
5. **Reduce consumption** of water, energy, raw materials and packaging and encourage the recycling or reuse of waste;
6. **Foster improvement** through continuous improvement, in particular via the introduction of an ISO 14001 environmental management system at certain key sites;
7. **Encourage the development of eco-design**, in particular through more extensive use of the dedicated EIME application.

In 2016, Mersen continued its review of the implications of the 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 exercises and the sharing of best practices should encourage lower consumption and energy savings at all the Group's key sites.

3. Minimize environmental impacts

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 constraints and plan ahead for potential regulatory changes, Mersen stepped up its preparations in several areas.

3.1. Comply with regulatory provisions

The Group monitors changes in the 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.

The European REACH regulation (Registration, Evaluation, Authorization, and Restriction of Chemicals) assigns industry the 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. The Group is preparing for the 2018 deadline for registering chemicals used in quantities below the limits set previously. To this end, it was decided that a working group should be set up to monitor this issue. It will become operational in 2017.

To ensure more effective monitoring of regulatory developments around the world, a regulatory watch unit composed of environmental correspondents in the company's principal operating regions (Europe, North America and China) was also set up in 2016. A report on these developments is presented to the Executive Committee twice a year.

With regard to toxic substances, Mersen is always highly vigilant as regards the implementation of protective measures, and a working group meets regularly to monitor their application and recommend improvements. These measures seek to ensure the protection of employees and the environment. Strict instructions are implemented at the sites concerned to ensure the maximum protection of persons required to work with these substances, particularly with regard to wearing appropriate protective gear (including masks and suits). Second, investments were made in aspiration systems and machine enclosure systems, which reduced dust levels significantly. Lastly, gaseous effluents are collected and processed prior to discharge into the atmosphere. At one site in France the Group decided to temporarily shut down an installation and to revise its operating procedure after occasional abnormal readings of airborne emissions were detected. Readings and measurements were taken by external organizations in order to assess any breaches of norms following the occasional problem. These measurements did not detect any breaches of the norms in force. However, the Group remains vigilant and continues to take the appropriate measurements to check emission levels at this installation on a regular basis.

Mersen participates actively in monitoring changes in European regulations and directives that could take effect in the coming years. Those include, for example, the Industrial Emissions Directive (IED), intended to prevent and reduce 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.

The Group's principal French manufacturing sites (Amiens, Angers, Bazet, Gennevilliers, Pagny-sur-Moselle and Saint-Bonnet de Mure, i.e., six sites out of eight) are classified as environmentally friendly installations (Installations Classées pour la Protection de l'Environnement - ICPE). Based on the level of potential pollution, some of the products stored or processes used are subject to different requirements (declaration, registration or authorization), which the Group meets in compliance with the law.

3.2. The pursuit of best practice

3.2.1. Circular economy

Mersen is seeking to reduce its environmental footprint by drawing inspiration from the virtues of the 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

The Group strives to offer products with a limited impact on the environment. To this end, it endeavors to acquire the best available technologies, i.e. techniques that satisfy most effectively the sustainable development criteria, when designing its new manufacturing lines and its new products.

In this context, Mersen 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;
- 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.

Last, certain Group facilities have integrated environmental criteria, such as the ISO 14001 certification, in their suppliers selection. Facilities with purchases of more than €4 million/year are starting to monitor more systematically 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: Over the last several years, the Group has participated actively 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

Land use does not constitute a specific issue with regard to the Group's business, as the vast majority of facilities are located in industrial zones where they do not occupy extensive areas compared to other industrial activities.

The Group continues to closely monitor the risks associated with soil pollution. 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 risks associated with soil pollution were incorporated in the risk mapping in 2013.

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 in comparison to that of 2015, and now covers 21 sites.

4.1. Environmental certifications and training

52% of the manufacturing sites included in the reporting scope are currently ISO 14001 certified, the recognized standard for the implementation of environmental management systems.

Environmental protection training was increased to 2,903 hours in 2016, up from 2,466 in 2015, an increase of almost 17%, a logical consequence of extending the reporting scope and also of greater awareness of the need for additional employee training on this matter.

ISO 14001 certifications	2016	2015
ISO 14001 certification rate	52%	50%
Training in environmental protection *(number of hours)*	2,903	2,466

FOCUS

Creating awareness of best environmental practices among employees

Every month throughout the year, the St. Mary's (United States) facility devotes a full day of training to safety and the environment.

Each employee at the plant whose birthday falls in that month must participate, thus ensuring that everyone receives the training.

4.2. Environmental provisions

In millions of euros	2016	2015
Amount of significant provisions for environmental risks	1.2	0.5

This amount relates to:

- A minor pollution risk detected at a site in France in 2010 dating back to the use by the site over 20 years ago (before it joined the Group) of certain processes and products that are no longer used;
- A pollution risk resulting from the use by a site in Canada over 30 years ago, before it joined the Group (it has since been sold) of certain processes and products that are no longer used.

4.3. Water and energy consumption and CO_2 emissions

In 2016 consumption was stable and even falling (gas down 8%), excluding the inclusion of three new sites in the reporting scope.

Efforts to cut energy consumption are increasing overall. These involve initiatives to increase employee awareness, as well as concrete measures. In 2016, the workshops at the La Mure, Pagny, St. Bonnet (France), Holytown (UK), Greenville (USA), Juarez (Mexico) and Yuequing (China) sites have now switched over to LED (Light-Emitting Diode) lighting, which uses less energy.

Water consumption fell 7% overall in comparison to 2015, and 17% if we exclude the new sites. Closer monitoring at Pagny and in Brazil in particular, helped to cut consumption drastically (Brazil: -54%).

However, water is not a particular issue for Mersen as the Group's manufacturing operations do not require large amounts of water at any of its sites. Some processes, particularly cooling-related, use water in closed systems.

	Unit	2016	2015
Electricity	MWh	166,239	161,472
Gas	MWh	147,569	158,816
CO_2 emissions(1)	Tons	102,405	101,325
Water	m^3	497,551	534,312

(1) Tons of CO_2 equivalent relate to reported energy consumption as well as GPL and domestic and diesel fuel.

4.4. Consumption of raw materials and metals

Consumption of raw materials fell overall in 2016 as compared to 2015, if we exclude the three new sites from the environmental reporting scope. The reductions for some raw materials such as wood (-17%) and cardboard (-31%) were the result of internal recycling.

	Unit	2016	2015
Timber	Tons	1,651	1,584
Cardboard	Tons	1,168	818
Coke	Tons	6,225	5,962
Copper	Tons	1,715	1,346

4.5. Waste

The volumes of waste generated by the business fell sharply in 2016 as compared to 2015 (-15%), at comparable scope.

The proportion of recycled waste is more or less in line with 2015, falling to 37% from 40% a year earlier. 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.

The introduction of internal recycling is also helping to reduce the consumption of other raw materials, such as at the Gennevilliers sites.

	Unit	2016*	2015*
Hazardous industrial waste*	Tons	1,465	1,226
Non-hazardous industrial waste	Tons	10,219	11,113
Including recycling:			
Recycled timber	Tons	484	563
Recycled cardboard	Tons	306	312
Recycled ferrous metal	Tons	598	764
Recycled artificial graphite	Tons	1,684	2,163
Percentage of waste recycled:		37%	40%

* *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

As part of the Group's environmental program, facilities continued their efforts and implemented programs to optimize and reduce energy and water consumption by installing equipment and new-generation energy-saving systems.

Training in eco-friendly processes through sessions dedicated to sharing best practices and through local publications also gained traction.

In addition, many local initiatives were carried out, which all constitute progress. The examples referred to below were identified at major facilities over the last two years (listed geographically).

Amiens, France

- Collaboration between the site's R&D with the university of Compiègne (France) on the analysis of copper and graphite powder so that it can be reused;
- Creating awareness among employees of safety and environmental issues and encouraging best practices.

Gennevilliers, France

- Specific environmental expenditures for verification supplies and services and maintenance;
- Implementation of an internal recycling system for palettes and wooden boxes, thereby reducing external purchasing;
- Packaging standardization efforts to limit over-consumption and streamline cardboard procurement;
- Research into procedures for reducing the use of certain substances in certain production cycles.

La Mure, France

- Replacement of the plant's entire lighting system by LEDs.

Pagny-sur-Moselle, France

- Investments to replace equipment with higher-yield, more energy-efficient systems (including transformers, compressors and lighting);
- Post-combustion energy recovery;
- Restoration of the plant's aspiration system to improve environmental protection;
- Replacement of the systems used to impregnate and dry graphite blocks by regulated systems that save energy;
- Development of LED lighting, which is more energy-efficient;
- Publication of monthly newsletters dedicated to safety and the environment to raise employee awareness of safety and environmental issues and promote best practices.

Saint-Bonnet-de-Mure, France

- Recovery and reuse of components from fuses found to be defective in testing;
- Development of a recovery system that captures rainwater for return to the groundwater;
- Installation of a treatment station for water polluted by a manufacturing process;
- Installation of heat recovery systems;
- Introduction of plastic film recycling;
- Gradual expansion of the use of LED lighting;
- Publication of an environmental bulletin to raise employees' awareness about safety and environmental issues and promote eco-friendly behavior.

Holytown, United Kingdom

- Replacement of lighting by LEDs;
- Replacement of furnace cooling pumps by more energy-efficient systems;
- Streamlining workloads to reduce work periods and electricity expenditures.

Bay City, United States

- Continuation of recycling efforts by raising awareness of environmental protection;
- The search for recycling options for certain products; identifying a use for recycled SiC coated graphite;
- Installation of digital meters on purification receptacles to improve checks and procedures and reduce the risk of accidents.

Greenville, United States

- Continuation of graphite recycling;
- Replacing lighting with energy-efficient LEDs;
- Maintenance of dust aspiration systems to ensure good air quality;

St Mary's, United States

- Implementation of a high-performance lighting system throughout the plant;
- Additional awareness-raising and training on the risks of spillage of potentially toxic products.

Juarez, Mexico

- Replacement of office lighting by more energy-efficient LED;
- Ongoing efforts to raise employee awareness of sound environmental habits.
- Additional staff training on environmental matters (ISO 14001; chemicals).

Sao Paulo, Brazil

- Continuation of initiatives promoting sound environmental habits, including an internal newsletter, 5S challenge, environmental controls, and materials controls.
- Developing new waste recycling alternatives.

Toronto, Canada

- Annual evaluation of environmental risks and action plan;
- Elimination of chemical and greasy wastes by an external service provider;
- Streamlining workloads to reduce work periods and electricity expenditures.

Chongqing, China

- Program to maintain and upgrade gas cleaning systems to improve their operating conditions;
- Training for all employees on new environmental protection legislation;
- Environmental risks training scheme.

Songjiang, China

- Awareness-raising on environmental issues.

Xianda, China

- Monitoring of the exhaust emission plan established in 2013;
- Monitoring of toxic substances and associated storage, transportation and processing measures since 2013; all toxic waste is now recorded and sent to a qualified company for disposal;
- Training and awareness-raising on environmental problems for the various employee categories.
- Construction of a temporary storage room for waste;
- Installation of an innovative risk analysis system.

Yuequing, China

- Post-combustion energy recovery;
- Replacement of the plant's entire lighting system by LEDs.

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 month[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 2016 the Songjiang and MEP (Zheijang Mingrong Electrical Protection - China) and Salem (United States) sites were included in the scope. In 2016, the companies included in the scope accounted for over 78% of total sales.

In the coming years, Mersen will consider 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 recapitulates the scope covered by each of the indicators. The "Indicators and specific definitions" paragraph below also provides additional explanation of 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 stating in particular 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, 2016.

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;
- distributes the framework and its indicators to 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 that:

- organizes data collection at company level by defining responsibilities and ensuring that the framework and its indicators are clearly understood;
- safeguards data traceability;
- ensures that the reporting schedule is adhered to;
- controls the exhaustiveness and consistency of the data that it reports and implements 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, based on 2016 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 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, HRIS), which represented less than 2.6% of the workforce in 2016.

The HRIS model chosen is based on monthly data collection, performed by the local teams. Once this data has been collected, it is archived in the system and cannot be changed. The Group thus cannot ensure the reliability of certain data that may be subject to minor subsequent modifications, Data on training hours are monitored simultaneously using Excel to offset the risk that the data extracted from the HRIS are not exhaustive. The local HR teams are regularly informed and trained in order to improve the quality of monthly reporting. As the social data are specific to local labor regulations, they are subject to enhanced controls at the Group level during consolidation to minimize any inconsistencies and ensure that the consolidated data are homogenous. Internal control activities have been bolstered this year, especially with the implementation of intermediate consistency checks on data reported at the end of September 2016. Additional consistency controls were performed 2016, particularly with regard to the absenteeism indicator. All discrepancies are investigated with the contributors responsible for reporting the data. In the event of failure to respond or a discrepancy observed that cannot be corrected, the scope concerned is removed from the scope of consolidation, and this scope is specified with regard to the data and in the summary table. The Group is working to strengthen these controls.

In addition, in order to reinforce the quality of data transmitted each month by all subsidiaries and to ensure the proper application of HRIS procedures and standards, an HR audit method was implemented and tested in 2016. It will be rolled out beginning in 2017; from now on, every year an internal site audit will be carried out throughout the Group.

4. Information regarding certain indicators and specific definitions

Absenteeism

Number of days of absence from work for any reason that the employer cannot anticipate: disease, workplace accidents, maternity/paternity leave, strikes and any other unforeseeable absence.

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.

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 in terms of issues related to the preservation of biodiversity and its operations. Thus, no specific measures are taken to monitor this indicator.

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.

Corporate governance bodies

The corporate governance bodies are the Executive Committee and the Board of Directors.

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. This involves employees whose disability has been recognized by an organization or institution and under the conditions set by current French regulations.

Employees suffering from an occupational disease (operations in France)

Because the concept of occupational disease varies significantly from country to country, this information is provided only for France. A disease 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, diseases that do not appear on the tables may also be included:

- diseases designated in a table of occupational diseases, 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; and,
- diseases not designated in a table of occupational diseases 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 the victim's death.

Environmental, health and safety (EHS) manager

An EHS manager is an employee who is responsible for managing environmental, health and safety matters.

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. For this fiscal year, we were unable to identify actions implemented locally by sites with company restaurants or with service providers in charge of staff catering.

Greenhouse gases

In the 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 a leverage.

Hiring

Total number of people hired during the fiscal year who meet the definition of "Workforce" described below.

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.

Local nationality

Local nationality is defined as the nationality of the country in which the company is located.

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).

Organization of working time and social Dialogue

Because 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.

Senior employees

Employees over 55 years of age.

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.

The HRIS model used is based on monthly data collection. Because training is not provided systematically on a monthly basis, they are 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.

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 and sub-contractors.

Overview of indicators

To facilitate the monitoring of the social, environmental and societal data in Mersen's reporting framework, the following table recapitulates 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	44
SOCIAL INFORMATION				
EMPLOYMENT				
Total workforce broken down by gender	Quantitative	Restricted	LA1	28
Total workforce broken down by age	Quantitative	Restricted		29
Total workforce broken down by geographical area	Quantitative	Restricted	LA1	28
Headcount broken down by category	Quantitative	Restricted		29
Number of new hires	Quantitative	Restricted	LA2	28
Number of dismissals	Quantitative	Restricted	LA2	28
Compensation policy and their development	Qualitative	Standard		27
ORGANIZATION OF WORK				
Policy on the organization of working time	Qualitative	Restricted/France		30
Percentage of the workforce working part-time	Quantitative	Restricted/France(1)		30
Absenteeism rate	Quantitative	Restricted (93% of the Group's workforce)	LA7	20, 30
LABOR RELATIONS				
Structure of the labor dialog	Qualitative	Restricted/Europe	LA4	21
Collective bargaining agreements	Qualitative	Restricted/France	LA5	21
HEALTH & SAFETY				
Safety policy	Qualitative	Standard	LA6 & LA8	31
List of occupational health and safety agreements	Qualitative	Restricted/France(1)	LA9	20
Number of safety visits	Quantitative	Standard		32
Frequency rate of occupational accidents with lost time (TF1)	Quantitative	Standard	LA7	33
Frequency rate of occupational accidents with and without lost time (TF2)	Quantitative	Standard	LA7	34
Severity rate (TFG) of occupational accidents	Quantitative	Standard	LA7	34
Number of occupational accidents with lost time concerning temporary staffing agency employees	Quantitative	Restricted/France(1)	LA7	34
Number of employees suffering from an occupational disease	Quantitative	Restricted/France(1)	LA7	34

(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	24
Number of hours of training	Quantitative	Restricted (94% of the Group's workforce)	LA10	24
DIVERSITY AND EQUAL OPPORTUNITY				
Diversity policy	Qualitative	Standard	LA13 & EC7	21
Percentage of women managers	Quantitative	Standard	LA13	21
Percentage of women on corporate governance bodies	Quantitative	Standard	LA13	21
Percentage of disabled employees in the workforce	Quantitative	Restricted/France	LA13	30
Percentage of senior employees in the workforce	Quantitative	Standard	LA13	28
Percentage of site managers of local nationality	Quantitative	Standard	EC7	21
PROMOTION OF AND COMPLIANCE WITH ILO CONVENTIONS (human rights)				
Conformity with the provisions of the ILO's key conventions	Qualitative	Standard	HR	35
ENVIRONMENTAL INFORMATION				
GENERAL ENVIRONMENTAL POLICY				
Organization of the company to take environmental concerns into account	Qualitative	Standard/Group policy	Managerial approach	37
ISO 14001 certification rate	Quantitative	Standard		40
Percentage of companies with a dedicated EHS manager	Quantitative	Standard		31
Number of hours of environmental protection training	Quantitative	Restricted (78% of the Group's workforce)		40
Resources dedicated to environmental risk prevention	Qualitative	Standard	EN30	38
Amount of significant provisions for environmental risks	Quantitative	Standard	EN28 & EC2	40
Circular economy	Qualitative	Standard		38
POLLUTION AND WASTE MANAGEMENT				
Recycled ferrous metal	Quantitative	Standard		41
Recycled artificial graphite	Quantitative	Standard		41
Non-hazardous industrial waste	Quantitative	Standard	EN22	41
Hazardous industrial waste	Quantitative	Standard	EN22	41
Measures to mitigate noise pollution and all other types of pollution specific to an activity	Qualitative	Standard		39

** 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
SUSTAINABLE USE OF RESOURCES				
Volume of water consumed	Quantitative	Standard	EN8	40
Electricity consumption	Quantitative	Standard	EN3 & 4	40
Gas consumption	Quantitative	Standard	EN3 & 4	40
Wood consumption	Quantitative	Standard	EN1	41
Cardboard consumption	Quantitative	Standard	EN1	41
Copper consumption	Quantitative	Standard	EN1	41
Coke consumption	Quantitative	Standard	EN1	41
Recycled timber	Quantitative	Standard	EN2	41
Measures to improve energy efficiency and use of renewable energy sources	Qualitative	Standard	EN6	40
Land use	Qualitative	Standard		39
CLIMATE CHANGE				
CO_2 emissions	Quantitative	Standard	EN16	40
Measures to adapt to climate change	Qualitative	Standard		39
BIODIVERSITY PROTECTION				
Measures taken to preserve and develop biodiversity	-	Standard	EN11 to 15, EN25	45
SOCIETAL INFORMATION				
REGIONAL, ECONOMIC AND SOCIAL IMPACT OF THE ACTIVITIES				
Local and regional impact of activities on employment and development	Qualitative	Standard	EC8 & EC9	35
RELATIONS WITH STAKEHOLDERS				
Dialogue with stakeholders	Qualitative	Standard	4.14 to 4.17	35
Support, partnership and sponsorship initiatives	Qualitative	Standard	EC1 & 4.11	36
OUTSOURCING AND SUPPLIERS				
Inclusion of social and environmental concerns in purchasing policy	Qualitative	Standard/Group policy	EC6 & HR2	35
FAIR OPERATING PRACTICES				
Measures implemented to prevent all forms of corruption	Qualitative	Standard/Group policy	SO2 to 4, SO7 & SO8	35
Percentage of companies covered by an internal audit in the past 3 years	Quantitative	Standard		35
Managers who have attended the anti-fraud training	Quantitative	Standard	SO3	35
Measures to protect consumer health and safety	Qualitative	Standard	PR1 & PR2	46
Other actions taken in support of human rights	Qualitative	Compliance brought about by implementation of the ethics charter	HR	35

** 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.*

Report by the independent third party,

on the consolidated human resources, environmental and social information included in the management report for the year ended 31th of December 2016

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 2016, 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).

Our work involved six persons and was conducted between September 2016 and March 2017 during a five week 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"

(2) 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 2 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 the persons responsible for preparing the CSR Information in the departments in charge of collecting the 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 25% of headcount and between 15% and 23% of quantitative environmental data disclosed.

For the remaining consolidated CSR Information, we assessed its consistency based on our understanding of the company.

We also assessed the relevance of explanations provided for any information that was not disclosed, either in whole or in part.

(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 ; Percentage of employees with disabilities.
Environmental quantitative information: Water consumption ; Electricity consumption ; Gas consumption ; Copper consumption ; Amount of hazardous and non-hazardous industrial waste ; Part of recycled waste ; Emissions of CO_2 related to energy consumptions.
Qualitative information: Remuneration and their evolution ; Organization of social dialogue including information procedures, consultation and negotiation with the employees ; 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) Juarez (Mexico) ; Gennevilliers (France) ; Saint Sylvain d'Anjou (France) ; Chongqing (China) ; Zhejiang (China).

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 7th, 2017

KPMG S.A.

Philippe Arnaud
Partner
Sustainability Services

Philippe Cherqui
Partner

Corporate governance

3

ADMINISTRATIVE AND MANAGEMENT BODIES

On May 11, 2016, Mersen opted for a governance structure composed of a Board of Directors and a Chief Executive Officer, with three specific committees. The Group refers to the AFEP-MEDEF corporate governance code for listed companies.

More generally, the Group defines and strictly applies the most demanding rules in terms of transparency, quality of information, and balance of power.

1. Board practices

1.1. The Board of Directors

The composition, operation, duties and remit of the Board of Directors and of its Committees, as well as their tasks, are described in the "Report of the Chairman of the Board of Directors on the preparation and organization of the Board's work and on internal control procedures" at the end of this section.

1.2. 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. The Chief Executive Officer may not be more than 65 years of age. When the Chief Executive Officer reaches the 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 has been appointed.

1.3. 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.

In addition to the Chief Executive Officer **(Luc Themelin)**, the Executive Committee is composed of:

Thomas Baumgartner
Group Vice President, Finance and Administration

Gilles Boisseau
Group Vice President, Electrical Power

Christophe Bommier
Group Vice President, Technology, Research, Innovation and Business Support

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

2. Summary biographies of members of the Board of Directors

Isabelle Azemard

Ms. Azemard is a graduate of the Institut Supérieur d'Electronique de Paris (ISEP) and the Institut des Hautes Etudes de la Défense Nationale. She spent her career in 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. Since 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. Since Ardian is a shareholder in Mersen, Yann Chareton cannot be regarded as an independent member of the Board of Directors in the opinion of the Governance and Remuneration Committee.

Hervé Couffin

A graduate of the École Polytechnique and a qualified Corps des Mines engineer, Hervé Couffin started his career working for the French industry ministry. He joined the Paribas group in 1983 as director responsible for principal investments. He became a member of the Executive Committee of Paribas Affaires Industrielles in 1993, then senior partner and member of the Executive Committee of PAI Partners until 2004. In 2005, he founded Callisto, a financial consulting firm that advises management teams in leveraged buy-outs. He is Callisto's Chairman and CEO. In addition, he is an independent director of several companies. On the advice of the Governance and Remuneration Committee, the Board considered Hervé Couffin as an independent member of the Board of Directors until December 21, 2016, and thereafter as a non-independent member.

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 Board member and corporate secretary of the Group in 2009. On the advice of the Governance and Remuneration Committee, Catherine Delcroix is considered as 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 Connectors, Fuel, Reactors and Cleanup units. She has been a member of the Executive Management Board (EMB) of the Areva Group and Senior Vice President for Safety, Security and Operations Support. On March 1, 2014, she was appointed Chairman and CEO of Areva TA and Director of the Propulsion and Research Reactors Business Division. On the advice of the Governance and Remuneration Committee, Carolle Foissaud is considered as an independent member of the Board of Directors.

Dominique Gaillard

A graduate of the Ecole Polytechnique, Ecole 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 (1988-1990). 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). As a representative of Ardian France and advisor to the AXA Capital Fund LP, which is a Mersen shareholder, Dominique Gaillard cannot be regarded, in the opinion of the Governance and Remuneration Committee, as an independent member of the Board of Directors.

Jean-Paul Jacamon

Jean-Paul Jacamon is a graduate of the École polytechnique and of the École des Mines. After starting his career at the French Ministry of Industry and Datar, he joined Schneider Electric in 1981. He became Chairman and CEO of Spie-Trindel and Spie Enertrans and, in 1993, Senior Executive Vice-President of Spie Batignolles. In 1995, he was appointed CEO of the European Division and, in 1996, CEO. He served as Vice Chairman and Managing Director of Schneider Electric from 1999 to 2002. Since that time, he has served as a company director. On the advice of the Governance and Remuneration Committee, Jean-Paul Jacamon is considered as an independent member of the Board of Directors.

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.

Henri-Dominique Petit

After high-level scientific training (Ecole Supérieure de Physique et de Chimie in Paris, followed by a postgraduate degree in nuclear physics and a PhD 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 as an independent member of the Board of Directors.

Thierry Sommelet (permanent representative of Bpifrance Investissement)

A graduate of the Ecole Nationale des Ponts et Chaussées French engineering school, with an MBA from INSEAD, Thierry Sommelet began his career in the 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, since 2015, Director, member of the executive committee at Bpifrance Investissement Mid & Large Cap. Since Bpifrance Investissement is a shareholder in Mersen, Thierry Sommelet cannot be regarded as an independent member of the Board of Directors in the opinion of the Governance and Remuneration Committee.

Marc Speeckaert (term ended in July 2016)

After graduating in applied economics and obtaining an MBA from the Catholic University of Louvain (Belgium), Marc Speeckaert also attended an Advanced Management Program at Wharton (University of Pennsylvania, US). He began his career with Touche Ross & Cie, before spending ten years with ITT Corporation where he held several financial positions. During 1986, he joined the Glaverbel group in Belgium where he went on to become chief financial officer, after taking responsibility for management control. From 1991 to 1994, he held the same position with the Lhoist group. From 1994 to 2004, he was chief financial officer, then chief strategy officer of Belgacom in Belgium. He was Managing Director of Sofina for 12 years (from February 2004 to June 2016). Since Sofina is a shareholder in Mersen, Marc Speeckaert 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 directed Degussa's French subsidiary. In 2007, she moved to EADS as Chief of Staff to the CEO Louis Gallois. In 2012, she joined the Research Directorate of the Airbus Group, where she became Head of Strategy, Planning and Finance. She now focuses mainly on her directorships and newly created consultancy firm. Ulrike Steinhorst is a German lawyer and a graduate of Paris II – Panthéon University, HEC (EMBA) and the French Ecole Nationale d'Administration (International Cycle). She has been an independent director of Valeo since 2011 and has chaired the Strategy Committee since July 2016. 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 member of the Board of Directors.

Philippe de Verdalle (permanent representative of Fonds Nobel)

A graduate of IEP Paris with an MBA from INSEAD, Philippe de Verdalle began his career in the capital markets in Paris and New York. In 1995, he joined CCF (which became HSBC France in 2000) as director. He was appointed Managing Director with responsibility for investment in parallel with his role as Chairman and CEO of the Nobel Fund from 2000 to 2011. During this time, Philippe de Verdalle oversaw numerous investment transactions on the equity markets and with private equity funds. From 2012 to 2015, he served on the Executive Committee of UBS France. In 2015, he joined Weiberg Capital Partners as a partner and became Chief Executive Officer of Fonds Nobel. On the advice of the Governance and Remuneration Committee, Fonds Nobel is considered as an independent member of the Board of Directors.

3. Biography of the Chief Executive Officer

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 in 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.

4. Board of Directors

Members of the Board of Directors	Date of first appointment to the Supervisory Board	Date of re-election as director (for the remaining term in office)	End of term in office
Isabelle AZEMARD Born 02/27/1952 Member of the Governance and Remuneration Committee **Business address:** 3 bd Pershing - Paris	05/15/2014	05/11/2016	Annual General Meeting called to vote on the 2017 financial statements
Bpifrance Investissement represented by **Thierry SOMMELET** Born 12/10/1969 Member of the Audit and Accounts Committee **Business address:** 14 rue Le Peletier - Paris	10/30/2013 (co-opted)	05/11/2016	Annual General Meeting called to vote on the 2018 financial statements
Yann CHARETON Born 01/08/1978 Member of the Audit and Accounts Committee **Business address:** Piazza San Fedele 2 - Milan	05/19/2009	05/11/2016	Annual General Meeting called to vote on the 2016 financial statements
Hervé COUFFIN Born 10/26/1951 Chairman of the Board of Directors Member of the Audit and Accounts Committee (i) and of the Governance and Remuneration Committee (i) Chairman of the Strategy Committee Independent director (ii)** **Business address:** 12 place Victor Hugo - Paris	05/19/2009	05/11/2016	Annual General Meeting called to vote on the 2016 financial statements
Catherine DELCROIX Born 09/19/1951 Member of the Audit and Accounts Committee Independent director** **Business address:** 25 rue Cino Del Duca - Paris	03/10/2015 (co-opted)	05/11/2016	Annual General Meeting called to vote on the 2018 financial statements
Carolle FOISSAUD Born 09/02/1966 Member of the Audit and Accounts Committee Independent director** **Business address:** Route de St-Aubin - Villiers-le-Bacle	5/16/2013	05/11/2016	Annual General Meeting called to vote on the 2016 financial statements

* *In accordance with Article 5 of the Rules of Procedure, each member of the Board of Directors must hold at least 800 shares for the entire duration of his or her term in office. These shares must be held in registered form.*
** *According to AFEP-MEDEF criteria.*
*** *Listed company.*
(i) *until May 11, 2016, (ii) until December 21, 2016 (iii) until July 7, 2016*

Number of shares[(1)] or BSAR[(2)] stock warrants held conferring rights to Mersen's share capital*	Other positions held
800 [(1)] 0 [(2)]	**Director of:** AXA mutuelle IARD and mutuelle Vie, Latécoère***, Majencia
2,242,770 [(1)] 0 [(2)]	**Member of the Supervisory Board or of the Board of Directors (permanent representative of Bpifrance):** Secure Soitec**, Talend SAS, Technicolor. **Director of:** Tyrol Acquisition 1 and 2 (in his own name). **Chairman of the Supervisory Board of:** Greenbureau SA
920 [(1)] 0 [(2)]	**Member of the Board of Managers**: ACF I Investment **Chairman of the Board of Directors:** Italmatch Chemicals **Director:** Calimax 1 SA, Calimax 2 SA, NHV Holding, PhotoTechLuxco 1 SA, PhotoTechLuxco 2 SA, Irca Spa, Dedalus Spa, Dedalus Holding Spa, Dedalus Holding 2 Spa, Mikrolux 1 SA, Mikrolux 2 SA, Mikrolux 3 SA until February 2017,
56,667 [(1)] 13,000 [(2)]	**Chief Executive Officer of:** CALLISTO **Managing Partner of:** HC Conseil **Director of:** ANTARGAZ, IPSEN*** **Member of the Supervisory Board:** Gerflor
800 [(1)] 0 [(2)]	**Member of the Supervisory Board:** MNR Group until December 31, 2016
823 [(1)] 0 [(2)]	**Director of:** GFI***

Members of the Board of Directors	Date of first appointment to the Supervisory Board	Date of re-election as director (for the remaining term in office)	End of term in office
Dominique GAILLARD Born 02/17/1960 Member of the Remuneration and Appointments Committee and of the Strategy Committee **Business address:** 20 place Vendôme - Paris	05/19/2009	05/11/2016	Annual General Meeting called to vote on the 2016 financial statements
Jean-Paul JACAMON Born 08/05/1947 Chairman of the Appointments and Remuneration Committee Member of the Strategy Committee Independent director** **Business address:** 11 bd de la Porte verte - Versailles	05/19/2009	05/11/2016	Annual General Meeting called to vote on the 2018 financial statements
Edward KOOPMAN(3) Born 02/09/1962 **Business address:** 31 rue de l'Industrie - Brussels		7/7/2016 (co-opted)	Annual General Meeting called to vote on the 2018 financial statements
Henri-Dominique PETIT Born 07/03/1948 Vice-Chairman of the Supervisory Board (i) Chairman of the Audit and Accounts Committee Member of the Governance and Remuneration Committee Independent director** **Business address:** 1 bis avenue de Lowendal - Paris	05/19/2009	05/11/2016	Annual General Meeting called to vote on the 2018 financial statements
Fonds NOBEL **Represented by Philippe de VERDALLE** Born 12/23/1961 Independent director** **Business address:** 20, rue Quentin Bauchart - Paris		05/11/2016	Annual General Meeting called to vote on the 2020 financial statements
Marc SPEECKAERT Born 05/23/1951 Member of the Strategy Committee (iii)	05/19/2009	05/11/2016	July 7, 2016 (resignation)
Ulrike STEINHORST Born 12/02/1951 Chairman of the Governance and Remuneration Committee (ii) Independent director** **Business address:** 3, Villa du Coteau - Clamart	5/16/2013	05/11/2016	Annual General Meeting called to vote on the 2016 financial statements

** In accordance with Article 5 of the Rules of Procedure, each member of the Board of Directors must hold at least 800 shares for the entire duration of his or her term in office. These shares must be held in registered form.*
*** According to AFEP-MEDEF criteria.*
**** Listed company.*
(i) until May 11, 2016, (ii) until December 21, 2016 (iii) until July 7, 2016
(3) The shares indicated for E. Koopman are held by Sofina.

Number of shares[(1)] or BSAR[(2)] stock warrants held conferring rights to Mersen's share capital*	Other positions held
790 (1) 0 (2)	**Member of the Board of Managers:** ACF I Investment Sarl **Chairman of the Board of Directors:** Ardian Italy Srl, Ardian Spain SL **Chairman of the Management Board:** Ardian France **Chairman of the Supervisory Board:** Ardian Germany GmbH **Vice-Chairman of the Supervisory Board:** Fives **Managing Director:** APEP GmbH (AXA Private Equity Participations GmbH) **CEO:** Ardian, Ardian Holding **Member of the Board of Directors:** Ardian Investment UK Limited, Ardian Investment Switzerland Holding AG, RPAX One SA **Director and Managing Director:** Penfret, SA **Member of the Supervisory Committee:** Ardian US LLC **Member of the Supervisory Board:** Novafives **Vice-president:** AXA CDP Co-Investment Fund LLC, AXA Co-Investment II LLC, AXA PE FS LLC **Director:** AXA CEE Management Ltd, AXA Co-Investment II Ltd **Member of the AESF V Committee:** Ardian Investment UK Limited **Member of the ASF V Committee**: Ardian Investment UK Limited **Member of the ASF VI Committee:** Ardian Investment UK Limited **Chairman, Member of the Management Committee and Coordination Committee:** AXA Infrastructure Investissement **Non-voting director:** Club Med Holding
2,829 (1) 3,200 (2)	**Director of:** NGE
1,679,852 (1) 0 (2)	**Director of:** The Hut Group (UK), Polygone SA, Laurence Dumont
832 (1) 800 (2)	**Senior Advisor** to the European investment bank DC Advisory **Member of the Supervisory Board of:** RG Groupe **Non-voting director** of Ipackchem
575,556 (1) 0 (2)	**Chief Executive Officer:** Fonds Nobel **Member of the Board of Directors (representing Fonds Nobel):** The Noble Age Group
1,083 (1) 0 (2)	**Director of:** SES (Luxembourg), Rapala (Finland), Maison Chapoutier (France), Hydralis
800 (1) 0 (2)	**Member of the Board of Directors of:** Valeo***

5. Chief Executive Officer

Name	Date of first appointment	Most recent renewal date	End of term in office	Number of shares[1] or BSAR stock warrants[2] held conferring rights to Mersen's share capital	Other positions held
Luc Themelin Born 02/23/1961 Director General (since May 11, 2016)	05/19/2009	05/16/2013	05/16/2017	9,747 [1] 4,000 [2]	Chairman and/or director of various Mersen group subsidiaries.

6. Conflicts of interest involving administrative and management bodies

As far as the Company is aware, there are no family ties between members of the Board of Directors and key management personnel, nor among key management personnel.

No members of the Board of Directors or key management personnel have been convicted of fraud for at least the past five years.

No members of the Board of Directors 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 key management personnel have been charged with any other offence or had any official public disciplinary action taken against them 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 key management personnel with respect to Mersen.

The members of the Board of Directors, Chief Executive Officer and Group's key management personnel have undertaken to refrain from using or disclosing the privileged information that they hold for the purpose of buying or selling the Company's shares and not to carry out any transaction of this type during the black-out periods. For fiscal 2017, the black-out periods are:

- **from January 12 to January 27, 2017 inclusive:** owing to the announcement of 2016 fourth-quarter sales on January 26, 2016
- **from February 7 to March 8, 2017 inclusive:** owing to the announcement of the 2016 annual financial statements on March 8, 2017
- **from April 12 to April 27, 2017 inclusive:** owing to the announcement of the 2016 first-quarter sales on April 26, 2017
- **from July 2 to August 1, 2017 inclusive:** owing to the announcement of half-yearly sales on July 31, 2017
- **from October 11 to October 26, 2017 inclusive:** owing to the announcement of the 2017 third-quarter sales on October 25, 2016

The black-out periods specified above are set notably in accordance with the AMF recommendations of November 3, 2010 (AMF Recommendation No. 2010-07) 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.

There is no service agreement between members of the administrative or management bodies and Mersen or any of its subsidiaries.

7. Service agreements providing for the grant of future benefits

Mersen has not entered into any service agreements providing for the grant of future benefits.

Compensation and benefits in kind

Pursuant to the law of July 3, 2008 transposing European directive 2006/46/EC of June 14, 2006 into French law, the Mersen group refers to the corporate governance code for listed companies drawn up by the AFEP-MEDEF (Code revised in November 2016) in drafting the report set forth in Article L. 225-68 of the French Commercial Code.

1. Compensation of corporate officers: in accordance with the provisions of Article L. 225-102-1 of the French Commercial Code

The aggregate amount of total compensation and benefits of any kind paid during fiscal 2016 to Mersen's corporate officers, namely the members of the Board of Directors, the Chairman and Vice-Chairman of the Supervisory Board (until the change of governance that took place on May 11, 2016) and the Chief Executive Officer, came to €1,198,690 broken down into:

- compensation payable to corporate officers as presented in the summary tables on the following pages;
- compensation paid to members of the Board of Directors. Attendance fees for 2016 are paid in early 2017, divided among the members of the Board of Directors. The rules for the payment of attendance fees stipulate that a major portion of those fees is allotted based on attendance at meetings of the Board or of its committees. The rules are defined in detail in the Chairman's Report. They were allocated between the members of the Board of Directors as follows:

Amounts due in respect of the financial year *(in euros)*	2016	2015
Isabelle Azemard	19,522	18,691
Bpifrance Investissement	25,116	27,873
Yann Chareton	18,649	20,558
Hervé Couffin	28,571	26,417
Catherine Delcroix	22,415	17,326
Carolle Foissaud	21,263	21,252
Dominique Gaillard	22,447	25,605
Jean-Paul Jacamon	24,446	27,827
Edward Koopman (1)	8,023	NA
Nobel Fund (2)	9,858	NA
Henri-Dominique Petit	30,226	29,172
Marc Speeckaert (3)	9,313	20,548
Ulrike Steinhorst	24,151	24,190
TOTAL	264,000	264,000

(1) Member of the Board of Directors, replacing Marc Speeckaert since July 7, 2016
(2) Appointed by the GM of May 11, 2016
(3) Member resigned on July 7, 2016

On appointing Hervé Couffin as its Chairman on May 11, 2016, the Board of Directors decided to award him a fixed annual compensation package of €80,000, identical to what he was paid as Chairman of the Supervisory Board. As the Board did not appoint a Vice-Chairman, Henri-Dominique Petit only received his compensation as Vice-Chairman for the half of the year only.

On May 11, 2016, the Board of Directors decided to maintain the components of Luc Themelin's compensation package such as the Supervisory Board had approved it on March 8, 2016, consisting of a fixed salary 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 incentive;
- a variable portion of between 0 and 100% maximum of the basic salary. The maximum threshold of 100% may be increased by a multiplying factor of 1.4 in the case of outperformance compared with the upper bound set for the calculation of the variable portion. The variable portion is composed of financial objectives (70%, broken down into 35% based on the Group's ROCE and 35% on Group Cash) and personal objectives, at 30%. The indicator used to calculate the ROCE is current operating income after taxes.

The 2016 financial objectives were based on the Group's annual budget.

The personal and financial objectives are reviewed every year by the Governance and Remuneration Committee, based on the Group's strategic priorities. For 2016 the personal objectives related to the following themes, inter alia: (i) productivity gains, (ii) the cost reduction plan, (iii) the new organizational structure, (iv) the share price, (v) the R&D road map and (vi) security.

Details of the personal objectives are not made public for reasons of confidentiality.

In accordance with the French "Sapin 2" Act, the details of Luc Themelin's remuneration policy for 2017 will be submitted to the General Meeting of May 18, 2017 for approval.

SUMMARY OF THE COMPENSATION AND BENEFITS, OPTIONS AND SHARES GRANTED TO EACH MANAGEMENT BOARD MEMBER

The components of 2016 compensation described on pages 83 to 85 will be submitted for an advisory vote of the shareholders at the General Meeting of May 18, 2017.

- **Luc Themelin, chairman of the Management Board (until May 11, 2016), Chief Executive Officer (since May 11, 2016)**

(in €)	2016	2015
Compensation and benefits payable in respect of the fiscal year (broken down below)(1)	842,088	597,742
Valuation of shares granted freely during the fiscal year (2)(3)	50,873	122,482
TOTAL	**892,961**	**720,224**

(1) Compensation includes the incentive payment in respect of 2015 paid in 2016.
(2) For 2015, bonus preference shares subject to performance criteria are valued at €6.08 per share (French tax resident). This valuation was calculated assuming 100% achievement of performance criteria.
(3) For 2016, bonus preference shares subject to performance criteria are valued at €2.46 per share (French tax resident). This valuation was calculated assuming 100% achievement of performance criteria.

- **Thomas Baumgartner, Member of the Management Board until May 11, 2016**

(in €)	2016	2015
Compensation and benefits payable in respect of the fiscal year (broken down below)(1)	324,138	246,765
Valuation of shares granted freely during the fiscal year (2)(3)	34,907	72,284
TOTAL	**359,045**	**319,049**

(1) Compensation includes the incentive payment in respect of 2015 paid in 2016.
(2) For 2015, bonus preference shares subject to performance criteria are valued at €6.08 per share (French tax resident). This valuation was calculated assuming 100% achievement of performance criteria.
(3) For 2016, bonus preference shares subject to performance criteria are valued at €2.46 per share (French tax resident). This valuation was calculated assuming 100% achievement of performance criteria.

SUMMARY OF THE COMPENSATION PAYABLE TO EACH MANAGEMENT BOARD MEMBER

Luc Themelin, chairman of the Management Board (until May 11, 2016), Chief Executive Officer (since May 11, 2016)

(in €)	2016 Amounts payable for 2016	2016 Amounts paid in 2016	2015 Amounts payable for 2015	2015 Amounts paid in 2015
Fixed salary	440,000	440,000	440,000	440,000
Variable salary	358,402	117,404	117,404	282,746
Incentives	20,992	17,762	17,931	19,200
Benefits in kind	22,694	22,694	22,407	22,407
TOTAL	**842,088**	**597,860**	**597,742**	**764,353**

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

Thomas Baumgartner, Member of the Management Board until May 11, 2016

(in €)	2016 Amounts payable for 2016	2016 Amounts paid in 2016	2015 Amounts payable for 2015	2015 Amounts paid in 2015
Fixed salary	200,000	200,000	200,000	200,000
Variable salary	100,806	26,281	26,281	71,142
Incentives	16,496	10,269	10,438	15,838
Participation	2,597	6,041	5,840	1,492
Benefits in kind	4,239	4,239	4,206	4,206
TOTAL	**324,138**	**246,830**	**246,765**	**292,678**

Hervé Couffin, Chairman of the Supervisory Board (until May 11, 2016), Chairman of the Board of Directors (since May 11, 2016)

(in €)	2016 Amounts payable for 2016	2016 Amounts paid in 2016	2015 Amounts payable for 2015	2015 Amounts paid in 2015
Fixed salary	80,000	80,000	80,000	80,000
Attendance fees	28,571	28,571	26,417	26,417
Benefits in kind	0	0	0	0
TOTAL	**108,571**	**108,571**	**106,417**	**106,417**

Henri-Dominique Petit, Vice-Chairman of the Supervisory Board (until May 11, 2016)

(in €)	2016 Amounts payable for 2016	2016 Amounts paid in 2016	2015 Amounts payable for 2015	2015 Amounts paid in 2015
Fixed salary	10,000	10,000	20,000	20,000
Attendance fees	30,226	30,226	29,172	29,172
Benefits in kind	0	0	0	0
TOTAL	**40,226**	**40,226**	**49,172**	**49,172**

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.

2. Summary of commitments given to Management Board members

	Employment contract	Supplementary pension scheme	Compensation and benefits due or likely to be payable owing to the cessation or change in duties	Indemnity relating to a no-compete clause
Luc Themelin Chairman of the Management Board until May 11, 2016, then Chief Executive Officer Appointment of May 11, 2016, which expires on May 16, 2017	NO	YES(1)	YES(2)	YES
Thomas Baumgartner Member of the Management Board Appointment of May 16, 2013, which expired on May 11, 2016	YES	NO	NO(3)	NO

(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 due or likely to be paid on grounds of termination or change in duties are described below (Agreements referred to in Article L.225-38 of the French Commercial Code).

(3) Excluding severance pay that may be paid upon termination of the employment contract.

3. Agreements regulated by Article L. 225-38 of the French Commercial Code

Review of the agreement

On March 7, 2017, the Board of Directors re-examined the agreement referred to above, in accordance with the order of July 31, 2014 and decided:

i) to maintain the agreement in its entirety in the interests of the Company, and

ii) based on the most recent recommendations in the AFEP/MEDEF code, as amended on November 16, 2016, to amend the rules regarding the obligating event giving rise to payment of the severance payment granted to the Chief Executive Officer, as of 2017:

The section regarding the termination of a corporate officer is thus amended as follows (the rest is not changed):

"If the Mersen Group should 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 (specifically by dismissal, non-renewal of the term in office for any reason whatsoever or the elimination of duties following a conversion or merger, except for a change in corporate governance leading to his appointment as Chairman of the Management Board of a société anonyme with a Supervisory Board and a Management Board), a lump sum payment will be made to Luc Themelin, calculated as stated below after determining the applicable performance conditions (the "Severance Payment"), when this departure is required."

iii) to add the benefit of the supplementary pension scheme, which had not been analyzed as falling within the scope of application of the agreements referred to in article L. 225-38 of the French Commercial Code and which will be submitted to a vote by the General Meeting of May 18, 2017 in application of article L. 225-42 of the French Commercial Code.

Under this scheme, Luc Themelin would receive a supplementary pension that would correspond to 20% of the amount of his average fixed salary for the last three years and 50% of his maximum variable salary, due to his length of service with the Group. The purpose of this scheme is to enable Mersen to compensate and reward its Chief Executive Officer for his loyalty.

At present, in view of his seniority of 28 years in the Group, the estimated amount of the annuity under the complementary pension scheme paid to Luc Themelin would amount to €132,000, before tax and social charges.

Luc Themelin is also eligible for 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.

Severance payment for Luc Themelin:

By a decision dated May 11, 2016, the Board of Directors decided to maintain for Luc Themelin, in his capacity as Chief Executive Officer, the same benefits as those that had been granted in respect of his previous roles as Chairman and Member of the Management Board in the event of his departure, in application of the provisions of Articles L.225-38 and L.225-90 of the French Commercial Code, under the conditions indicated below, it being specified that the conditions for the payment of a severance payment in the event of removal were supplemented by a decision of the Board of Directors on March 7, 2017, in order to comply with the recommendations of the AFEP-MEDEF Code:

No-compete and non-solicitation clause

Should his term in office as Chief Executive Officer end, and in return for signing a no-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 in office. 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 of the termination of his term in office. The terms of this undertaking will be set forth in a letter to Luc Themelin.

The no-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 no-compete and non-solicitation undertaking will be laid down and structured as a no-compete undertaking, if necessary.

Termination of his term in 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 in office as Chief Executive Officer (notably by dismissal, non-renewal of the term in 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 in the performance conditions applicable (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 salary and bonus, excluding benefits in kind and incentives) paid to Luc Themelin during the thirty-six 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 has 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).

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

Performance in year N 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 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.

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.

4. Compensation and benefits due in respect of 2016 to senior managers (Executive Committee)*

(Gross amounts in euros)	2016
Basic salaries	1,447,040
Performance-related bonuses	632,731
Benefits in kind	27,004
TOTAL	**2,106,775**

Note 1: The bonus, varying between 0% and 60% maximum of basic salary.
Note 2: Benefits in kind correspond to a company car.
** Excluding corporate officers (Luc Themelin and Thomas Baumgartner, corporate officer until May 11, 2016).*

5. Compensation and benefits paid to senior managers, including corporate officers

Recommendations concerning basic salaries are made to the Board by the Governance and Remuneration Committee (GRC) after seeking the opinion of specialized consultants on current market rates.

The bonus system for the Chief Executive Officer and the members of the Executive Committee is based on performance in relation to:

For the Chief Executive Officer and Chief Financial Officer:

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

For the other members of the Executive Committee:

- Group-wide operating cash flow objectives (before restructuring) for 30%,
- the Group's Current Operating Margin targets (or the Group's divisions for some members of the COMEX) for 30%
- certain individual objectives set at the beginning of the fiscal year for 40%.

Under his employment agreement, Luc Themelin receives the benefit of a top-up pension plan. It is stipulated that Luc Themelin is the sole beneficiary of this pension plan within the Company.

6. Loans and guarantees granted to senior managers

None.

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 US, Canada and Australia. The methods used to calculate incentives vary by company and country. They include both financial criteria (operating income, EBIT and EVA) and, in some cases, technical criteria, such as safety improvements, customer service and scrap rates, etc.

(in € thousands)	2016	2015	2014	2013	2012
Amounts allocated to employees	2,701	3,433	3,656	2,956	1,767
Number of beneficiaries	1,827	1,919	2,159	2,172	1,713

8. Employee profit-sharing

Profit-sharing agreements are in place at all the Group's subsidiaries in France with more than 50 employees, in accordance with Articles L. 442-2 and R. 442-2 of the French Labor Code and at the majority of the North American subsidiaries.

(in € thousands)	2016	2015	2014	2013	2012
Amounts allocated to employees	2,367	1,496	1,031	1,075	934
Number of beneficiaries	1,237	1,259	778	1,173	899

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 authorized 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 its 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 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 15, 2014.

To date, the Board of Directors has not made any use of this authorization.

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 the stock subscription plans are subject to performance conditions.

The total number of stock subscription options still outstanding stands at 526,997, i.e. 2.6% of the share capital. Members of the Management Board have no options to purchase or to subscribe 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 07	Jan. 22 09	May 21 14	
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*
Thomas Baumgartner (corporate officer until May 11, 2016)	*4,797**	*9,704**	*18,000*	*32,501*
- 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(1)	*9,594*	*25,876*	*36,000*	*71,470*
- 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, 2016	0	32,738	0	32,738
Options canceled at Dec. 31, 2016	91,532	5,391	37,800	134,723
- o/w canceled in 2016	*0*	*0*	*19,800*	*19,800*
OPTIONS THAT MAY STILL BE EXERCISED	**86,344**	**328,453**	**112,200**	**526,997**

* *Options allotted prior to the appointment of the beneficiary as a corporate officer.*
(1) *Excluding Thomas Baumgartner, corporate officer until May 11, 2016.*

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.

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 = 2 x its 2007 value*	If EPS > or = 1.5 x and < 2 x its 2007 value*	If EPS < 1.5 x and > or = 1 x its 2007 value*	If EPS < 1 x 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.

<u>Holding requirements:</u>

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:

<u>Performance conditions:</u>

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.

<u>Holding requirements:</u> 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.

10.3. Stock subscription options: corporate officers

Options granted to each corporate officer since January 1, 2016:

	Number of options granted	Exercise price	Valuation	Maturity date
Chief Executive Officer: Luc Themelin	0	-	-	
Member of the Management Board until May 11, 2016: Thomas Baumgartner	0	-	-	

Options exercised by each corporate officer since January 1, 2016:

	Number of options exercised	No. and date of the plan	Exercise Price
Chief Executive Officer: Luc Themelin	0		-
Member of the Management Board until May 11, 2016: Thomas Baumgartner	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 (not corporate officers)

	Number of options granted/exercised	Weighted average exercise price
Options granted since January 1, 2016 to the 10 employees who received the largest number	0	
Options exercised since January 1, 2016 by the 10 employees who received the largest number	0	

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. The procedures are described in Chapter 4.

	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*
Thomas Baumgartner (corporate officer until May 11, 2016)	*600*
- 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[(2)]	*3,500*
- o/w top 10 allottees	*39,900*
Subscription price	1 2007 BSAR[(1)] + €1.5
Start of exercise period	7/17/2012
Expiration date	7/16/2017
Total number of shares subscribed at Dec. 31, 2016	103,331
BSARs canceled by Dec. 31, 2016	0
- o/w canceled in 2016	*0*
BSARS THAT MAY STILL BE EXERCISED	**103,331**

(1) The 2007 BSARs resulted in a subscription price of €12.
(2) Excluding Thomas Baumgartner, corporate officer until May 11, 2016.

11. Bonus shares

At the General Meeting of May 11 2016, 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 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[(1)] to sales ratio criterion, or one based on change in the EBITDA to sales ratio between 2014 and 2016, 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.

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

11.1. Bonus share allotments: previous grants

	2012 plan Tranche 7 reallocation (with performance conditions)	2014 plan* Tranche 8 (with performance conditions)	2015 plan* Tranche 9 (with performance conditions)	2016 plan* Tranche 10 (with performance conditions)	Total
Date of allotment decision	6/27/2012	5/21/2014	7/9/2015	5/11/2016	
Total number of shares allotted	20,000	50,000	65,000	84,000	219,000
- o/w corporate officers:					
Luc Themelin	*0*	*0*	*0*	*0*	*0*
Thomas Baumgartner (corporate officer until May 11, 2016)	*2,500*	*0*	*0*	*0*	*2,500*
- o/w corporate officers at the allotment date who have since left the Company	*2,500*	*0*	*0*	*0*	*2,500*
- including corporate officers at the allotment date who were no longer corporate officers on the date of publication[(1)]	*5,000*	*0*	*0*	*0*	*5,000*
- o/w top 10 allottees	*10,000*	*14,000*	*11,000*	*11,000*	*46,000*
Share price at allotment date (€)	16.16	19.08 (French tax residents)[(2)]	18.71 (French tax residents)[(3)]	12.12	
Definitive allotment date (end of the vesting period)	5/27/2016	5/21/2016 (French tax residents)[(4)]	7/9/2017 (French tax residents)[(5)]	5/11/2018	
End of lock-up period	5/28/2016[(6)]	5/22/2018	7/10/2019	5/12/2018	
Allotments canceled at Dec. 31, 2016	12,201	50,000	800	0	63,001
o/w canceled in 2016	*0*	*49,400*	*800*	*0*	*50,200*
Number of shares vested definitively, not transferable	7,799	0	0	0	7,799
EQUITY AT DECEMBER 31, 2016	**7,799**	**0**	**64,200**	**84,000**	**148,200**

** 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) Excluding Thomas Baumgartner, corporate officer until May 11, 2016.
(2) For beneficiaries who are non-French tax residents, the valuation is €18.89.
(3) For beneficiaries who are non-French tax residents, the valuation is €18.53.
(4) For beneficiaries who are not tax residents, the allotment date is May 21, 2018.
(5) For beneficiaries who are not tax residents, the allotment date is July 9, 2019.
(6) For French residents, there is a period of two additional years.

11.2. Performance conditions and holding requirements attached to bonus share plans allotted to members of the Management Board (before the change of governance)

11.2.1. 2012 plan (Tranche 7)

The determination of the achievement of the performance objectives for the purposes of the definitive allotment of bonus shares under these plans was made based on the audited financial statements for fiscal years 2010, 2012 and 2013. These calculations were audited by the statutory auditors.

The percentage of definitive allotment is 39%. The calculation was based on a panel of comparable companies that had been proposed by the Management Board and approved by the Appointments and Remuneration Committee (ARC) when the bonus share plan was implemented. The ARC removed certain companies from the panel that had recorded very abnormal changes in EBITDA margin(1) over the period. The panel includes manufacturing groups listed on the Stock Exchange in France: Air Liquide, Alstom, ArcelorMittal, Ciments Français, Essilor, Faiveley, Ingenico, Imerys, Lafarge, Nexans, Rexel, Saft, Saint-Gobain, Schneider Electric, SEB, Vicat and Zodiac.

Reminder: the percentage of bonus shares allotted to each of the beneficiaries was to be determined based on the more favorable of the following criteria. Criterion 2 was the most favorable.

Criterion 1

- 100% if the EBITDA(1) to sales ratio is equal to or higher than 18%
- 35% if the EBITDA(1) to sales ratio is equal to that posted in 2010, i.e. 15.4%
- Between these two limits, the allotment percentage will be calculated on a straight-line basis
- 0% if the EBITDA(1) to sales ratio is less than that posted in 2010, i.e. 15.4%

Criterion 2

- 100% if the change in the EBITDA margin(1) to sales ratio between 2010 and 2012 (and, where appropriate, 2013) is at least 10% higher than the change in the average EBITDA(1) to sales ratio of a sample of comparable companies over the same period.
- 35% if the change in the EBITDA(1) to sales ratio between 2010 and 2012 (and, where appropriate, 2013) is equal to the change in the average EBITDA(1) to sales ratio of a sample 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 2010 and 2012 (and, where appropriate, 2013) is less than the change in the average EBITDA(1) to sales ratio of a sample of comparable companies over the same period.

The shares were definitively allotted on May 27, 2016 (tranche 7) (see table above) and subject to a holding period of two years.

It being stipulated that until the end of their term in office or of their duties, Management Board members are obliged to hold in the form of Mersen shares the equivalent of 30% of the capital gain (net of tax, social security contributions and payroll charges due) arising on the definitive vesting date of these shares.

11.3. Performance conditions and holding requirements attached to bonus share plans allotted to the group's employees in 2014

11.3.1. 2014 plan (Tranche 8)

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 calculation of the allotment percentages will be based on the financial statements published by the Company. 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 were allotted, the Chief Executive Officer may, after obtaining the opinion of the Governance and Remuneration Committee and the approval of the Board of Directors, adjust the financial statements for the impacts of these transactions to calculate the allotment percentages. The panel of comparable companies used to calculate criterion 2 had been 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 new Governance and Remuneration Committee may withdraw from the sample those companies that have recorded manifestly wild or abnormal fluctuations in their EBITDA(1) margin 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.

The determination of the achievement of the performance objectives for the purposes of the definitive allotment of these shares was based on the audited financial statements for fiscal years 2013, 2014 and 2015. It emerged that all of the options were canceled, as neither of the two criteria described below were achieved.

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

Criterion 1

- 100% if the 2015 EBITDA[1] to sales ratio is equal to or higher than 15.5%
- 30% if the 2015 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 2015 EBITDA[1] to sales ratio is less than 13.7%

Criterion 2

- 100% if the change in the EBITDA[1] to sales ratio between 2013 and 2015 is at least 10 percentage points higher than the change in the average EBITDA[1] to sales ratio of the Panel of Companies over the same period.
- 35% if the change in the EBITDA[1] to sales ratio between 2013 and 2015 is equal to the change in the average EBITDA[1] to sales ratio of the Panel of 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 2013 and 2015 is less than the change in the average EBITDA[1] to sales ratio of the Panel of Companies over the same period.

11.4. Performance conditions and holding requirements attached to bonus share plans allotted to the group's employees in 2015

11.4.1. 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. For the purpose of calculating the allotment percentage, the new Governance and Remuneration Committee may withdraw from the sample those companies that have recorded manifestly wild or abnormal fluctuations in their EBITDA[1] margin over the period. This includes the following companies listed on Euronext Paris: Air Liquide, ArcelorMittal, Arkema, Essilor, Faiveley, Imerys, Ingenico, Lafarge, Legrand, LISI, Manitou, Nexans, Rexel, Saft, Saint-Gobain, SEB, Schneider, Somfy, ST Micro, Tarkett, Vicat and Zodiac. The companies withdrawn from the panel above may be replaced, where necessary, by other companies chosen by the Governance and Remuneration Committee.

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.

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:

Pursuant to the provisions of sub-paragraph 7 of article L. 225-197-1, 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.

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

11.4.2. 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 below 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.

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 scoping effects 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 those companies that have recorded manifestly wild or abnormal fluctuations in their EBITDA(1) margin over the period.

Holding requirements:

Pursuant to the provisions of sub-paragraph 7 of article L. 225-197-1, 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.

(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. They thereby incentivize certain managers a share in the growth of the share price over a long period, combined with the achieving of certain financial criteria.

12.1. Description of 2016 plan

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 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 128,920 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 (including the Chief Executive Officer) and to the Group’s managerial staff. This number corresponds to a maximum number 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 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) the rights attached to the 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),

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 paragraph 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”** is 17 euros: it corresponds to the higher amount of either (i) 17 (seventeen) euros 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.
- 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 the C shares and the A shares is determined on the basis of share price movements.

12.2. Bonus preference shares: previous grants

	2015 plan			
	Preference shares	Minimum equivalent ordinary shares [1]	Maximum equivalent additional 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 officers:*				
Luc Themelin	*183*	*1,830*	*18,300*	*20,130*
Thomas Baumgartner (corporate officer until May 11, 2016)	*108*	*1,080*	*10,800*	*11,800*
- *No longer corporate officers at the publication date*[2]	*216*	*2,160*	*21,600*	*23,760*
- *o/w top 10 allottees*	*902*	*9,020*	*90,200*	*99,220*
Valuation of preference shares[1] on the allotment date *(in euros)*		17.73 (French tax residents)[3]	4.92 (French tax residents)[4]	
Definitive allotment date (end of the vesting period)		July 9, 2017 (French tax residents)[5]		
Date of transferability (automatic conversion of preference shares into ordinary shares)		July 9, 2019		
Allotments canceled at Dec. 31, 2016	79	791	7,899	8,690
- *o/w canceled in 2016*	79	791	7,899	8,690
Number of shares vested definitively, not transferable	0			
BALANCE AT DECEMBER 31, 2016	**823**	**8,229**	**82,301**	**90,530**

(1) 10% of shares are not linked to share price trends and are thus automatically convertible into ordinary shares, subject to achievement of performance criteria regarding change in earnings per share.
(2) Excluding Thomas Baumgartner, corporate officer until May 11, 2016.
(3) For beneficiaries who are non-French tax residents, the valuation is €18.53.
(4) For beneficiaries who are non-French tax residents, the valuation is €5.14.
(5) For non-French tax residents, there is a period of two additional 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*
Thomas Baumgartner (corporate officer until May 11, 2016)	*129*	*1,290*	*12,900*	*14,190*
- o/w top 10 allottees	*936*	*9,360*	*93,600*	*102,960*
Valuation 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, 2016	*0*			
Number of shares vested definitively, not transferable	0			
BALANCE AT DECEMBER 31, 2016	**1,172**	**11,720**	**117,200**	**128,920**

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

12.3. Performance conditions and holding requirements attached to bonus share plans allotted to the Chief Executive Officer and to members of the Executive Committee

12.3.1. 2015 plan

Apart from the condition that the member must be present in the Group at the end of the acquisition 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. For the purpose of calculating the allotment percentage, the Governance and Remuneration Committee may withdraw from the panel those companies that have recorded manifestly wild or abnormal fluctuations over the period in their earnings per share. This includes the following companies listed on Euronext Paris: Air Liquide, ArcelorMittal, Arkema, Essilor, Faiveley, Imerys, Ingenico, Lafarge, Legrand, LISI, Manitou, Nexans, Rexel, Saft, Saint-Gobain, SEB, Schneider, Somfy, ST Micro, Tarkett, Vicat and Zodiac. The companies withdrawn from the panel above may be replaced, where necessary, by other companies chosen by the Governance and Remuneration Committee.

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 EPS of the Panel of Companies
- 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 EPS of the Panel of Companies
- 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 EPS of the Panel of Societies.

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 EPSs of the Panel of Companies.

The reference 2013 EPS is the EPS published by the Group, 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 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 a civil proceeding in Great Britain, or an adjusted 2014 EPS of €1.44.

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:

Pursuant to the provisions of sub-paragraph 7 of article L. 225-197-1, 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.

12.3.2. 2016 plan:

Apart from the condition that the member must be present in the Group at the end of the acquisition 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 EPS of the Panel of Companies
- 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 EPS of the Panel of Companies
- 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 EPS of the Panel of Societies.

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 EPSs of the Panel of Companies.

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 adjust from the sample those 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 the C shares at the end of the period of Acquisition Period.

Allocation to the CEO:

In 2016, the percentage of bonus preference shares or stock options awarded to the CEO was 3.81%, based on the valuation at December 31, 2016 of the plans allocated in 2016.

13. 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: 2,895,216 (of which 2,242,770 held by Bpifrance Investissement and 575,556 by Fonds Nobel).

Number of shares held via the Mersen FCPE (corporate mutual funds) by the Chief Executive Officer: 3,644.

The members of the Board of Directors and the Chief Executive Officer hold 33,100 warrants (BSARs), entitling them to subscribe an equivalent number of shares at a price of 40.50 euros per share by July 2017.

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

14. Elements of compensation due or granted to Luc Themelin (Chairman of the Management Board until May 11, 2016, Chief Executive Officer since May 11, 2016) in respect of the fiscal year ended December 31, 2016

	Amounts or accounting valuation	Observations
Fixed salary	€440,000	Luc Themelin's 2016 fixed salary is the same as 2015's.
Annual variable salary (*amount due in respect of 2016 and paid in 2017*)	€358,402	The variable portion is between 0% and 100% of the fixed salary. The maximum threshold of 100% may be increased by a multiplying factor of up to 1.4 in the case of outperformance compared with the upper bound set for the calculation of the financial objectives of the variable portion. 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%. The 2016 financial objectives were based on the Group's annual budget. The threshold to achieve 100% of the financial objectives was set significantly higher than the budget. The personal and financial objectives evaluated are reviewed every year by the Governance and Remuneration Committee, based on the Group's strategic priorities. Details of the personal objectives are not made public for reasons of confidentiality. The variable salary for 2016 represents 81% of the fixed salary and is broken down as follows: the portion linked to the financial objectives was 100% based on the Group's operational cash flow and 66% based on the Group's ROCE. The portion linked to the personal objectives was 77.5%
Deferred variable salary	N/A	There is no deferred variable salary mechanism.
Multi-annual variable salary	N/A	There is no multi-annual variable salary mechanism.
Exceptional salary	N/A	No exceptional salary was paid or is due in respect of 2016.
Incentive scheme	€20,992	

	Amounts or accounting valuation	Observations
Share options, performance shares or any other long-term element of compensation	Allotments (2016 Plan): 188 preference shares, which may correspond to a maximum of 20,680 ordinary shares Accounting valuation: €50,873	The May 11, 2016 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 those of affiliated companies. Pursuant to this resolution, at its May 11, 2016 meeting, the Board of Directors set the conditions for the bonus share allotment and designated the beneficiaries. Luc Themelin received 188 preference shares. These preference shares may be converted into ordinary shares at the end of two years, based at a conversion ratio based on share price trends. The terms and performance criteria required are described in detail on pages 78 to 82 of the reference document.
Attendance fees	N/A	Luc Themelin does not receive attendance fees.
Valuation of benefits of any kind	€22,694	In-kind benefits 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 due in respect of 2016. At its May 16, 2013 meeting, the Supervisory Board decided, upon the renewal of Luc Themelin's term, to make the same payments to him as those that were made during his prior term in office. On March 7, 2017, the Board of Directors reexamined the rules relating to the operative event for settling severance pay due to the Chief Executive Officer in order to be in compliance with the new recommendations of the AFEP-MEDEF code. This new provision is valid as of 2017.
No-compete payment	€0 received	No amount is due in respect of 2016. At its May 16, 2013 meeting, the Supervisory Board decided, upon the renewal of Luc Themelin's term, to make the same no-compete payment to him as the one made during his prior term in office.
Supplementary pension scheme	€0 received	No amount is due in respect of 2016. 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 would receive a supplementary pension. Based on length of service and calculated on the average of all basic salaries over the last three years' 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 (28 years). The theoretical calculation of the annuity paid to Luc Themelin would amount to €132,000, before tax and social charges.

15. Components of compensation due or granted to Thomas Baumgartner in respect of the fiscal year ended December 31, 2016

	Amounts or accounting valuation	Observations
Fixed salary	€200,000	The 2016 fixed salary, expressed in euros, is unchanged from 2015.
Annual variable salary (*amount due in respect of 2016 and paid in 2017*)	€100,806	The variable portion is between 0% and 60% of Thomas Baumgartner's fixed salary. The maximum threshold of 60% may be increased by a multiplying factor of up to 1.4 in the case of outperformance, compared with the upper limit set for the calculation of the financial targets of the variable portion. Thomas Baumgartner's variable portion is 70% composed of financial targets (35% based on the Group's ROCE, calculated on the basis of current operating income after taxes and 35% on operational cash flow) and 30% composed of personal targets. The personal and financial targets evaluated are reviewed each year by the Governance and Remuneration Committee, based on the Group's strategic priorities. The 2016 financial targets were based on the annual budget. The threshold to achieve 100% of the financial targets was set significantly higher than the budget. Details of personal targets are not made public for confidentiality reasons. The achievement rates of targets linked to the variable salary were as follows: 100% based on the Group's operational cash flow, 66% on the Group's ROCE, and 86% on personal targets.
Deferred variable salary	N/A	There is no deferred variable salary mechanism.
Multi-annual variable salary	N/A	There is no multi-annual variable salary mechanism.
Exceptional salary	N/A	No exceptional salary was paid or is due in respect of 2016.
Profit-sharing/incentives (amounts due in respect of 2016)	€19,093	
Share options, performance shares or any other long-term element of compensation	Allotments (2016 Plan): 129 preference shares, which may correspond to a maximum of 14,190 ordinary shares Accounting valuation: €34,907	On May 11, 2016, the Combined General Meeting of Mersen shareholders authorized the Management Board to set up bonus preference share allotment plans for certain employees and corporate officers of the Company and those of affiliated companies. Pursuant to this resolution, at its meeting on May 11, 2016, the Board of Directors set the conditions for the bonus share allotment and designated the beneficiaries. Thomas Baumgartner received 129 preference shares. These preference shares may be converted into ordinary shares at the end of two years, based at a conversion ratio based on share price trends. The terms and performance criteria required are described in detail on pages 78 to 82 of the reference document.
Attendance fees	N/A	Thomas Baumgartner does not receive any attendance fees.
Valuation of benefits of any kind	€4,239	In-kind benefits include the use of a company car and an annual medical examination.
No-compete payment	N/A	There is no commitment in respect of a no-compete payment.
Supplementary pension scheme	N/A	There are no commitments in respect of a supplementary pension scheme.

Report by the Chairman of the Board of Directors

on the preparation and organization of the Board's work and on internal control procedures

1. Legislative and regulatory environment

1.1. Legal provisions

It should first be noted that Mersen changed its Governance structure at the General Meeting of May 11, 2016, from a Supervisory Board and a Management Board to a two-tier Board of Directors.

In accordance with the provisions of Article L. 225-37 of the French Commercial Code, the Chairman of the Board of Directors reports on the composition, preparation and organization of the work of the Board and on the internal control and risk management procedures implemented by the Company. This report was prepared by the Chairman of the Board of Directors in respect of the fiscal year ending December 31, 2016.

Article L.225-37 of the French Commercial Code also provides that: *"where a company refers voluntarily to a corporate governance code drafted by trade associations, the report [of the Chairman] … should also indicate the provisions that were excluded and the reasons for their exclusion. In addition, the Chairman should also indicate where the code may be consulted. The report [of the Chairman] is approved by the Supervisory Board and is made public. The report ... shall also set forth the specific procedures relating to shareholder participation in the Annual General Meeting or refer to the provisions of the articles of association that set forth these procedures."*

At the request of the Chairman of the Board of Directors, this report was submitted for the opinion of the Audit and Accounts Committee on March 1, 2017, and for the approval of the Board of Directors on March 7, 2017, in accordance with the aforementioned arrangements.

1.2. AFEP-MEDEF corporate governance code: Reference code for the Mersen group

Pursuant to the law of July 3, 2008 enacting European directive 2006/46/EC of June 14, 2006 into French law, the Mersen group refers to the AFEP-MEDEF corporate governance code for listed companies (as revised in November 2016). Pursuant to Article L. 225-68 sub para. 7 of the French Commercial Code, the Chairman summarizes and provides details below concerning the recommendations of the AFEP-MEDEF Code.

The appointment of the permanent representative of the Nobel Fund on May 11, 2016 meant that the Company was not compliant with the recommendations of the Code as regards achieving the ratio of 40% men to women by 2016. Moreover, with Hervé Couffin leaving the Audit and Accounts Committee, the number of independent members on said committee (3 independent members out of five) is not compliant with the recommendations of the Code. Apart from these two points, the Company is compliant with the AFEP-MEDEF Code. The Company intends to comply with these two issues.

2. Procedures conducted in the preparation of this report

This report is prepared based on the information provided by the Chief Executive Officer and the Company's support functions in connection with the annual review of the internal control procedures and the various meetings of the Supervisory Board and then the Board of Directors and its committees.

In accordance with the law, the purpose of this report is to present the preparations made for and organization of the work performed by the Board of Directors and any restrictions that the Board of Directors has placed on the powers of the Chief Executive Officer, as well as the internal control procedures in place within the Mersen group under the authority of the Chief Executive Officer. The procedures described in this report apply to the parent company and all the companies included in the Group's consolidated financial statements.

Disclosures about items likely to have an impact in the event of a public offer are provided in Chapter 4 of this Reference Document, "General Legal and Financial Information."

Information about the terms of shareholder participation in the Annual General Meeting is described in article 25 of the Company's Articles of Association, which is taken up in Chapter 4 of this reference document, "General Legal and Financial Information."

3. Preparation and organization of the work performed by the Board of Directors

3.1. Operation of 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.

Irrespective of the transactions referred to in Article L. 225-68 sub-para. 2 of the French Commercial Code for which prior authorization of the Board of Directors is required, 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;
- capital expenditure or asset disposals (excluding shareholdings) in an amount of over €10 million;
- acquisitions, in whatever form, the price of which, inclusive of any liabilities assumed, exceeds €3 million;
- strategic partnership agreements;
- proposed amendments to the Articles of Association to be put to an extraordinary general meeting of the shareholders;
- proposed stock repurchase programs to be put to the ordinary general meeting of the shareholders;
- implementation of stock subscription or purchase plans and bonus or performance-based share allotment plans for the Company's employees and corporate officers of affiliated companies, as well as grants of stock subscription or purchase plans and bonus share allotment plans for the Chief Executive Officer of the Company;
- proposed interim or annual financial statements, earnings appropriations, dividend payments and interim dividend payments;
- proposed appointments or renewals of the appointment of Statutory Auditors to be put to the ordinary general meeting of the shareholders.

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 once, on September 28, 2016, in order to update the Appendix relating to the prevention of insider trading following the coming into force on July 3, 2016 of the so-called Market Abuse regulation.

The Internal Charter has six articles:

- Article 1 defines 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 2 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 3 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 4 covers the ethical rules applicable to members of the Board of Directors and the concept of "independent" members;
- Article 5 covers the self-assessment rules for the Board of Directors; and,
- Article 6 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 web site at www.mersen.com.

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

3.2. Composition of 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 in 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, 2016, the Board of Directors was composed of 12 members.

Chairman of the Board of Directors: Hervé Couffin.

Following the change of governance, all members of the Board of Directors were appointed as Directors for the term of their respective offices:

- Isabelle Azemard;
- Bpifrance Investissement, represented by Thierry Sommelet;
- Yann Chareton;
- Catherine Delcroix[(1)];
- Carolle Foissaud[(1)];
- The Nobel Fund[(1)], represented by Philippe de Verdalle and subsequently by Bénédicte Levinson;
- Dominique Gaillard;
- Jean-Paul Jacamon[(1)];
- Edward Koopman (with effect from July 7, 2016);
- Henri-Dominique Petit[(1)];
- Marc Speeckaert (until July 7, 2016)
- Ulrike Steinhorst[(1)].

The Nobel Fund was appointed by the General Meeting of May 11, 2016. Henri-Dominique Petit was Vice-Chairman of the Supervisory Board until the change of governance on May 11, 2016. Marc Speeckaert resigned from his post as Director in July 2016, and the Board appointed Edward Koopman in his place on July 7, 2016.

The independent members are: Catherine Delcroix, Carolle Foissaud, Jean-Paul Jacamon, the Nobel Fund, Henri-Dominique Petit and Ulrike Steinhorst. To confirm that each of its members is independent, the Board reviews all the criteria proposed by the AFEP-MEDEF code. When the Board last reviewed the independence criteria on December 21, 2016, it considered that the criteria of more than 12 years' presence on the Board should be applied. It thus considered that Hervé Couffin no longer met the criteria for independence, in spite of his independence of mind and judgment as regards both the members of the Company's management and the major shareholders.

3.3. Work of the Board of Directors

The Board met ten times in 2016: five times as a Supervisory Board and five times as a Board of Directors, with an average attendance rate of 89%.

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

- **January 27, 2016:** Review of a first draft of the 2015 results, including an initial summary of non-recurring items. Update on the Electrical Power segment. Review and approval of the 2016 Budgets for business and the Group. Report by the Audit Committee Review of the Strategy Committee's program for 2016. Renewal of authorizations relating to guarantees and endorsements. Authorization of the implementation of a commercial paper program. Organization of an evaluation of the work of the Supervisory Board.
- **March 8, 2016:** Review and approval of the company's consolidated financial statements for the fiscal year ended on December 31, 2015. Approval of the proposed allocation of income, draft of the financial press release and the report of the Chairman on the work of the Supervisory Board and internal controls. Approval of the management projections. Approval of the 2016 draft guidance proposed by the Management Board and approval of the press release. Update on potential M&A projects. Review of incentive schemes (performance bonus and preference shares). Approval of the 2015 variable compensation and setting the rules for calculating the 2016 variable compensation for the members of the Management Board and the members of the Executive Committee. Review of regulated agreements. Discussion of a change to the Company's governance and review of the independence of the members of the Supervisory Board.
- **March 24, 2016:** Approval in principle of the draft Articles of Association and Internal Charter of the Company in the event of a change of governance. Approval of the draft agenda and resolutions to be submitted to the General Meeting on 11 May 2016.
- **April 19, 2016:** Examination and positive response to the draft resolution proposed by the Nobel Fund as regards its appointment as a Director.
- **May 11, 2016:** Decision concerning the management of the Company in view of its change to a Company with a Board of Directors. Appointment of the Chief Executive Officer. Approval of the Internal Charter. Composition of the Committees and their Chairmen. Setting of the remuneration of the Chief Executive Officer and the Chairman of the Board. Authorization to be given to the Chief Executive Officer to grant guarantees and endorsements. Information about the Company's business. Presentation by the Management of a Group performance improvement plan (acceleration of the operational excellence plan). Presentation of a proposed sale of a product line. Update on M&A proposals. Report by the Strategy Committee Approval of the 2016 performance bonus share and preference share allotment plans. Report on the self-assessment mission on the functioning of the Board.
- **July 7, 2016:** Resignation of Marc Speeckaert, co-option of Edward Koopman as a Director. Update on the search for a transforming acquisition in materials. Update on the Group's innovation policy as regards the new organization. Review and approval of the Group's 2016-2020 strategic plans and activities. Update on the proposed acquisitions. Review of the Company's business.
- **July 28, 2016:** Approval of the interim company and consolidated financial statements at June 30, 2016. Approval of the management projections. Review of the financial press release on the financial statements. Update on the proposed acquisitions. Approval of the proposal to refinance several subsidiaries in China and Mersen SA's corresponding guarantees in favor of the banks.

(1) Independent Member.

- **September 9, 2016:** Approval of the process to launch the consultation of employee representative bodies concerning the sale of the Saint-Loup-de-Naud high voltage switches business. Business update. Update on tax in the United States. Approval of the draft press release on restructuring proposals and acceleration of the operational excellence plan.
- **September 28, 2016:** Update on the operational excellence plan. Discussion on the Group's strategy. Business update at end September. Update on the restructuring plans for the Saint-Bonnet de Mure and Pagny-sur-Moselle sites and proposed sale of the Saint-Loup-de-Naud high voltage switches business. Update on the proposed acquisitions. Updating of the Internal Charter on the prevention of insider trading. Approval of the so-called "Schuldschein" long-term financing operation.
- **December 21, 2016:** Balance sheet and highlights. Initial items of the 2017 budget. Review of the competitive environment in 2016. Benchmarking of the cash-flow generated by the Group's segments. Update on financial communications. Update on sales organization and commercial efficiency. Update on the proposed acquisitions. Review of risk mapping.

3.4. 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 (formerly the Appointments and Remuneration Committee, until the change of governance on May 11, 2016), 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 Management Board 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.

3.4.1 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, 2016, the Audit and Accounts Committee had five members appointed from among the members of the Board of Directors, three of them independent: Yann Chareton, Catherine Delcroix[(1)], Carolle Foissaud[(1)], Henri-Dominique Petit[(1)] and Thierry Sommelet. Henri-Dominique Petit acts as Chairman of the Committee. Hervé Couffin, who was previously a member of the Audit and Accounts Committee, resigned from this post as part of the change of governance adopted on May 11, 2016.

During 2016, the Committee met six times with an attendance rate of 91%.

- **January 22, 2016:** Review of a first draft of the 2015 results, especially non-recurring items. Review of a proposed partial transfer of business. Review of the proposed implementation of a commercial paper program. Update on proposed recommendation on 2015 net income including a dividend proposal.
- **March 3, 2016:** Review, in the presence of the Statutory Auditors, of the proposed 2015 annual financial statements. Presentation of the audit assignment by the Statutory Auditors. Discussion with the Statutory Auditors, without the presence of the Management, concerning the financial statements and their audit findings. Update on changes to accounting standards and tax regulations.
- **June 7, 2016:** Update on the Group's tax arrangements. Update on accounting recognition of the Group's pensions and on pension arrangements in the United Kingdom and the United States. Progress report on Operational Excellence. Update on the Cash Initiative program.

(1) Independent Member.

- **July 27, 2016:** Review, in the presence of the Statutory Auditors, of the draft interim financial statements for the six months ending June 30, 2016, as well as the draft interim report. Presentation of the audit assignment by the Statutory Auditors. Discussion, without the presence of the Management, concerning the financial statements and their audit findings.
- **September 19, 2016:** Review of the "Schuldschein" long-term financing project.
- **December 1, 2016:** Presentation of the results of the internal audits conducted in 2016 and validation of the audit schedule proposed for 2017. Review and approval of the annual revision of the risk mapping and update on the implementation of the action plans as defined in the 2015 mapping. Update on the Group's cyber-crime prevention policy. Update on disputes and the cost of the operational excellence program.

3.4.2. Governance and Remuneration Committee

The Committee changed its name to the Governance and Remuneration Committee when the change of governance was adopted on May 11, 2016. The Internal Charter of the Board of Directors states that the Governance and Remuneration Committee comprises at least three and at most six members, with independent members accounting for the majority. The Committee meets at least twice a year and, in any event, in advance of the meetings of the Board of Directors, where the agenda includes a review of an issue related to its area of expertise.

At December 31, 2016, the Committee had five members appointed from among the members of the Board of Directors, three of them independent: Isabelle Azemard, Dominique Gaillard, Jean-Paul Jacamon(1), Henri-Dominique Petit(1) and Ulrike Steinhorst(1). At the Board meeting held on May 11, Ulrike Steinhorst took over the role of Chairman from Jean-Paul Jacamon.

Hervé Couffin, who was previously a member of the Governance and Remuneration Committee, resigned from this position as part of the change of governance adopted on May 11, 2016.

During this period the Governance and Remuneration Committee met on four occasions, with an attendance rate of 82%.

- **February 16, 2016:** Validation of the 2015 bonuses granted to the Chairman and members of the Management Board. Proposal for setting the rules determining the 2016 bonuses for the members of the Management Board. Review of the achievement criteria for the collective part of the bonuses of the Group's managers. Review of the 2016 long-term incentive schemes. Review of the chapter "Remuneration and benefits in kind" in the 2016 draft annual report.
- **March 3, 2016:** Approval of the amount of the bonus payable to the members of the Executive Committee and proposal for targets for 2016. Review of the study on the competitiveness of compensation. Review of the long-term incentive plan for 2016. Review of the severance clause relating to the forced departure of the Chairman of the Management Board Examination of the criteria for independence of Board members and renewals maturing at the next meeting. Review of the application of the Copé-Zimmerman law.
- **November 23, 2016:** Update on the Board's Governance with reviews of renewals of expiring terms of office and Directors' independence criteria. Review of the composition of the Committees, review of criteria in view of the Copé-Zimmerman law. Review of the role of the Governance and Remuneration Committee. Review of the current rules on the awarding of bonuses. Review of the succession plan.

3.4.3. 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, 2016, the Committee was composed of six members appointed from among the members of the Board of Directors, three of them independent: Hervé Couffin(2), Dominique Gaillard, Jean-Paul Jacamon(1), Thierry Sommelet and Ulrike Steinhorst(1). Hervé Couffin acts as Chairman of the Committee. Note that Marc Speeckaert was a member of the Committee until he resigned. The Committee did not replace him.

The Strategy Committee met twice during 2016, with an attendance rate of 80%.

- **April 5, 2016:** Progress and opportunities review for the Solution for Power Management (Electrical Power segment) business in electric vehicles. Progress report on Mersen's development of silicon carbide applications. Opportunities for the Advanced Materials segment in an adjacent application.
- **November 15, 2016:** Presentation of the growth challenges facing silicon carbide in an application currently in development. Review of potential acquisition proposals in the Electrical Power segment. Review of the current program of strategic work in the Electrical Protection & Control business.

(1) Independent Member.
(2) At its meeting on December 21, 2016, the Board of Directors considered that Hervé Couffin no longer met the criteria for an independent Director.

4. Accounting principles and rules defined for the compensation and benefits granted to corporate officers

At its March 10, 2015 meeting, the Supervisory Board modified the rules for 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 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 that one-third 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 Appointments and Remuneration Committee, and 10% for the Strategy Committee.
- Last, the compensation of each Committee Chairman is equal to 1.5 times a member's compensation, both for membership and actual attendance.

At its first meeting on May 19, 2009, the Supervisory Board decided to allocate a fixed annual compensation package to the Chairman and Vice-Chairman of the Supervisory Board. This compensation remained unchanged until the change of Governance on May 11, 2016. The Board of Directors did not appoint a Vice-Chairman.

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

Since 2015 the fixed portion of the compensation paid to Management Board members has been reviewed only on a multi-annual basis, in accordance with the AFEP-MEDEF Code. The bonus system for the Chief Executive Officer and the Chief Financial Officer is 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 certain individual objectives set at the beginning of the year by the Board of Directors.

For the other members of the Executive Committee:

- 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.

At present the Chairman of the Management Board 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 a flat-rate compensation of 50% of the maximum bonus. Additional information concerning the compensation and benefits paid to Management Board members is disclosed in the "Compensation and Benefits" section of this reference document.

5. Principal internal control procedures for the Mersen group

5.1. Definition of internal control

Internal control is defined by Mersen as a process implemented by all the employees under the leadership of the Board of Directors and Executive team 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 the 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.

5.2. 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:

5.2.1. 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 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 remit of the Executive Committee are described in the "Corporate governance" section of this document.

Within the Group's subsidiaries, each business unit 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 distributed 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 through:
  - 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 Safety Department 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.

5.2.2. Risk management

The Group has introduced a principle of annual updates to its Group risk mapping survey. It also reviews the mapping survey more extensively every three years. The last in-depth review was conducted in 2014. A more detailed review will be conducted in 2017.

Risks are classified into the following four categories:

- strategic risks;
- operational risks;
- information-related risks;
- financial risks.

For each category, the potential risks are ranked by their impact and probability of occurrence and by the level of control provided by the control framework in place.

A review of the action plans is presented annually to the Audit and Accounts Committee and quarterly to the Group's Executive Committee. In 2016, all of the action plans presented complied with the agenda noted at the start of the year. This year the Risk and Internal Audit department updated its action plan monitoring tool to take risk management criteria into account more effectively and to assess the pertinence of the plans in place in comparison 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 effectively help to mitigate the potential risk and are in line with the management criteria.

The risk management policy is described in Chapter 5 of this document.

5.2.3. 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 system.
- 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. It was last revised in 2011. In particular, certain information about tax and customs risks was added to. An entire chapter on Quality was also added. This chapter backs up the operational section and, where possible, deploys the Group's quality and 'lean management' policy.

Aside from the corporate audits conducted by the internal audit department, the Group has conducted cross-audits for several years to strength the internal control framework. 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 Risk and 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, thus, to 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 principles and tools described in this report, the Group requests on an annual basis all plant managers to provide a formal undertaking that the principal points of internal control are applied properly at their business unit.

5.2.4. 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 a monthly update on the Group's Internal Control news.

This department performed 20 assignments in 2016. 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 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 Safety department is responsible for overseeing information systems security, and 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. This person reports functionally to the Risk, Audit and Safety Department. His or her role is to:

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

The IT Systems Security manager performed 29 site audits in 2016, 9 on site and 20 remotely.

IT Systems Security risk mapping was updated in 2016. It now focuses more closely on business line processes. This mapping was shared with the Executive Committee. Mersen's arrangements for dealing with cyber risks was presented to the Executive Committee and to the Audit and Accounts Committee.

5.2.5. 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-related 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 are prepared every year. These plans are 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.

This commitment is 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. This reporting is accredited by the certifying organization.

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.

6. Accounting and financial internal control

6.1. 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.

6.2. 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 notably based on 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.

6.3. 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.

7. Approach adopted in 2016 and 2017 action plan for internal control

The following specific initiatives were initiated in 2016 to tighten up internal control:

- Implementation of an internal control e-learning module for managers
- Introduction of tests to validate continuous monitoring approach for certain data
- Conducting of a targeted audit of compliance with the acquisition procedure.
- Introduction of monthly newsletters on fraud.

In 2016, the internal audit department also conducted audits based on a program approved by the Audit and Accounts Committee. Twenty site audits were performed, including two control audits.

The conclusions of the risk mapping update were presented to the Executive Committee and then to the Audit and Accounts Committee, along with a follow-up on the action plan decided in 2015. 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 conducted during 2016 did not reveal any significant internal control failings or deficiencies. In 2017 there will be two control audits on units evaluated whose internal control arrangements have some shortcomings.

As part of the evaluation of accounting and financial internal control vis-à-vis 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.). 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 2016, 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 arrangements for dealing with cyber security were presented to the Audit and Accounts Committee for the first time.

In 2017 the following projects are to be launched by the Risk, Internal Audit and Safety department:

- Testing and introduction of permanent controls on certain data at fifteen sites.
- Updating of the new internal control guide, including new quality modules, etc.
- Completion of the deployment of the internal control e-learning module
- Group Internal Audit satisfaction survey, extending the study to possible areas for improvement of internal control at Mersen.

Report of the Statutory Auditors,

Drawn up pursuant to Article L.225-235 of the French Commercial Code, on the report of the Chairman of the Supervisory Board of Mersen S.A. Year ended on December 31, 2016

Ladies and Gentlemen,

In our capacity as Statutory Auditors of Mersen S.A. and in application of the provisions of Article L.225-235 of the French Commercial Code, we are pleased to present our report on the report prepared by the Chairman of your company, in accordance with the provisions of Article L.225-37 of the French Commercial Code, for the fiscal year ended December 31, 2016.

It is the responsibility of the Chairman to prepare, and submit to the Board of Directors for approval, a report describing the internal control and risk management procedures in place at the company and providing the other disclosures required by Article L.225-37 of the French Commercial Code relating in particular to the company's corporate governance arrangements.

It is our responsibility to:

- send you our comments on the disclosures contained in the Chairman's report concerning the internal control and risk management procedures relating to the preparation and processing of accounting and financial information, and
- certify that the report contains the other disclosures required by Article L.225-37 of the French Commercial Code, on the understanding that we are not required to verify the accuracy of these other disclosures.

We have carried out our work in accordance with the professional auditing standards applicable in France.

Disclosures concerning the internal control and risk management procedures related to the preparation and processing of accounting and financial information

Professional accounting standards require us to apply procedures intended to assess the accuracy of the disclosures concerning the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information contained in the Chairman's report. These procedures notably consist in:

- examining the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information underlying the disclosures presented in the Chairman's report, as well as the existing documentation;
- examining the work done in preparing this information and the existing documentation;
- determining whether the material internal control shortcomings that we detected in the course of our assignment with regard to the preparation and processing of accounting and financial information have been adequately covered in the Chairman's report.

On the basis of this work, we have no other observations to make on the disclosures concerning the company's internal control and risk management procedures relating to the preparation and processing of the accounting and financial information contained in the report of the Chairman of the Board of Directors, prepared in application of the provisions of Article L.225-37 of the French Commercial Code.

Other disclosures

We certify that the report of the Chairman of the Board of Directors contains the other disclosures required by Article L.225-37 of the French Commercial Code.

Paris La Défense, March 7, 2017

KPMG Audit

Département de KPMG S.A.

Philippe Cherqui

Partner

Neuilly-sur-Seine, March 7, 2017

Deloitte & Associés

Laurent Odobez

Partner

Special report of the statutory auditor on related-party transactions

Annual General Meeting called to approve the financial statements for the year ended December 31, 2016

This is a free translation into English of the Statutory Auditors' special report on regulated agreements and commitments with third parties that is issued in the French language and is provided solely for the convenience of English speaking readers. This report on regulated agreements and commitments should be read in conjunction, and construed in accordance with, French law and professional auditing standards applicable in France. It should be understood that the agreements reported on are only those provided by the French Commercial Code and that the report does not apply to those related party transactions described in IAS 24 or other equivalent accounting standards.

To the Shareholders,

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

It is our responsibility to report to you, based on the information provided to us, on the key terms and conditions and the reasons justifying the interest, for the company, of the related-party transactions of which we were informed or which we discovered during our assignment, without commenting as to whether they are beneficial or appropriate or seeking to establish whether other such related party transactions exist. It is your responsibility under the terms of Article 225-31 of the French Commercial Code (*Code de commerce*), to evaluate the benefits resulting from these agreements prior to their approval.

Furthermore, it is our responsibility, where necessary, to communicate to you the information required pursuant to Article R. 225-31 of the French Commercial Code on the performance during the fiscal year of the related-party transactions already approved by the Annual General Meeting.

We implemented the procedures that we deemed necessary with respect to the professional standards of the French National Institute of Statutory Auditors *(Compagnie nationale des commissaires aux comptes)* related to this assignment. These procedures consisted in verifying the consistency of the information provided to us with the documents from which it was taken.

Related-party transactions subject to approval at the Annual General Meeting

Related-party transactions authorized during the past fiscal year

We hereby inform you that we were not advised of any new related-party transactions authorized during the past fiscal year that need to be submitted for the approval of the Annual General Meeting in accordance with the provisions of Article L. 225-38 of the French Commercial Code.

Agreements and commitments authorized since the year-end date

We have been advised of the following agreements and commitments, authorized since the year-end date of the fiscal year which has just ended, that were previously authorized by your Board of Directors.

Severance pay and benefits owed or likely to be paid as a result of termination or change in the duties of Luc Themelin, Chief Executive Officer

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 suppression 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.

Payment of the Severance pay referred to above will be subject to the attainment of performance objectives under the following conditions:

- **Performance measurement (P):**

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

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

  The performance of the 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 of **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.

Reasons justifying the interest of the agreement:

The implementation of the Severance pay is a significant tool to reward the loyalty of its Chief Executive Officer

Authorization of the agreement:

This commitment was authorized by your Board of Directors at its meeting of March 7, 2017.

Agreements and commitments not previously authorized

Pursuant to Articles L. 225-42 and L. 823-12 of the French Commercial Code, we advise you of the following agreements/ commitments that were not previously authorized by your Board of Directors.

Our role is not to communicate to you the circumstances for which the authorization procedure was not followed.

Pension commitments of Mr. Luc Themelin

Type and motive:

Mr. 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 28 years of seniority with the company. The potential future pension rights of Luc Themelin have therefore been capped since 8 years and can no longer be increased. As a result, the company considers that the provisions of Law *n°2015-990* of August 6, 2015 do not apply to him.

Reasons justifying the interest of the agreement:

This Pension commitment is a significant tool to reward the loyalty of its Chief Executive Officer and enable him to achieve at retirement a replacement rate close to the one of the employees of the company.

Authorization of the agreement:

When this commitment had been put in place, the company considered this commitment as a collective pension plan, not specific to executive officers and, as a consequence, the regulated agreements procedure was not intended to apply. The Law for the growth, the activity and the equal opportunities dated August 6, 2015 so called "Loi Macron" has applied the supplementary pension plans to the whole provisions of the article L.225-42-1 of the French Commercial Code and, for this reason, has clarified that, notwithstanding that the collective nature of the supplementary pension plan, the provisions of the article L.225-42-1 al.1 of the French Commercial Code should be applied at the introduction of this plan at the benefit of Luc Themelin. During its meeting of March 7, 2017, your Board of Directors decided, as a matter of good practice, to ratify this commitment after the fact a posteriori in accordance with the article L.225-42 of the French Commercial Code.

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

Type and motive:

Mr. 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 Mr. Luc Themelin and the duration of the unemployment insurance.

Specific arrangements:

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

The set-up of this insurance has a waiting period of twelve months.

Reasons justifying the interest of the agreement:

The implementation of the unemployment insurance is a significant tool to reward the loyalty of Chief Executive Officers. It is also intended to compensate for the loss of the employment status.

Authorization of the agreement:

When this commitment had been put in place to the benefit of Luc Themelin, the company considered this commitment as a benefit in kind not covered by the provisions of the article L.225-42-1 of the French Commercial Code. With the strengthening of the application of the article L.225-42-1 of the French Commercial Code as it results from the Law for the growth, the activity and the equal opportunities dated August 6, 2015 so called "Loi Macron", the company has decided, as a matter of good practice, to consider this commitment as a commitment linked to the termination in his duties. During its meeting of March 7, 2017, your Board of Directors decided, as a matter of good practice, to ratify this commitment after the fact a posteriori in accordance with the article L.225-42 of the French Commercial Code.

Related-party transactions already approved by the Annual General Meeting

Related-party transactions approved in previous fiscal years that continued to be executed during the past fiscal year

Pursuant to Article R. 225-30 of the French Commercial Code, we were informed that the following related-party transactions, already approved by the Annual General Meeting in previous fiscal years, continued to be executed during the past fiscal year.

With Luc Themelin, Chairman of the Management Board

No-compete and non-solicitation clause

Type and motive:

In the event of the termination of his term in office as Chairman and Member of the Management Board 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 grossfixed compensation and benefits that he received immediately prior to termination of his term in office.

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 ail 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 ail 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.

Paris La Défense and Neuilly-sur-Seine, March 7, 2017

The Statutory Auditors

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

General legal and financial information

4

General information about the Company

1. Corporate name and headquarters

Mersen
Tour EQHO
2 avenue Gambetta
CS 10077
F-92066 Paris La Défense

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, 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.

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 Shareholders 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 of the Shareholders 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 of shareholders 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 and telecommunications technology making it possible to identify them, under the conditions and in line with 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 11ter 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 capital 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 Shareholders' 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 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 11, 2016, 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 agreement in accordance with the AMAFI charter;
- allot or transfer shares to Group employees and/or Board members 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 Employment Code, as well as the allotment of shares, specifically, bonus shares under the conditions set forth in articles L. 225-197-1 to L. 225-197-3 of the French Commercial Code or the introduction of share option plans pursuant to the provisions of articles L.225-177 et seq. of the French Commercial Code;
- allotment of shares in connection with the conversion or exchange of securities (including debt securities) conferring rights to the Company's share capital;
- purchase them for holding purposes and subsequently remit them 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 €30 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 capital at the date of the authorization, the aggregate maximum amount of the purchases may not exceed €61,910,580.

This authorization replaces the authorization granted by the Annual General Meeting on May 19, 2015. A new authorization concerning stock repurchases will be submitted for shareholders' approval at the Combined General Meeting on May 18, 2017.

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 2016, with the exception of repurchases under the liquidity agreement, the Company acquired and cancelled 165,000 shares. It also sold 50,001 treasury shares, due to the performance conditions of the 2014 employee bonus share plan not being achieved.

In March 2005, the Company signed a liquidity agreement with Exane-BNP Paribas conforming to the AMAFI charter. This liquidity agreement is renewed each year by tacit approval. At December 31, 2016, 43,490 shares were held under this liquidity agreement.

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 11, 2016 approved the creation of a third category of shares and amended the Articles of Association accordingly. Thus, the new Article 6 of the Articles of Association provides for three categories of shares: the A shares are ordinary shares, and the B and C 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 and C shares are transferable under the terms and conditions set forth in Article 15 of the Articles of Association.

13.1 B shares

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 established 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 Sections II 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 of CFMax”): N= 10 + 300 (CF-CI) / CF
- If the Final Share Price is greater than the Maximum Final Share Price: N= 10 + (CFMax × 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 Sections 4 to 5 of Article 15 II of the Articles of Association, the B shares will be converted automatically into A shares.

13.2. C Shares

The C Shares shall have the same rights and obligations as those set forth in paragraph 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) euros 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 euros.
- 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.

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, 2016, the Company's share capital was set at €40,943,708 divided into 20,471,854 shares, of which 20,470,952 were category A shares and 902 were category B shares, each with par value of €2. In addition, a third category, C 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 20, 2010

3.1.1. Capital increase through the issuance of redeemable stock subscription and/or acquisition warrants (BSARs)

The Annual General Meeting delegated powers to the Management Board, which may opt to sub-delegate these under the terms of law and the regulations, to increase the share capital through the issuance on a single occasion of redeemable stock subscription and/or acquisition warrants (the "2010 BSARs"). The 2010 BSARs were offered exclusively to the holders of the 2007 BSARs in exchange for securities tendered to the Company under a simplified exchange offer, referred to below, with waiver of the shareholders' preferential subscription right to shares to be issued following the exercise of the 2010 BSARs. The holders of the 2007 BSARs are the holders of the Company's redeemable stock subscription and/or acquisition warrants issued on November 22, 2007 and which were the subject of a prospectus approved by the Autorité des Marchés Financiers (AMF) under approval no. 07-350 dated October 9, 2007.

The maximum nominal amount of the capital increases to be carried out pursuant to this delegation of powers was set at €246,240, representing a total maximum number of 123,120 shares with a par value of €2; this amount does not take into account additional shares that may be issued to protect the rights of the holders of the 2010 BSARs. Shares issued through a 2010 BSAR will be done so at a price that may not be less than 150% of the average closing price of Mersen shares on the Eurolist market (compartment B) of Euronext Paris SA over the 40 trading days preceding the Management Board meeting deciding the conditions of issuance of the 2010 BSARs.

At its meeting on May 20, 2010, the Management Board laid down the terms, conditions and characteristics of a simplified public exchange offer for all the 2007 BSARs in issue in return for 2010 BSARs with an exercise price of €40.50. The 2010 BSARs have been transferable since July 16, 2012 and their expiration date was extended to July 16, 2017.

At its meeting on July 15, 2010, the Management Board, based on the results of the offer as communicated by the Autorité des Marchés Financiers (Information bulletin 210C0631), formally noted that the definitive number of 2007 BSARs tendered was 113,771 and decided to issue 103,331 2010 BSARs. None of the 2010 BSARs has been transferred to date.

3.2. Combined General Meeting of May 11, 2016

3.2.1. 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.

3.2.2. 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 resolution 14 - 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 of the Company's shares. The Company has not used this authorization to date.

3.2.3. Rights issue in return for contributions in kind made to the Company comprising capital instruments and securities conferring rights to the Company's 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 resolution 14. 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.

3.2.4. 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 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(1) to sales ratio criterion, or one based on change in the EBITDA(1) to sales ratio between 2014 and 2016, compared to a panel of comparable French companies (whichever is the more favorable).

3.2.5. Authorization granted to the Management Board 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 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 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, the Group's managerial staff and the Chief Executive Officer. 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).

3.2.6. 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 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 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.

3.2.7. Rights issue reserved for employees participating in the Group Investment Plan (resolution 20)

The General Shareholders 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 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 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.

3.2.8. 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 Annual General Meeting delegated powers to the Board of Directors to decide to issue, on one or more occasions, to approve 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 the Company's shares and their allotment free of charge to all the Company's 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 and any rival offer fail, become null and void or are 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.

SUMMARY OF CHANGES IN THE SHARE CAPITAL

Dates	Type of operation	Capital after operation	Issue premium *(in €)*	Total number of shares after the operation
7/2/2010	Issue of 294,921 new shares, each with a par value of €2, as a result of the capital increase resulting from the right to elect to receive payment of the dividend in shares	39,880,660	6,370,293	19,940,330
1/27/2011	Issue of 2,447 shares, each with a par value of €2, as a result of the exercise of stock subscription options by employees	39,885,554	43,263	19,942,777
3/1/2011	Issue of 20,164 shares, each with a par value of €2, through unavailable reserves	39,925,882	707,756 unavailable reserves	19,962,941
7/7/2011	Issue of 294,894 shares, each with a par value of €2, resulting f rom the payment of the dividend in shares	40,515,670	10,005,753	20,257,835
11/24/2011	Issue of 25,130 shares, each with a par value of €2, as a result of the capital increase reserved for employees	40,565,930	623,475	20,282,965
12/2/2011	Additional issue of 1,450 shares, each with a par value of €2, as a result of the capital increase reserved for employees	40,568,830	35,974	20,284,415
1/25/2012	Issue of 3,939 new shares, each with a par value of €2, through the exercise of subscription options in 2011	40,576,708	69,641	20,288,354
7/2/2012	Issue of 62,615 new shares, each with a par value of €2, as a result of the capital increase resulting from the right to elect to receive payment of the dividend in shares	40,701,938	62,615	20,350,969
1/22/2013	Issue of 49,588 shares, each with a par value of €2, through the grant of bonus shares	40,801,114	988,289 unavailable reserves	20,400,557
7/2/2013	Issue of 402,057 new shares, each with a par value of €2, as a result of the capital increase resulting from the right to elect to receive payment of the dividend in shares	41,605,228	5,419,728	20,802,614
11/21/2013	Issue of 600 shares, each with a par value of €2, through the grant of bonus shares	41,606,428	14,484 unavailable reserves	20,803,214
1/27/2014	Issue of 13,150 new shares, each with a par value of €2, through the exercise of subscription options in 2013	41,632,728	204,220	20,816,364
5/22/2014	Cancellation of 200,000 shares, each with a par value of €2	41,232,728	3,094,000	20,616,364
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 actions 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		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

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 options still to be exercised at December 31, 2016 (after taking into account cancellations) would make it possible to issue 526,997 new shares, each with a par value of €2.

The BSAR warrants that may be exercised at December 31, 2016 entitle their holders to acquire a total of 103,331 new shares, each with a par value of €2.

The number of bonus shares that could be allotted definitively, including by converting category B and C shares into ordinary shares, is 384,940 new shares, each with par value of €2, representing 1.9% of the current capital.

There are no other instruments or securities conferring rights to Mersen's share capital.

Based on the number of stock subscription options, BSAR warrants that may be exercised by BSAR grantees, and the shares that may be definitively granted, the maximum dilution would be 4.96%.

There are no other instruments or securities conferring rights to the Company's share capital.

9. Ownership of the share capital

At December 31, 2016, the Company's share capital stood at €40,943,708, divided into 20,471,854 shares, comprising 20,470,952 category A shares, which are ordinary shares, and 902 category B shares, which are preference shares, each with par value of €2.

The number of voting rights stood at 24,706,052 at December 31, 2016.

As the General Meeting of May 19, 2015 rejected the resolution to eliminate double voting rights, the double voting right is 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. Double voting rights have been recorded since April 4, 2016, in accordance with legal provisions.

At December 31, 2016, 43,490 shares representing 0.21% of the share capital were held by the Company pursuant to the liquidity agreement entered into with Exane BNP Paribas. During 2016 the Company sold 50,001 treasury shares in order to allot them to employees, but they were not used.

On December 21, 2016 the Company canceled 165,000 treasury shares held by the Company at December 31, 2016.

At December 31, 2015, 902 preference shares (corresponding to 99,220 ordinary shares after conversion) were allotted. The number of ordinary shares that may result from the conversion of preference shares and that remain to be allotted to members of the Management Board and managers of the Company totals 30,652 ordinary shares.

At December 31, 2016, 1,172 preference shares (corresponding to 128,920 ordinary shares that may be converted) were allotted.

The number of bonus shares that may be allotted definitively to members of the Executive Committee is 178,310, of which 40,810 are for the Chief Executive Officer.

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 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 (AXA Private Equity group) 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 AXA Private Equity (Ardian) holds more than 10% of the Company's 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 in accordance with the AMAFI's charter approved by the Autorité des Marchés Financiers 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, 2016, the following funds and shares appeared in the liquidity account:

- 43,490 equities
- 755,820 euros.

2. Trading in its own securities by the Company until December 31, 2016

Number of shares purchased by the company in January 2016	65,000
Number of shares purchased in March 2016	100,000
Number of shares canceled as of January 27, 2016	55,200
Number of shares canceled as of December 21, 2016	165,000
Number of shares sold on the market [1]	50,001
Number of treasury shares allocated to 2012 bonus share plans	7,799
Number of shares purchased under the liquidity agreement	95,949
Number of shares sold under the liquidity agreement	102,009
Number of treasury shares held by the company at December 31, 2016	**43,490**

(1) Non-achievement of performance conditions related to bonus shares plan.

The Company did not use any derivatives.

	Total gross cash flows		Open interest on the filing date of the document					
	Futures	Sales/ Transfers	Open interest, buy side			Open interest, sell side		
			Calls purchased	Puts sold	Forward purchases	Calls sold	Puts purchased	Forward sales
Number of instruments	165,000	278,000						
Average maximum life			None	None	None	None	None	None
Average transaction price	17.016							
Average exercise price	X		None	None	None	None	None	None
Carrying amount of the portfolio	0							
Market value of the portfolio (at 31.12.2016)	0							

3. Description of the stock repurchase program submitted for shareholders' approval at the Combined General Meeting of Thursday, May 18, 2017

Prepared in accordance with Article 241-1 et seq. of the General Regulation of the Autorité des Marchés Financiers, Article L225-209 et seq. of the French Commercial Code, and EC Regulation 2273/2003 of December 22, 2003, which entered into force on October 13, 2004, this information memorandum is intended to present the objectives, terms and conditions for the renewal of the stock repurchase program, as well as its expected impact on the Company's shareholders.

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 capital authorized for repurchase by shareholders at the General Meeting: 10%.
- Maximum acquisition price per share: €45.
- Duration of the program: This authorization is valid until the General Meeting called to vote on the financial statements for fiscal 2017. In no case whatsoever will this authorization remain valid for more than 18 months.

3.2. Objectives of the program

- Enhance trading in or the liquidity of the Company's shares by engaging the services of an investment service provider, acting independently, under a liquidity agreement in accordance with the AMAFI charter;
- Allot or transfer shares to employees under the employee profit-sharing plan or the implementation of any employee savings plan under the conditions provided by law, specifically Article L.3332-1 et seq. of the French Labor Code, by transfer of shares previously acquired by the Company under this resolution or providing a free grant of shares in respect of a contribution in shares by the Company's employer contribution and/or in replacement of the discount;
- Allot shares under the conditions set forth in Articles L225-197-1 to L225-197-3;
- Implement any share purchase option plans of the Company pursuant to the provisions of Article L.225-177 et seq. of the French Commercial Code or any similar plan;
- Allot shares in connection with the conversion or exchange of securities (including debt securities) conferring rights to the Company's share capital;
- Purchase for holding purposes and subsequently remit as part of an exchange offer or in consideration for any acquisitions;
- Cancel shares through a reduction in the share capital in accordance with the French Commercial Code.

This program is also intended to allow the implementation of any market practice that may, in the future, be allowed by the AMF and, more generally, any transaction permitted by applicable law. In this scenario, the Company will notify its shareholders by press release.

3.3. Legal framework

This program is compliant with the provisions of Article L. 225-209 et seq. of the French Commercial Code and with EC Regulation n° 2273/2003 of December 22, 2003 implementing the “Market Abuse” Directive 2003/6/CE of January 28, 2003, which became effective on October 13, 2004. It will be submitted to the approval of the shareholders at the Combined General Meeting of Thursday, May 18, 2017, deliberating in accordance with quorum and majority voting requirements for Ordinary General Meetings. The corresponding resolution to be proposed by the Management Board is worded as follows:

3.3.1. Resolution on the share repurchase program

The General Meeting, deliberating in accordance with quorum and majority voting requirements for Ordinary General Meetings, authorizes the Management Board, with the option to sub-delegate under the conditions set forth in the law and the Articles of Association, under the conditions set forth in Article L225-209 et seq. of the French Commercial Code and with EC Regulation 2273/2003 of December 22, 2003, to acquire, on one or more occasions and by any means, a number of the Company's shares representing up to 10% of the shares comprising the Company's share capital, or for information purposes, on the date of this General Meeting, a maximum of 2,047,185 shares, it being specified that (i) the number of shares acquired by the Company to be held and used subsequently in payment or exchange in connection with an acquisition may not exceed 5% of the share capital, and (ii) that when the shares are redeemed to encourage liquidity under the conditions defined by the general regulation of the AMF, the number of shares taken into account to calculate the 10% limit set forth above corresponds to the number of shares purchased, minus the number of shares resold during the duration of the authorization.

The General Meeting resolves that purchases of the Company's shares may be made to:

- Enhance trading in or the liquidity of the Company's shares by engaging the services of an investment service provider, acting independently, under a liquidity agreement in accordance with the AMAFI charter;
- Allot or transfer shares to employees under the employee profit-sharing plan or the implementation of any employee savings plan under the conditions provided by law, specifically Article L.3332-1 et seq. of the French Labor Code, by transfer of shares previously acquired by the Company under this resolution or providing a free grant of shares in respect of a contribution in shares by the Company's employer contribution and/or in replacement of the discount;
- Allot shares under the conditions set forth in Articles L225-197-1 to L225-197-3;
- Implement any share purchase option plans of the Company pursuant to the provisions of Article L.225-177 et seq. of the French Commercial Code or any similar plan;
- allot shares in connection with the conversion or exchange of securities (including debt securities) conferring rights to the Company's share capital;
- Purchase for holding purposes and subsequently remit as part of an exchange offer or in consideration for any acquisitions;
- Cancel shares through a reduction in the share capital in accordance with the French Commercial Code.

This program is also intended to allow the implementation of any market practice that may, in the future, be allowed by the AMF and, more generally, any transaction permitted by applicable law. In this scenario, the Company will notify its shareholders by press release.

The maximum purchase price is set at €45 per share, excluding acquisition expenses. This price is set subject to adjustments related to any transactions affecting the Company's share capital. The aggregate amount of share purchases may not exceed €92,123,325.

These shares may be purchased, allotted or transferred at any time (except during a public offer for the shares of the Company) 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.

The General Meeting grants full powers to the Management Board, with the option of sub-delegating them under the conditions provided by the law and the Articles of Association, to decide and implement this authorization, to set, if necessary, the terms and determine the procedures for carrying out this purchase program and, specifically, to place all stock market orders, enter into any agreements, allocate or reallocate the shares acquired to the objectives pursued in accordance with applicable law and regulations, set the terms and conditions for safeguarding, where appropriate, the rights of holders of securities or options, in accordance with law and regulations and, where necessary, the contractual stipulations, make all disclosures to the AMF and any other authority with jurisdiction and all other formalities and, in general, take all steps necessary to apply this authorization.

This authorization cancels, as of this date, where necessary, the unused portion of any delegation granted previously to the Management Board by the Combined General Meeting of May 11, 2016.

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. 2,047,185 shares. 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. €45 per share, would be €92,123,325.

The Company's discretionary reserves, as stated under liabilities in the most recent annual financial statements prepared and certified at December 31, 2016, amounted to €284,058,803; pursuant to the law, the amount of the stock repurchase program may not exceed this figure until the fiscal 2016 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 shares of the Company) 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 Thursday, May 18, 2017 and until the date of the General Meeting convened to approve the financial statements for 2017. In no case whatsoever will this authorization remain valid for more than 18 months.

3.4.4. Financing of the share repurchase program

Stock repurchases will be financed using the Company's cash funds or using debt finance. The Company will adjust its credit lines to cover these stock repurchases.

3.5. Breakdown by objectives of treasury shares held at December 31, 2016 (excluding liquidity agreement)

Objective	Number of treasury shares and percentage of 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, allotment of bonus shares or share purchase options	0 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 0%
Purchase for holding purposes and subsequent remit as part of an exchange offer or in consideration for any acquisitions	0 0%
Cancellation of shares through a reduction in the share capital in accordance with the French Commercial Code: cancellation on Wednesday, December 21, 2016	165,000 0.8%

3.6. Persons responsible for the information memorandum

To the best of the Company's knowledge, the information provided in this information memorandum is true and accurate. It provides all the information required for investors to make an informed judgment of Mersen's stock repurchase program. There are no omissions liable to impair its significance.

Share ownership

1. Share ownership thresholds crossed

February 17, 2016: BNP Paribas Investment Partners disclosed that it had fallen below the statutory threshold of 2% of the Company's capital and now holds 1.9873% of the capital and voting rights.

February 2, 2016: Jousse Morillon Investissement disclosed that it had exceeded the statutory threshold of 2% of the capital and now holds 2.0021% of the Company's capital.

March 4, 2016: BNP Paribas Investment Partners disclosed that it had fallen below the statutory threshold of 1% of the Company's capital and voting rights.

March 14, 2016: Otus Capital Investment disclosed that it had fallen below the statutory threshold of 1% of the Company's capital and voting rights.

March 30, 2016: the Nobel Fund disclosed that it had exceeded the statutory threshold of 1% of the capital and now holds 1.02% of the Company's capital and 1.86% of the voting rights.

April 4, 2016: Bpifrance disclosed that it had fallen below the statutory threshold of 10% and now holds 10.86% of the capital and 9.88% of the voting rights.

April 4, 2016: CDC disclosed that it had fallen below the statutory threshold of 15% of the capital and now holds 15.34% of the capital and 13.95% of the voting rights.

April 4, 2016: Sofina disclosed that it had exceeded the statutory threshold of 10% of the Company's voting rights and now holds 8.1% of the Company's capital and 14.8% of the voting rights.

May 3, 2016: the Nobel Fund disclosed that it had exceeded the threshold of 2% of the capital and now holds 2.04% of the Company's capital and 1.86% of the voting rights.

May 11, 2016: the Fonds Dimensional disclosed that it had exceeded the threshold of 2% of the capital and now holds 2.04% of the Company's capital and 1.86% of the voting rights.

June 29, 2016: Teleios Capital Partner LLC disclosed that it had fallen below the statutory threshold of 1% of the capital and now holds 1.04% of the voting rights.

October 21, 2016: EPIC Bpifrance disclosed that it had exceeded the thresholds of 10% of the capital and 15% of the voting rights and now holds 10.86% of the Company's capital and 18% of the voting rights.

October 21, 2016: CDC including Bpifrance Participations, disclosed that it had exceeded the thresholds of 15% of the capital and 20% of the voting rights and now holds 15.33% of the Company's capital and 21.70% of the voting rights.

November 11, 2016: the Fonds de Réserve pour les Retraites (FFR) disclosed that it had exceeded the statutory threshold of 1% of the capital and now holds 0.83% of the voting rights.

November 15, 2016: the Fonds de Réserve pour les Retraites (FFR) disclosed that it had exceeded the statutory threshold of 1% of the capital and now holds 0.98% of the capital and 0.81% of the voting rights.

December 1, 2016: Crédit Suisse Group AG disclosed that it had exceeded the threshold of 1% of the capital and now holds 1.65% of the Company's capital.

1.1. Changes in ownership of the share capital

Shareholders	Dec. 31, 2016 Number of shares	Dec. 31, 2016 % of the capital	Dec. 31, 2016 % of the voting rights	Dec. 31, 2015 Number of shares	Dec. 31, 2015 % of the capital	Dec. 31, 2015 % of the voting rights	Dec. 31, 2014 Number of shares	Dec. 31, 2014 % of the capital	Dec. 31, 2014 % of the voting rights
Free float, o/w									
- French institutional investors	11,846,661	57.9%	57.0%	9,882,443	47.8%	48.0%	10,049,543	48.7%	49.0%
- International institutional investors	6,402,089	31.3%	32.7%	7,859,263	38.0%	38.2%	8,223,915	39.9%	40.1%
- Individual shareholders	1,972,743	9.6%	8.9%	2,664,546	12.9%	12.9%	2,081,865	10.1%	10.1%
- Employee shareholders	206,871	1.0%	1.4%	176,889	0.8%	0.9%	164,486	0.8%	0.8%
Treasury shares	43,490	0.2%		108,913	0.5%		97,005	0.5%	
TOTAL	20,471,854	100%		20,692,054	100%		20,616,814	100%	

The Chief Executive Officer and the Board of the Directors own 2,895,216 shares (of which 2,242,770 held by Bpifrance and 575,556 by the Nobel Fund) and the Chief Executive Officer owns 3,644 shares via the Mersen FCPEs (corporate mutual funds), i.e. 14.1% of the capital in total; excluding Bpifrance and the Nobel Fund, their shareholding corresponds to 0.4% of the capital. At December 31, 2016 the Company held 43,490 treasury shares as part of a liquidity contract, in compliance with the AMAFI's charter of ethics.

To the best of the Company's knowledge, the following shareholders hold more than 5% of the Company's capital and voting rights:

	Shares*	% of the capital	Voting rights exercisable at GM	% Voting rights exercisable at GM
ACF I Investment (Ardian)	3,624,304	17.7%	3,624,304	14.7%
Bpifrance Investment	2,242,770	11.0%	4,485,540	18.2%
Caisse des Dépôts et Consignations	922,269	4.5%	922,269	3.7%
SUB-TOTAL	**3,165,039**	**15.5%**	**5,407,809**	**21.9%**
Sofina	1,679,852	8.2%	3,359,704	13.6%

** At December 31, 2016.*

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 share subscription options allotted under the 2007, 2009 and 2014 plans that were still to be taken up at December 31, 2016, 526,997 new shares (adjusted following the rights issue held in October 2009) could be created. The information concerning Mersen's stock subscription options is presented in Chapter 3 of this reference document.

The number of BSAR warrants outstanding at December 31, 2015, entitle their holders to acquire 103,331 new shares, each with a par value of €2.

In total, 384,940 new bonus shares with a par value of €2 could be allotted definitively, including conversions of category B and C shares into ordinary shares.

2. Dividend

	No. of shares at year-end	Dividend per share *(in €)*	Share price *(in euro)*			Overall yield based on year-end share price at year-end
			High	Low	Last	
2011	20,288,354	1.00	42.81	21.17	23.35	4.3%
2012	20,350,969	0.45	28.67	18.16	21.09	2.1%
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%

Dividend payments are time-barred as prescribed by law; that is, five years after their payment. After this time, payments are made to the French Tax Administration.

For fiscal 2016, the 3rd resolution of the Combined General Meeting of May 18, 2017 provides for the payment of a dividend of 0.50 euros 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 35th with a rating of 84/100.

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

In the first part of the year the share price significantly underperformed the SBF120 index due to risk aversion associated with small- and mid-caps. At June 30, Mersen stock was down 18% while the SBF120 index had lost only 6%.

The announcement of organic growth in the Group's 2nd quarter sales at end July, followed by the acceleration of the operational excellence plan in September, helped to reverse the trend. Thus, over the year, Mersen stock rose 23% while the SBF120 index gained 7%.

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 the PEA (equity savings plan)
- ISIN Code: FR0000039620.

1.2. Price [1]

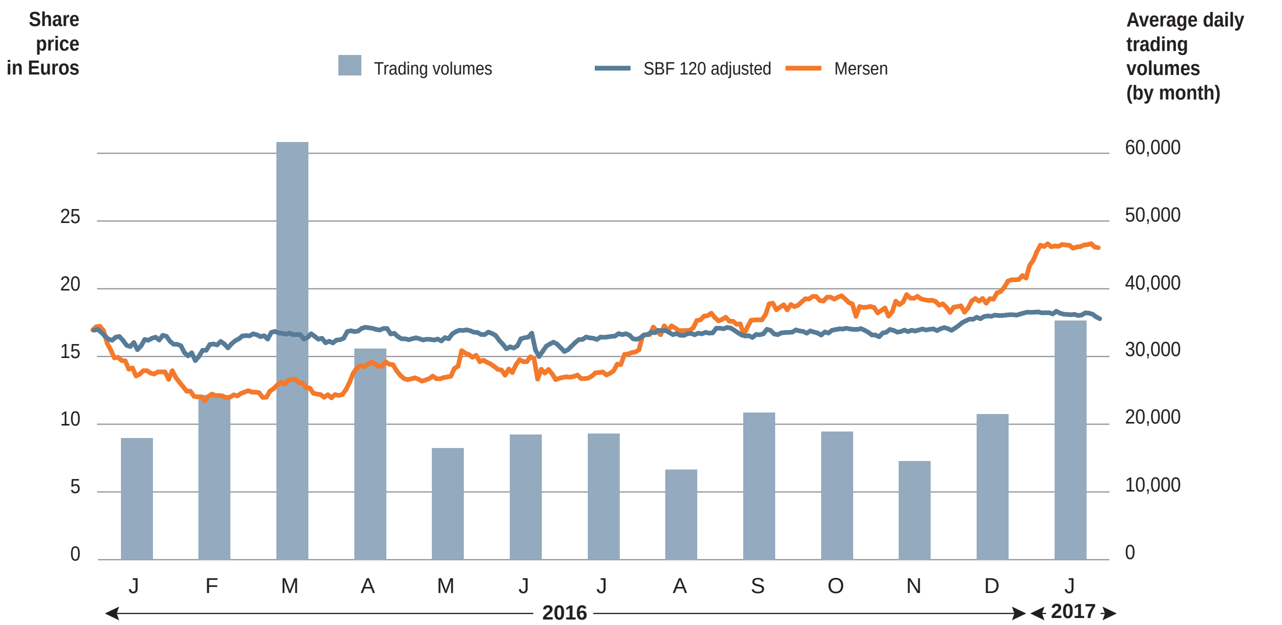
- At December 31, 2016: 20.32 euros.
- 2016 high 20.38 euros.
- 2016 low 11.25 euros.

(1) *Closing price*

1.3. Trading

- 2016 average monthly volume: 494,193 (2015 average monthly volume: 342,282).
- 2016 average daily volume: 24,037 (2015 average daily volume: 16,044).

2. Share price performance and trading volumes



Source: Euronext.

2.1. Market data

Share price	Number	Capital traded on a monthly basis *(in millions of euros)*	Average daily number of shares traded	Price High *(in €)*	Price Low *(in €)*	Price Average[a] *(in €)*
2015						
January	266,182	5.56	12,675	21.60	19.50	20.68
February	171,267	3.79	8,563	22.20	20.80	21.78
March	292,293	7.08	13,286	24.89	21.75	23.57
April	410,676	9.10	20,534	25.41	23.35	24.35
May	329,255	8.20	16,463	26.45	23.55	25.09
June	377,977	8.30	17,181	24.65	21.41	22.96
July	388,945	8.60	16,911	24.84	20.70	22.93
August	511,341	10.31	24,350	21.50	18.56	19.74
September	555,397	10.02	25,245	20.45	17.57	18.31
October	315,251	5.38	14,330	19.94	16.20	18.73
November	275,954	4.70	13,141	18.09	16.51	16.89
December	212,844	3.62	9,675	17.80	16.35	17.04
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

Source: Euronext
(a) Average closing price

(Share price in €)	January 2017	2016	2015
At end of period	22.7	20.37	17.00
Number of shares at end of period	20,471,854	20,471,854	20,692,054
Market capitalization at end of period *(in € million)*	465	416	351
Average daily number of shares traded	35,282	23,075	16,044

2.2. Dividend per share

(In euros)	2016 (1)	2015	2014	2013	2012
	0.50	0.50	0.50	0.45	0.45

(1) Subject to the approval by the Shareholders Annual Meeting of May 18, 2017.

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, a fact book, and presentations of results are available in the Finance section.

4. Timetable for the Group's financial communication

4.1. 2016 Calendar

Sales reports

2015 Q4 sales – January 28

2016 Q1 sales – April 27

2016 Q2 sales – July 28

2016 Q3 sales – October 26

Earnings reports

2015 annual results – March 9

2016 half-year results – July 28

Meetings for institutional investors

In Europe and North America - throughout the year

Meetings for individual shareholders

Lyon – May 24

Annual General Meeting

Paris - May 11

Investor Day

Paris – December 2

4.2. 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

In France – throughout the year

Annual General Meeting

Paris - May 18

5. Officer responsible for information

Thomas Baumgartner

Group Vice President, Finance and Administration

Mersen
Tour Eqho, 2 avenue Gambetta
CS 10077
F-92066 Paris La Défense
Tel.: + 33 (0)1 46 91 54 19

Management report

5

Introduction

With sales very much in line with 2015, 2016 marks the final phase of the Group's restructuring in response to the challenging economic environment. Strong performance in renewable energies and transportation, and in Asia in general, made up for the slump in the oil industry and electrical distribution in North America for much of 2016.

The ambitious competitiveness plan launched during the year bore fruit, resulting in a current operating margin of 7.8% of sales, in line with 2015.

Lastly, the year was marked by exceptional cash flow generation, which reduced the Group's debt by over €30 million, thereby strengthening the balance sheet with a net debt/EBITDA ratio of 2.1 and a net debt/equity ratio of 41%.

Consolidated results

In 2016, the Group decided to sell off a non-strategic high voltage switches business. This sale was finalized on March 3, 2017, with the sale of the business to German group Flohe. 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, for more accurate comparisons of its results with groups in the sector, with effect from January 1, 2016 the Group decided to reclassify the financial part of the charge relating to staff benefits as financial Income. The 2015 financial statements have thus been restated for these items.

1. Sales

In 2016, Mersen generated consolidated sales of €764 million, in line with 2015. The scope effect of €6 million concerns the acquisition of ASP (China) at the beginning of the year. The negative currency effect of €8 million relates mainly to the weakness of sterling, the Chinese yuan and the Canadian dollar.

	2016	2015 adjusted	total growth	organic growth(1)
Advanced Materials	411.8	419.5	-1.8%	-0.1%
Electrical Power	351.8	348.1	1.1%	-0.6%
GROUP TOTAL	**763.6**	**767.6**	**-0.5%**	**-0.3%**
Europe	258.2	261.6	-1.3%	-0.1%
Asia-Pacific	194.4	177.9	9.3%	6.6%
North America	273.5	288.3	-5.1%	-4.7%
Rest of the world	37.5	39.8	-5.9%	-1.5%
GROUP TOTAL	**763.6**	**767.6**	**-0.5%**	**-0.3%**

(1) On a like-for-like basis (perimeter and change)

The **Advanced Materials** segment posted sales of €412 million, in line with 2015 on a like-for-like basis. This situation reflects a decline in chemicals in the first half of the year, which was made up for by strong performance by the renewable energy, aeronautics and electronics markets.

The **Electrical Power** segment posted annual sales of €352 million, down slightly on a like-for-like basis. The renewable energy and electric vehicle markets performed strongly. Process industries were down, however, hit in particular by the recession in the oil industry and electrical distribution in North America.

In **Europe** sales were stable in comparison to 2015 on a like-for-like basis. The main countries - France and Germany - were in line with last year. In **Asia**, the Group's business grew organically by almost 7% during the year. The situation was particularly dynamic in India, China and Japan thanks to the Group's positioning on the renewable energy and transportation markets. The situation in **North America** improved during the 4th quarter. However, over the full year, declines in the chemicals, electrical distribution and the oil industry weighed on results.

2. EBITDA and operating income before non-recurring items

(in millions of euros)	2016	2015 adjusted	2015
Operating income before non-recurring items	**59.9**	**60.9**	**58.1**
As a % of sales	*7.8%*	*7.9%*	*7.5%*
Depreciation and amortization	36.8	39.6	39.9
EBITDA	**96.7**	**100.5**	**98.0**
As a % of sales	*12.7%*	*13.1%*	*12.7%*

EBITDA (1) totaled €96.7 million. This corresponds to 12.7% of sales.

The Group's current operating income (2) totaled €59.9 million in 2016, i.e., a current operating margin of 7.8%, comparable to restated 2015 (7.9% of sales) and with the first half of 2016 (7.8%).

The current operating margin of the Electrical Power segment is up on last year at 11.5%, vs. 11.3% in 2015, thanks to productivity gains, which offset the negative price effects/mix and cost inflation.

The Advanced Materials segment's current operating margin was down slightly on restated 2015 (7.8% vs. 8.2%). This change takes into account productivity gains and, conversely, declining volumes in anti-corrosion systems during the first half of the year and pressure on prices in the graphite market. The segment's current operating margin shifted positively during the year, however: it had deteriorated by 1.8 points during the first half of 2016 but recovered by 1.1 points during the second half of 2016, compared to the same periods in the previous year.

(in millions of euros)	2016	2015 adjusted	*Change*	2015
Sales	763.6	767.6	-0.5%	772.2
Gross margin	232.6	232.4	0.1%	231.7
as a % of sales	*30.5%*	*30.3%*		30.0%
Sales and other costs	(77.6)	(76.1)	2.0%	(77.1)
G&A and R&D costs	(95.1)	(95.4)	-0.2%	(96.5)
Operating income before non-recurring items	**59.9**	**60.9**	-1.8%	**58.1**
as a % of sales	*7.8%*	*7.9%*		*7.5%*

Gross margin was down slightly on restated 2015. A productivity drive offset the effects of price reductions as well as a product mix that was less favorable than in 2015.

Selling costs and other expenses were up slightly, after a year marked by particularly low bonuses. Cost cutting measures helped to reduce administrative charges slightly.

(1) Current operating income + amortization.
(2) According to definition 2009.R.03 of the CNC (French accounting standards commission).

3. Net income

Net income totaled €3.2 million, vs. €2.6 million in restated 2015, i.e., up 23%.

(in millions of euros)	2016	2015 adjusted	2015
Operating income before non-recurring items	**59.9**	**60.9**	**58.1**
Non-recurring income and expense	(26.5)	(21.6)	(21.6)
Amortization and impairment of revalued intangible assets	(1.2)	(1.1)	(1.1)
Operating income	**32.2**	**38.2**	**35.4**
Financial income	(11.0)	(12.5)	(10.0)
Income tax	(11.9)	(19.1)	(19.1)
Net income from continuing operations	**9.3**	**6.6**	**6.3**
Net income from assets held for sale and discontinued operations	(6.1)	(4.0)	(3.7)
Net income	**3.2**	**2.6**	**2.6**
Attributable to Mersen's shareholders	**1.8**	**1.3**	**1.3**
Non-controlling interests	(1.4)	(1.3)	(1.3)

Non-current income and expense amounted to €(26.5) million. This includes:

- €22.3 million in restructuring costs, mainly relating to the operational excellence plan.
- €4.2 million in sundry charges, including €2.6 million for disputes.

In 2015, the charge was almost €22 million, mainly corresponding to the impairment of tangible and intangible assets linked to low business levels in chemicals and the underuse of some production facilities in graphite, and restructuring costs.

Mersen's net financial expense was €11.0 million in 2016, down on restated 2015 as a result in particular of the fall in average debt over the year (-€15 million). Since January 1, 2016 the Group has been classifying the financial part of the charge relating to staff benefits as financial income.

The tax expense was €11.9 million, down clearly on 2015 (€19.1 million). This year it includes €5.7 million in impairment of deferred tax assets derived from the costs of the operational excellence plan in France and China. Stripping out this exceptional item, the effective tax rate is 30%.

Income from operations held for sale was €-6.1 million. This includes income from the soldering technologies business sold at the beginning of 2016 (-€0.8 million) and that of the high power switches business, whose sale was finalized on March 3, 2017 (-€4.7 million).

Income from non-controlling interests relates to Mersen Iberica (Spain), Cirprotec (Spain) and Yantai (China), in which Mersen respectively holds 50.01%, 51% and 60% stakes.

4. Dividend

The Board of Directors proposed to the General Meeting of Shareholders to pay a dividend of €0.50 per share, in line with the amount paid last year. This resulted in a total distribution of around €10 million, corresponding to 34% of the net income from continuing operations restated for non-current expenses and income relating to the operational excellence plan.

CASH AND DEBT

1. Condensed statement of cash flows

In millions of euros	2016	2015 adjusted
Cash generated by operating activities before change in the WCR	73.8	70.0
Change in working capital requirement	23.7	(5.5)
Change in tax expense	(14.3)	(16.3)
Net cash generated by continuing operating activities	**83.2**	**48.2**
Cash generated by discontinued operations	(2.7)	(1.4)
Net cash generated by operating activities	**80.5**	**46.8**
Capital expenditure	(29.5)	(34.2)
Net cash generated by operating activities after capital expenditure	**51.0**	**12.6**
Change in scope (acquisitions)	(0.7)	(5.7)
Disposals of non-current assets and other	0.7	2.2
Net investment income generated by discontinued activities	6.5	0.1
Net cash generated/(used) by operating and investing activities	**57.5**	**9.2**
Interest payments	(8.2)	(9.5)
Dividends paid	(10.5)	(10.5)
Increase in share capital and other	(1.1)	(1.8)
Net cash flow before the change in debt	**37.7**	**(12.6)**

Free cash-flow yield calculation :

In millions of euros	2016	2015 adjusted
Net cash generated by continuing operating activities	**83.2**	**48.2**
Net cash generated by restructuring	(10.8)	(24.8)
Net operating income before restructuring	**94.0**	**73.0**
Capital expenditure	(29.5)	(34.2)
Free cash-flow	64.5	38.8
Free cash-flow yield (1) before restructuring	8.4%	5.0%

(1) Free cash-flow/Sales

Operating activities generated free cash flow of €83 million this year, clearly up on last year, which reflected substantial withdrawals relating to the Transform plan. This year, restructuring costs relating to competitiveness plans amounted to €10.8 million.

In 2016, the change in working capital requirement fell by €23.7 million, a clear improvement on the previous year due in particular to major action plans designed to optimize inventory levels.

Operating cash flow from discontinued operations corresponds mainly to the working capital of the high voltage switches business, which was sold on March 3, 2017.

Capital expenditure was €29.5 million, down on the previous year. Around 73% of this was at the Advanced Materials segment. The investment policy is presented in this chapter.

Free cash-flow yield before restructuring in 2016 was 8.4%, vs. 5% in 2015.

The changes in scope in 2015 concerned the acquisition of ASP.

Investment flows from discontinued operations mainly derived from the final repayment of the loan granted to MidMark in 2009 at the time of the sale of the EMC business, and to a lesser extent from the proceeds of the sale of the brazing business at the beginning of the year. These flows had no impact on debt as they were recognized as financial receivables in the 2015 financial statements.

In addition, the Group bought back €2 million of its own shares during the first half of the year for cancellation, and sold around €1 million shares during the second half of the year as the performance criteria relating to the 2014 bonus share plan were not met.

For 2016, net cash flow before changes in debt was thus €37.7 million, vs. -€12.6 million in 2015.

2. Balance sheet

Net debt at end 2016 was €202.8 million, vs. €236.5 million at end 2015.

The Group maintains a solid financial base, with key ratios down on last year: leverage (debt/EBITDA) was 2.09(1) and gearing (debt/equity) 41%(1).

	Dec. 31, 2016	Dec. 31, 2015
Total net debt *(in millions of euros)*	202.8	236.5
Net debt/equity	0.41	0.47
Net debt/Ebitda	2.09	2.39

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 2016, around 66% of the Group's capital expenditure were devoted to international markets. This concerned primarily the replacement and modernization of industrial equipment.

In 2016, the Group derived 91% 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 €646 million, up 0.9% on 2015 on a like-for-like basis.

Sales in North America accounted for 35.8% of the Group's consolidated sales. Europe contributed 33.8% of the total. Lastly, Asia Pacific and rest of the world (South America, Africa and the Middle East) respectively accounted for 25.5% and 4.9% of the Group's consolidated sales.

(1) Ratio calculated using the banking covenant method for Mersen's confirmed financing

Investment policy

In 2016, capital expenditure (continuing operations) amounted to €29.5 million. The Group invested in further silicon carbide production capacity in France. In the United States the Group invested in the Advanced Materials segment's graphite manufacturing site, and in sophisticated equipment for its electronics market.

Acquisitions came to €0.7 million. These relate to the acquisition of the outstanding shares in Chinese company ASP, which was bought at end 2015. Disposals of €2.9 million include the sale of land and buildings in Germany, France and China, mainly as part of the Transform plan.

In 2015, physical investment spending (continuing operations) amounted to €34.2 million, of which €3 million relate to the receiving sites for the Transform plan. Continuing the projects it initiated in 2014, the Group had invested in the sites concerned by the Transform plan. It had also begun investing in additional silicon carbide capacity.

Acquisitions came to €5.7 million in 2015. These consisted of the acquisition of all the shares in Chinese company ASP at end 2015 (excluding the price supplement paid in 2016). Disposals of €4.1 million include the sale of land and buildings in the United Kingdom and Italy 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)	**2016**	**2015**
Increase in property, plant and equipment	(30.4)	(33.2)
Change in fixed asset suppliers	0.9	(1.0)
CAPITAL EXPENDITURE	**(29.5)**	**(34.2)**
Increase in intangible assets	(3.0)	(3.8)
Increase in financial assets	0.0	0.0
Other changes in investment flows (excl. fixed asset suppliers)	0.8	1.9
SUB-TOTAL	**(31.7)**	**(36.1)**
Investments linked to acquisitions	(0.7)	(5.7)
Investments linked to asset disposals	2.9	4.1
TOTAL	**(29.5)**	**(37.7)**

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 EUR 100 million ("USPP") maturing in 2021 in order to extend the maturity of its debt and diversify its funding sources.

In 2014, the Group renegotiated its syndicated loan due to expire in July 2017 by improving the financial terms and extending its maturity to July 2019.

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 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.

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 33 countries. The Group's largest manufacturing facilities are located in France, the United States, China, Germany 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 €15.5 million. These revenues 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 income, which corresponds to the holding company's operating costs and trademark fee, was -€0.5 million.

Net financial income was €28.0 million, vs. €16.7 million in 2015. In 2016, it included slightly higher depreciation of equity securities than in 2015. The amount of dividends received from our subsidiaries in 2016 was considerably higher than in 2015, by €13.3 million.

Net current income before tax and exceptional items was €23.0 million. Exceptional net income was €0.5 million, vs. -€0.4 million in 2015.

The tax of €2.3 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 €25.8 million, vs. €14.3 million in 2015.

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

The standard terms of payment for suppliers are 45 days end of month.

In accordance with Article D.441-4 of the French Commercial Code, the maturity schedule of trade payables at December 31, 2016 consisted of amounts falling due within 30 days, at €0.3 million. At December 31, 2015, amounts falling due within 30 days came to €0.2 million.

Research and development policy

The Group devotes around 3% of its sales to research and development concerning the refinement of products, materials and processes and technical sales efforts with a view to adapting its solutions or services constantly to each customer's specific requirements.

Most of this expenditure is financed internally.

The new organizational structure put in place by Mersen in 2016 features a new Technology, Research, Innovation and Business Support department, which is henceforth represented on the Executive Committee. Its objective is to foster a culture of innovation within the Group, anticipate market trends and ensure that all resources are implemented to meet customers' expectations. It is also responsible for ensuring optimum allocation of resources to projects and accelerating time to market.

This culture of innovation stems from the Group's close relationship with its customers and the combination of its knowledge of the challenges they face and Mersen's technology watch. Many innovations are produced in response to their increasingly exacting requests, leading to new designs and technologies, which are sometimes developed jointly.

Whether it is incremental, adjacent or rupture, innovation is essential for the Group's development and contributes to its growth.

It is also stimulated by highly motivating events, such as development days and Innovation Challenges, held each year within the Group to reward the most promising initiatives in terms of future development.

The major innovations finalized in 2016 or still under development include:

- The development of new grades of low cost synthetic graphite for ingot manufacturing processes in the electronics industry;
- The development of new grades of ultra-fine synthetic graphite for molding curved glass for smartphones;
- Further development of electrical protection hybrid technologies for direct current applications (including energy storage, solar photovoltaic and rail traction), combining electronic circuit breaking and mechanical circuit breaking/blocking in the same product;
- The development of a bespoke high performance cooling solution with embedded heat pipe technology for rail transportation;
- The development of laminated bus bars suitable for the operating environments of very high temperature power converters;
- The broadening of the range of (bloc or tube) Silicon Carbide heat exchangers to better address the requirements of corrosive chemicals and pharmaceuticals applications.

RISK MANAGEMENT

The report of the Chairman of the Board of Directors presented in Chapter 3 of this reference document describes the risk management organization and procedures established within the Group.

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 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,
- regular safety audits.

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.

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. The Mersen group is working at the European level with organizations that bring together graphite companies to participate actively in discussions and 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.
- compliance with the Grenelle 2 regulation;
- regulatory monitoring through participation in working groups composed of the leading players in carbon and graphite in Europe;
- monitoring of pollution risks within the Group and introduction of action plans to reduce these risks.

Regulations dealing with best available technology on graphite manufacturing have been published. The implementation date 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 2020 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 major 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. 38% 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 has been hampered by significant graphite production overcapacity since 2012, but this is being gradually absorbed.

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. Since the end of 2013, therefore, the Group has been 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 2016, in addition to the measures already in place:

- Review of risk mapping with a business line-oriented approach;
- Review of cyber risks;
- Deployment of online training for IT managers at the sites;
- Formalization of a management best practice pack for the IT systems integrated with our manufacturing installations.

In 2017, an action plan will be launched in response to the review of risk mapping.

Remote and on-site audits will continue, with a focus on regular analysis of incident reports with an emphasis on preventative rather than curative measures.

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 relies on certain raw materials, particularly those used in the formulation of graphite. 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.

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 regulations;
- helping to reduce consumption of energy and raw materials 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.

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 2017.

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 2016, no single customer represented more than 5% 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

	2016		2015	
(in millions of euros)	Sales	% of sales	Sales	% of sales
With the Group's leading customer	27.4	3.6%	28.1	3.6%
With the Group's top 5 customers	96.5	12.6%	93.6	12.1%
With the Group's top 10 customers	140.1	18.3%	138.4	17.9%

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.

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 €288 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 may be exacerbated by the implementation of the Operational Excellence plan, which includes 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 2017. 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 1% 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 2016, sales outside Europe, North America, Japan and South Korea represented 17% of consolidated sales, of which 59% 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 Brazil and South Africa, which are rated high risk as regards customer payments (Coface ratings). Together these two countries accounted for sales of around €20 million, i.e., 2.6% of the Group's overall sales.

With facilities in more than 33 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 2 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. These measures are described in greater detail in the report of the Chairman of the Board of Directors in Chapter 3 of this document.

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

Mersen has an active policy for developing new markets, whose risks are beyond its control. In particular, the Group is expanding into the electric vehicle market, whose legal, contractual, quality and other risks cannot be evaluated at present as this market and its players are still developing. The Group has set up a working group specifically tasked with identifying these risks and proposing action plans to mitigate the extent of these risks.

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

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.

At December 31, 2016 the Group held 43,490 treasury shares valued at around €0.8 million. At the same date, the Group had 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 significant risks are the following:

In June 2013 Mersen do Brasil was notified of a customs inspection covering the period January 2008 - December 2012. The customs authorities issued an assessment claiming (in principal and interest) BRL 10.6 million (Brazilian reals), equivalent to around €2.7 million as at December 31, 2016. The Group has filed a challenge.

Mersen Chongqing received a VAT assessment covering the period 2012 to 2015 subsequent to a change in calculation method in 2012, which the Group had failed to apply. The Group agreed to an assessment for a total of €2.1 million, which was fully provisioned in the accounts at end 2016 and paid in early 2017.

On December 13, Mersen Gennevilliers was notified of an assessment for the CFE *(Cotisation Foncière des Entreprises/* Businesses' Real Estate contribution) for the period 2013 to 2015 and the Taxe Foncière for 2016 for a total of €2.0 million after taking into account the CET *(Contribution Economique Territoriale/* Territorial Economic contribution) on added value. This risk was partially provisioned at end 2016. The tax reassessment proposal has been contested.

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

None of the legal proceedings referred to below led to provisions being set aside, as the Group is not in a position as things stand 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 the SNCF. Both cases are still ongoing.

Since 1999, the Group has developed a worldwide compliance program to provide training for and raise awareness among operational and commercial managers about competition legislation. This worldwide compliance program remains in place. It was updated again in June 2010 following the change in the Group's name and corporate identity. Highly stringent internal control measures and external audits ensure that competition legislation is scrupulously complied with in all the countries in which the Group does business.

4.2.3. 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 site on April 7, 2010 is still ongoing with no significant developments in 2016.

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.

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 remained under control in 2015, the Group's insurance programs remained stable in 2016 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 program comprises a master policy in France and local policies in certain countries. The total amount of premiums paid by Mersen Group for fiscal 2016 in connection with the Third-Party Liability/Environmental and Professional Third Party Liability/aviation Third Party Liability program was €812,751.

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 €100 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 2016 in connection this program was €997,190.

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 2016 was €90,000.

OUTLOOK

In 2017, Mersen is expected to further expand its business in its different growth markets in order to recapture growth with the support of its new organization. It should also benefit from a stabilized chemicals market.

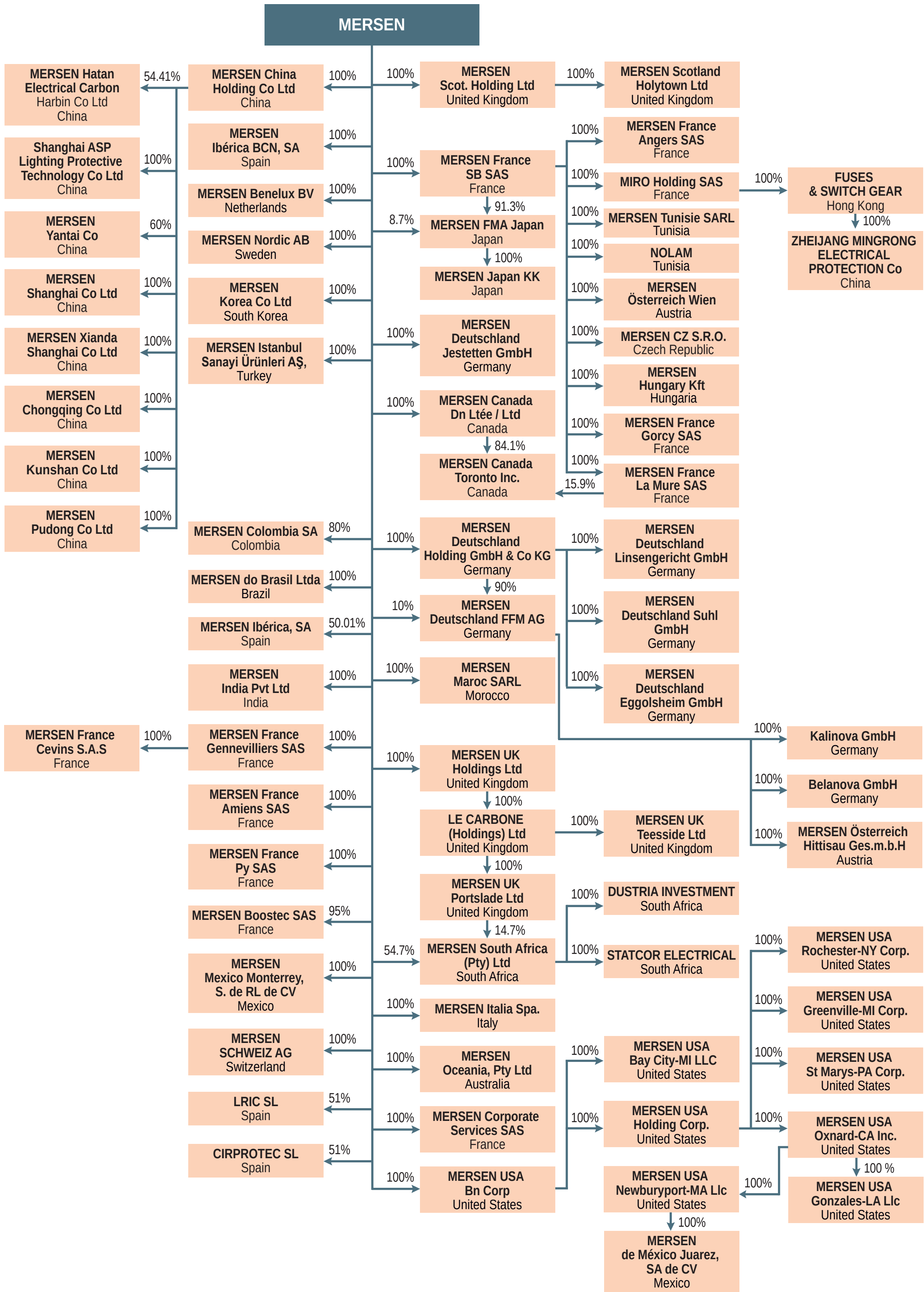
The Group will also continue to deploy its operational excellence plan, which will lower the cost structure and drive competitiveness in Group plants. The costs associated with the plan have, for the most part, already been booked in the 2016 financial statements and will result in an amount of €25 million being paid out in 2017.

As a result, the Group expects to see year-on-year organic sales growth of between 0 and 2% in 2017, with a 50 to 100 basis point improvement in operating margin before non-recurring items.

2016 Consolidated Financial Statements

6

Consolidation scope at December 31, 2016



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
- MERSEN France Gorcy S.A.S (France)	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.

CHANGE IN THE SCOPE OF CONSOLIDATION OVER THE PAST TWO YEARS

The principal changes in the scope of consolidation that affected the consolidated financial statements in 2015 and 2016 were as follows:

- During fiscal 2015, Mersen increased its holding in Boostec by 10%, taking its stake to 95%. During December 2015, Mersen China Holding Co Ltd finalized its acquisition of 100% of the stock of Chinese company Shanghai ASP Lightning Protective Technology Co Ltd, which was consolidated in December 2015.
- During fiscal 2016, Mersen created the Chinese company Mersen Hatan Electrical Carbon (Harbin) with its Chinese partner Harbin Electric Carbon. The Group's stake is now 54.41%. The company did not commence operations in 2016, as the bulk of the asset contributions are to be made in 2017. This operation comes under the Advanced Materials segment and forms a part of the Group's growth strategy in Asia. The activity of this joint venture consists of the manufacture of graphite plates, brushes and pantograph strips for non-military use, primarily for the railway market. The preparation of restated accounts is not necessary given the insignificance of these changes of scope.

Operations held for sale:

- **High voltage switches business of 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 offers little synergies with the Electrical Power segment's other businesses. During the second half of 2016 the Group received a binding offer from a European specialist in the sector. The sale was completed on March 3, 2017.

- **Astrolite in the United States**

  In December 2015, the Group decided to sell the Astrolite business, which specializes in brazing technologies. This decision followed on the series of sales in 2013 intended to refocus the Advanced Materials segment on its core businesses.

- **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 10 years.

  Both businesses were sold during the second half of 2013.

These businesses are presented in accordance with IFRS 5. The presentation of the income statement and statement of cash-flows for fiscal 2015 have been restated accordingly.

CONSOLIDATED INCOME STATEMENT

In millions of euros	Notes	Dec. 31, 2016	Dec. 31, 2015 adjusted
CONTINUING OPERATIONS			
Consolidated sales	18	763.6	767.6
Cost of sales		(531.0)	(535.2)
Total gross income		**232.6**	**232.4**
Selling and marketing		(75.3)	(73.9)
Central administration and research costs		(95.1)	(95.4)
Other operating costs		(2.3)	(2.2)
OPERATING INCOME BEFORE NON-RECURRING ITEMS		**59.9**	**60.9**
Non-recurring charges	17	(28.8)	(32.9)
Non-recurring income	17	2.3	11.3
Amortization of revalued intangible assets		(1.2)	(1.1)
OPERATING INCOME	**18/20**	**32.2**	**38.2**
Financial expense		(11.0)	(12.5)
Financial income			
Financing cost		(11.0)	(12.5)
Net financial income	21	**(11.0)**	**(12.5)**
Income before tax and non-recurring items		**21.2**	**25.7**
Current and deferred taxes	22	(11.9)	(19.1)
Net income from continuing operations		**9.3**	**6.6**
Net income from operations held for sale or discontinued	5	(6.1)	(4.0)
NET INCOME		**3.2**	**2.6**
Attributable to:			
- Owners of the company		1.8	1.3
- Minority interests		1.4	1.3
NET INCOME FOR THE YEAR		**3.2**	**2.6**
Earnings per share	**23**		
Basic earnings per share *(€)*		0.09	0.07
Diluted earnings per share *(€)*		0.08	0.06
Earnings per share from continuing activities	**23**		
Basic earnings per share *(€)*		0.38	0.26
Diluted earnings per share *(€)*		0.37	0.25
Earnings per share from operations held for sale or discontinued	**23**		
Basic earnings per share *(€)*		(0.30)	(0.19)
Diluted earnings per share *(€)*		(0.28)	(0.19)

** The income statement and statement of cash-flows for December 2015 have been restated following the classification of the Saint-Loup-de-Naud business under "operations held for sale/discontinued" (see change in scope of consolidation) and the reclassification of net financial interest on staff benefits under "financial income" (see note 2 changes in presentation of the 2016 financial statements)*

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

In millions of euros	Dec. 31, 2016	Dec. 31, 2015 adjusted
Net income for the year	**3.2**	**2.6**
Items that will not be subsequently reclassified in income		
Revaluation of net liabilities (assets) for defined benefits	0.1	8.9
Tax expense/income on revaluation of net liabilities (assets) for defined benefits	0.4	(1.8)
	0.5	7.1
Items likely to be subsequently be reclassified in income		
Change in fair value of hedging instruments	1.7	0.1
Changes in balance sheet items linked to the exchange rate at the end of the period	4.4	23.8
Tax expense/income on change in fair value of hedging instruments	(0.5)	(0.1)
	5.6	23.8
INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY	**6.1**	**30.9**
TOTAL INCOME AND EXPENSE RECOGNIZED DURING THE PERIOD	**9.3**	**33.5**
Attributable to:		
- Group equity holders	8.0	32.0
- Minority interests	1.3	1.5
TOTAL INCOME AND EXPENSE RECOGNIZED DURING THE PERIOD	**9.3**	**33.5**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

In millions of euros	Note	Dec. 31, 2016	Dec. 31, 2015
NON-CURRENT ASSETS			
Intangible fixed assets			
- Goodwill	6	288.0	287.9
- Other intangible assets	8	37.4	35.8
Property, plant and equipment	8		
- Land		31.1	29.3
- Buildings		76.6	75.3
- Plant, equipment and other tangible assets		163.2	169.2
- Assets in progress		14.6	23.0
Non-current financial assets			
- Equity interests	9	2.3	2.5
- Non-current derivatives	3		
- Other financial assets		7.1	4.0
Non-current tax assets			
- Deferred tax assets	22	38.1	36.8
- Non-current portion of current tax assets		7.7	5.8
TOTAL NON-CURRENT ASSETS		**666.1**	**669.6**
CURRENT ASSETS			
- Inventories	10	152.6	168.2
- Trade receivables	11	123.8	119.0
- Other operating receivables		14.9	14.6
- Current portion of current tax liabilities		6.8	7.6
- Current financial assets	15	6.0	16.5
- Current derivatives	3	1.8	0.4
- Cash and cash equivalents	15	29.2	22.4
- Assets held for sale/discontinued	5	0.0	0.8
TOTAL CURRENT ASSETS		**335.1**	**349.5**
TOTAL ASSETS		**1,001.2**	**1,019.1**

LIABILITIES AND SHAREHOLDERS' EQUITY

In millions of euros	Note	Dec. 31, 2016	Dec. 31, 2015
SHAREHOLDERS' EQUITY			
- Share capital	12	40.9	41.4
- Retained income		415.7	422.3
Net income for the year		1.8	1.3
- Cumulative translation adjustments		16.2	11.7
EQUITY ATTRIBUTABLE TO MERSEN'S SHAREHOLDERS		**474.6**	**476.7**
- Non-controlling interests		18.0	13.3
SHAREHOLDERS' EQUITY		**492.6**	**490.0**
NON-CURRENT LIABILITIES			
- Non-current provisions	13	1.3	2.2
- Employee benefits	14	73.9	76.5
- Deferred tax liabilities	22	29.6	29.9
- Medium and long-term borrowings	15	161.8	211.1
- Non-current derivatives	3	0.3	0.5
TOTAL NON-CURRENT LIABILITIES		**266.9**	**320.2**
CURRENT LIABILITIES			
- Trade payables		61.6	56.3
- Other payables		76.3	68.7
- Current provisions	13	20.4	10.4
- Current portion of current tax liabilities		3.8	3.0
- Other liabilities	13	1.1	2.3
- Other current financial liabilities		53.0	10.9
- Current derivatives	3	1.2	2.1
- Financial current accounts	15	1.1	0.6
- Short-term bank loans	15	22.1	52.8
- Liabilities linked to assets held for sale/discontinued	5	1.1	1.8
TOTAL CURRENT LIABILITIES		**241.7**	**208.9**
TOTAL LIABILITIES AND EQUITY		**1,001.2**	**1,019.1**

Statement of Changes in equity

	Attributable to Mersen's shareholders						
In millions of euros	Share capital	Premiums and retained earnings	Net income for the year	Cumulative translation adjustment	Total	Non-controlling interests	Opening equity
OPENING EQUITY AT JANUARY 1, 2015	**41.2**	**423.6**	**2.1**	**(11.7)**	**455.2**	**11.7**	**466.9**
Prior period net income		2.1	(2.1)		0.0		0.0
Net income for the year			1.3		1.3	1.3	2.6
Change in the fair value of derivative hedging instruments, net of tax		0.0			0.0		0.0
Revaluation of net liabilities (assets) for defined benefits after tax		7.1			7.1		7.1
Cumulative translation adjustment				23.6	23.6	0.2	23.8
Total other comprehensive income	**0.0**	**7.1**	**0.0**	**23.6**	**30.7**	**0.2**	**30.9**
COMPREHENSIVE INCOME FOR THE YEAR	**0.0**	**7.1**	**1.3**	**23.6**	**32.0**	**1.5**	**33.5**
Dividends paid		(10.3)			(10.3)	(0.2)	(10.5)
Treasury shares		(1.8)			(1.8)		(1.8)
Issue of new shares	0.2	0.3			0.5		0.5
Stock options and bonus shares		1.1			1.1		1.1
Other items		0.2		(0.2)	0.0	0.3	0.3
EQUITY AT DECEMBER 31, 2015	**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 derivatives, net of taxes		1.2			1.2		1.2
Revaluation of net liabilities (assets) for defined benefits after tax		0.5			0.5		0.5
Cumulative 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**
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
Increase in share capital	(0.5)	(2.6)			(3.1)		(3.1)
Stock options and bonus shares		0.5			0.5		0.5
Changes in minority shareholdings					0.0	3.6	3.6
Other items		0.7			0.7		0.7
EQUITY AT DECEMBER 31, 2016	**40.9**	**415.7**	**1.8**	**16.2**	**474.6**	**18.0**	**492.6**

CONSOLIDATED STATEMENT OF CASH FLOWS

In millions of euros	Dec. 31, 2016	Dec. 31, 2015 Adjusted
Income before tax	21.2	25.7
Depreciation and amortization	36.8	39.6
Additions to/ (reversals from) provisions	6.1	(8.7)
Net financial income	11.0	10.0
Capital gains/(losses) on asset disposals	(1.1)	1.3
Other	(0.2)	2.1
Cash flow generated by operating activities before change in the WCR	**73.8**	**70.0**
Change in working capital requirement	23.7	(5.5)
Income tax paid	(14.3)	(16.3)
Net cash generated by continuing operating activities	**83.2**	**48.2**
Net cash generated by discontinued activities	**(2.7)**	**(1.4)**
NET CASH GENERATED BY OPERATING ACTIVITIES	**80.5**	**46.8**
Investing activities		
Intangible fixed assets	(3.0)	(3.8)
Property, plant and equipment	(30.4)	(33.2)
Decreases/(increases) in fixed asset suppliers	0.9	(1.0)
Financial assets	0.0	
Change in scope	(0.7)	(5.7)
Other changes in cash flow from/ (used by) investing activities	3.7	6.0
Cash generated/(used) by investing activities from continuing operations	**(29.5)**	**(37.7)**
Cash generated/(used) by investing activities from discontinued operations	**6.5**	**0.1**
CASH GENERATED/(USED) BY INVESTING ACTIVITIES	**(23.0)**	**(37.6)**
CASH GENERATED/(USED) BY OPERATING AND INVESTING ACTIVITIES	**57.5**	**9.2**
Proceeds/(loss) from capital increase/decrease and other changes in equity	(1.1)	(1.8)
Net dividends paid to shareholders and minority interests	(10.5)	(10.5)
Interest payments	(8.2)	(9.5)
Change in debt	(32.3)	(4.2)
CASH GENERATED/(USED) BY FINANCING ACTIVITIES	**(52.1)**	**(26.0)**
Change in cash	**5.4**	**(16.8)**
Cash at beginning of fiscal year (Note 15)	22.4	37.6
Cash at end of fiscal year (Note 15)	29.2	22.4
Change in scope		0.0
Impact of currency fluctuations	(1.4)	(1.6)
CHANGE IN CASH	**5.4**	**(16.8)**

* *The income statement and the cash flow table for December 2015 have been restated following the classification of the Saint-Loup-de-Naud business under "operations held for sale/discontinued" (see change in consolidation scope) and the reclassification of net financial interest on staff benefits under "financial income" (see note 2 changes in presentation of the 2016 financial statements)*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY OF THE NOTES TO THE FINANCIAL STATEMENTS

Note 1 Statement of conformity

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, 2016 are indicated in Note 2. The new standards applied with effect from 2016 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, 2016 were prepared by applying the principles for recognizing and valuing transactions set forth in the IFRS standards adopted in the European Union on 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 General Regulation of the).

For comparison purposes, the consolidated financial statements for the fiscal year to at December 31, 2016 include data for fiscal 2015 given using the same accounting rules.

The accounting principles described in Note 2 were used to prepare the comparative information and the 2016 annual financial statements.

Note 2 Principles 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 adjusted 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, their net income is presented separately from the net income of continuing operations and their cash flows are presented on separate lines in the cash flow statement.

Change of presentation 2016

Reorganization of the group in two new segments

On December 2, 2015, Mersen announced changes to its organizational structure in order to increase industrial synergies and to take into account the priorities in its development strategy, concentrating in particular on its key areas of expertise, innovation and growth markets.

Effective January 1, 2016, the Group's organizational structure is based on two new segments.

- The Advanced Materials segment brings together three businesses related to carbon materials – graphite specialties for high-temperature applications, anti-corrosion equipment designed primarily for chemicals, and power transmission technologies. This activity previously fell under the Electrical Components and Technologies segment.
- The Electrical Power segment brings together two businesses related to the electrical market – solutions for power management (mainly power electronics), which has become a business apart, and electrical protection and control (primarily fuses, industrial fuse holders, and surge protection).

This reorganization, as well as the creation of a fifth business unit, will allow the two segments to optimize their industrial and human resources and align their businesses more effectively with the needs of their different end markets.

Previously the Group was made up of two segments: Advanced Materials and Systems (equipment in graphite and other performance materials specifically for extreme industrial environments) and Electrical Systems and Components (systems and components contributing to the performance and protection of electrical equipment).

There are now five Cash-Generating Units (CGU) (as compared to four previously), as follows:

- included in the Advanced Materials segment:
  - The Electrical Applications CGU has become Power Transfer Technologies;
  - The High Temperatures CGU has become Graphite Specialties;
  - The Anti-Corrosion Equipment CGU has become Anti-Corrosion Equipment.
- The Electrical Protection (Electrical Power) CGU has been split into two CGU:
  - System Performance Management;
  - Electrical Power and Control.

Reclassification of the charge relating to staff benefits from "net financial interest" to "net financial income"

To enable comparisons of its results with groups in the sector, the Group decided to reclassify the financial part of the charge relating to staff benefits as Financial Income. "Net financial interest" consists of the net interest charge of the returns expected on hedging assets. They were previously included in Current Operating Income.

In fiscal 2015, net financial interest was €2.5 million. At end December 2016, net financial interest was €2.1 million.

The 2015 information presented has been restated for these elements.

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 euro 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 fiscal year, monetary assets and liabilities denominated in foreign currencies are translated at the closing exchange rate. The resulting translation adjustments are recognized under foreign exchange currency INCOME AND EXPENSE in operating income.

Translation adjustments on financial instruments denominated in foreign currencies corresponding to a net investment hedge at 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 outcome 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 costs;
- 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 as:
  - 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 debt hedged.

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

In application of revised IFRS 3, in the case of a business combination, the Group values goodwill as the fair value of the consideration transferred (including the fair value of any equity interest previously held in the company acquired) plus the amount recognized for any non-controlling interest in the company acquired, less the net amount recognized (usually the fair value) in respect of identifiable assets acquired and liabilities assumed, with all these items being valued on the date of acquisition. 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.

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.

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;
- System Performance Management;
- Electrical Power 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 a 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.

The 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 losses of the value of goodwill recognized are 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 the IFRS transition date.

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 a tangible asset 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 projected service 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 adjusted at the end of each annual period; the changes are applied prospectively.

Investment subsidies are recognized at the outset, less 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 on 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 a tangible asset 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 the financial expense 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 tangible 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 intangible and tangible assets are subject to a detailed review to determine whether their net book value is lower than their recoverable value; this value is defined as the higher of either their fair value less selling costs, or their value in use.

If the recoverable value of the assets is lower than their net book value, an impairment loss is recognized equivalent to the difference between these two amounts. Impairment losses relating to tangible 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 discounting rate to be used as the pre-tax rate reflecting the current calculation of the time value by market 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, maturity and risks 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 standards 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 valuations, 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 the 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 through profit or loss.

Current assets include receivables relating to operations measured at amortized cost and depreciated if the carrying value exceeds the recoverable value.

J1 - Investments

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 impairments are recognized through profit or loss.

These impairments are irreversible and are not 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 value is less than the book value.

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 of the sale of these securities are posted directly to equity and do not contribute to the income for the fiscal year.

L - Provisions

In accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, provisions are recognized if at fiscal 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

Inventory is 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.

No interest expense is 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 in 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 benefits

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.

The revaluations 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 plan are recognized through profit or loss as staff benefits.

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 the 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 the 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 expense

Non-recurring income and expense correspond to costs and income not arising during the normal course of the Company's business activities. This section is intended to recognize the impact of major events that may distort operating performance, and does not include any operating and recurrent costs.

Non-current costs and income include the following items:

- the proceeds of material and non-recurring sales: tangible and intangible assets, investments, other financial fixed assets and other assets;
- impairment losses recognized on investments, 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 costs, taxes and non-controlling interests.

Operating subsidies are presented as a deduction from costs to which the subsidy relates.

R - Deferred taxes

Accounting restatements or consolidation adjustments may affect the results of the consolidated companies. Temporal 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 on 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 fiscal 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 fiscal year-end, to recover or settle the carrying value 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 brings together three businesses related to carbon materials – graphite specialties for high-temperature applications, anti-corrosion equipment designed primarily for chemicals, and power transmission technologies.
- **the Electrical Power segment,** which brings together the two businesses related to the electrical market, namely, power management solutions (power electronics) and electrical protection and control (primarily fuses, industrial fuse holders, and surge protection).

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 adjusted 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 period of acquisition of the rights, 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 environment of 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 book value of assets and liabilities, revenues and expenses, and also information relating to unrealized assets and liabilities. Future earnings may differ significantly from these estimates.

The underlying estimates and hypotheses 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 book values 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 social commitments describe the provisions introduced by Mersen. In calculating these provisions, the Group took into account the best estimate of these commitments.

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 fiscal 2016

None

X - New standards and interpretations not yet applied

IFRS 15 "Revenue from contracts with customers"

IFRS 15 lays down an appropriate and comprehensive framework for determining whether, how and when revenue should be recognized. This standard replaces the existing set of standards that govern the recognition of revenue: IAS 18 "Revenue", IAS 11 "Construction Contracts" and IFRIC 13 "Customer Loyalty Programs".

The Group is examining the impact of this Standard on its financial statements.

IFRS 15 will be mandatory for fiscal years beginning on or after January 1, 2018; early adoption is permitted.

IFRS 16 "Leases"

The new standard published in January 2016 mainly changes the way in which leases to lessees will be presented with effect from 2019.

The Group is examining the impact of this Standard on its financial statements.

IFRS 16 will come into force for financial years starting on or after January 1, 2019. Early application is permitted only for entities that also apply IFRS 15 "Revenue from contracts with customers".

IFRS 9 "Financial Instruments"

IFRS 9, published in July 2014, replaces IAS 39 "Financial Instruments: Recognition and measurement". IFRS 9 includes revised directives concerning the classification and measurement of financial instruments, a new model for expected credit losses to calculate impairment of financial assets, and new general obligations in the field of hedge accounting. In addition, IFRS 9 incorporates the directives on recognition/derecognition of financial instruments included in IAS 39.

The Group is examining the impact of this Standard on its financial statements.

The new standard will be mandatory for fiscal years beginning on or after January 1, 2018; early adoption is permitted.

Note 3 Financial Risk Management

The Group is exposed to the following risks related to using financial instruments:

- Liquidity risk;
- Interest rate risk;
- Commodity risk;
- Currency risk;
- Credit risk.

This note provides information regarding the exposure of Group to each of the above risks, its objectives, its policy and its procedures for evaluating and managing risks.

Quantitative information is furnished in other areas in the consolidated financial statements.

Note 12 provides capital management information

Liquidity risk

Mersen has confirmed credit lines and borrowing facilities for a total of over €400 million, drawn down 41% at end December, 2016. Based on the amounts used, average maturity of this credit or loans is five years.

Mersen has the following principal financing agreements:

- A multi-currency syndicated bank loan set up in July, 2012 and amended in July, 2014. The amount of this facility is €220 million with a five-year maturity and payable at maturity in July 2019.
- 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 payable in full in October 2021. The interest rate is 95% of the PBoC at the time of drawdowns.
- Bilateral banking facilities set up in September, 2013 and amended in August, 2016 in the amount of RMB 130 million, which can be repaid up until 2019, 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 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. The interest payable to investors are at Euribor variable rates, 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, 2016 was drawn down to €47 million with maturities inferior to one year, and which can at maturity be substituted by drawdowns from the Group Syndicated Loan.

Breakdown of confirmed credit lines and borrowings by maturity

(in millions of euros)	Amount	Drawdown at Dec. 31, 2016	Rate of use Dec. 31, 2016	Maturities		
				Less than 1 year	from 1 to 5 years	more than 5 years
Group syndicated loan	220.0	0.0	0%	0.0	220.0	0.0
Confirmed credit lines, China	34.2	18.8	55%	2.8	31.4	0.0
SSD	60.0	60.0	100%	0.0	0.0	60.0
USPP 2011	84.7	84.7	100%	0.0	84.7	0.0
Other	1.9	1.9	100%	0.3	1.2	0.4
TOTAL	**400.8**	**165.4**	**41%**			
AVERAGE MATURITY (YEAR)	**3.9** (1)	**5.0** (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) DRAWDOWNS	Drawn down at Dec. 31, 2016	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	18.8	20.5	2.3	2.4	15.8
SSD	60.0	66.5	0.5	0.5	65.5
USPP 2011	84.7	101.3	2.0	2.0	97.3
Other	1.9	3.1	0.2	0.2	2.7
TOTAL	**165.4**	**191.4**	**5.0**	**5.1**	**181.3**

Interest rate risk

The interest rate risk management policy is validated by the CEO of the Group on the basis of recommendations made by Mersen's Finance Department. It consists of establishing positions from time to time taking into account variations in interest rates.

When it was acquired by Mersen, Scotland Holytown had an interest rate swap with a nominal amount 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, 2016, the nominal amount stood at GBP 1.6 million.

The USPP of 2011 are fixed rate instruments, with an average interest rate of 4.7%.

(in € millions)	Amount	Interest rate received	Interest rate paid	Maturities		
				Less than 1 year	From 1 and 5 years	More than 5 years
GBP swap	1.9	Libor GBP 1 month	5.38%	0.3	1.2	0.4

(in € millions) *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	(0.3)	(0.3)	(0.1)	(0.2)	0.0

(a) Mark-to-market = evaluated at market price.

Sensitivity analysis of the fair value of fixed-income instruments

The Group records no fixed-income financial assets or liabilities at fair value through profit or loss or designated 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 €0.03 million (in 2015: €0.02 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 €24 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 54% of price risk on copper and 75% of price risk on silver can be covered centrally using bank hedges.

At the end of 2016, 75% of copper and silver tonnage that could be covered was covered with regard to 2017 budget quantities.

An increase or decrease in the price of copper and silver, with relation to closing prices at December 31, 2016 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.

	Copper		Silver	
Impact *(in millions of euros)* **at December 31, 2016**	Other items of comprehensive income	Gains or losses recognized in operating income	Other items of Comprehensive Income	Gains or losses to recognized in operating income
Increase of 5%	0.3	0.0	0.2	0.0
Decrease of 5%	(0.3)	0.0	(0.2)	0.0

Recognition at year-end 2016 of commodity hedges

MTM [(a)] *(stated in millions of euros)*	Impact on 2016 other comprehensive income	Impact on 2016 income
MTM of copper and silver hedges	0.1	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. Except in special cases, the prices of these materials are not volatile and have been subject to regular increases over recent years.

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, 2015 to Dec. 31, 2015 (a)	134.29	1.1096	1255.74	0.7260	6.9730
Closing exchange rate at Dec. 31, 2015 (b)	131.07	1.0887	1280.78	0.7340	7.0608
Average exchange rate from Jan. 1, 2016 to December 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

(a) Exchange rate used to convert 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 the commercial realm, Group policy is to hedge currency risks at the time of orders or to hedge an annual budget, except for special cases. The primary currency risk concerns intra-Group flows.

In the area of borrowings, Group policy is 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 USD compared with the average confirmed rate of January through December 2016 would have had a translation impact of -€2.9 million on the Group's current operating income. Conversely, this 10% decline in the value of the US dollar with compared with the closing exchange rate for 2016 would have had a translation impact of –€6.1 million on the Group's net debt at December 31, 2016.

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 *(stated in millions of euros)* (a)	JPY	USD	KRW	GBP	RMB
Sale of foreign currencies	8.8	21.3	3.6	12.5	8.7
Purchase of foreign currencies	(1.3)	(16.7)	0.0	(10.2)	(3.8)
Potential 2017 exposure	7.5	4.6	3.6	2.3	4.9
Hedges at December 31, 2016	(5.0)	(2.8)	(0.6)	(2.0)	(3,4)
Net position	2.5	1.8	3.0	0.3	1.5
Impact in euros of a 5% fall in the euro (b)	0.13	0.10	0.16	0.02	0.08

(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, 2016.

USD / Foreign currency risks

Risks *(stated in millions of US dollars)* (a)	JPY	KRW	GBP	RMB	CAD
Sale of foreign currencies	5.9	11.0	0.1	16.2	20.5
Purchases of foreign currencies	0.0	0.0	(10.9)	(18.1)	(24.7)
Potential risks for 2017	5.9	11.0	(10.8)	(1.9)	(4.2)
Hedges outstanding at December 31, 2016	(4.5)	(6.1)	8.0	0.2	3.1
Net position	1.4	4.9	(2.8)	(1.7)	(1.1)
Impact in USD of a 5% fall in the USD (b)	0.07	0.26	(0.15)	(0.09)	(0.05)

(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, 2016.

Recognition at year-end 2016 of currency transactions

MTM [a] *(stated in millions of euros)*		**Dec. 31, 2016**
Mark-to-market of currency hedges value	Other comprehensive income	0.6
	Other financial items of operating income	(0.3)

(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, 2016 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 December 31, 2016 *(in millions of euros)*	**Other comprehensive income of overall results**	**Gains or losses recognized in operating income***	**Other comprehensive income of overall results**	**Gains or losses recognized in operating income***
USD (change of 5%)	0.24	(0.05)	(0.29)	(0.06)
JPY (change of 5%)	0.03	0.00	(0.03)	(0.00)
RMB (change of 5%)	0.30	0.06	(0.32)	(0.06)

** Excluding inverse impacts related to the revaluation of underlying items recorded in the balance sheet.*

This analysis is carried on the basis of changes in exchange rates that 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 2016

(Stated in millions of euros)	**Mark-to-market of currency derivatives in other comprehensive income**	**Impact on income**	
CURRENCY		**Under six months**	**Over six months**
Assets	(0.6)	0.3	(0.9)
Liabilities and shareholders' equity	1.2	0.5	0.7

Future cash flows on currency transactions recognized at December 31, 2016

CURRENCY *(in millions of euros)*	**MTM**	**Expected cash flows**
Assets	1.3	1.3
Liabilities	(1.0)	(1.0)

Currency hedges are adjusted 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, the Great Britain and to the domestic customers in China.

This credit insurance program does not however cover 100% of risk because the insurer excludes certain risks from the cover.

In 2016, the Group recorded a loss in the amount of $0.6 million on trade receivables from SunEdison, following Chapter 11 bankruptcy proceedings of the US bankruptcy code.

During 2015 and 2016, the Group continued its assignment of receivables programs regarding several French subsidiaries, which gave rise to assigned receivables amounting to €14 million at December 31, 2016 compared to €13.0 million at December 31, 2015 (excluding discontinued operations). 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 €1.4 million.

Note 4 Business combinations recognized in 2016

There were no business combinations in 2016.

Goodwill of the Chinese company Shanghai ASP Lightning Protective Technology Co Ltd, acquired in 2015 was allocated in the second half of 2016 in the amount of €0.2 million to the brand, €0.4 million for technological expertise and €0.5 million for customer relations.

The balance of the acquisition price was paid during the first half of 2016.

Note 5 Assets held for sale or discontinued

The high voltage switches business at the Saint-Loup-de-Naud site in France

The Group announced its intention to begin discussions for the sale of its high voltage switches business at the Saint-Loup-de-Naud site as part of its operational excellence plan. This business provides little synergies with the other businesses in the Electrical Power unit. The Group received a binding offer during the second half of 2016 from a European entity that specializes in this business line. This sale was concluded 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 €7.3 million in 2016, compared to €5.8 million in 2015. These are sales that will not be realized by the Group in 2017.

The Canadian and Japanese subsidiaries of the Electrical Power unit of the Group will continue to distribute high voltage switches in 2017 coming from the Saint-Loup-de-Naud site that will no longer belong to the Group. The sale of these two subsidiaries are not included under "Businesses held for sale and discontinued operations"

Current operating income for this business amounted to €0.1 million in 2016, compared to -€0.3 million in 2015.

An impairment in value 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.

Astrolite

At end 2015, Mersen USA Oxnard-CA in the United States decided to sell its Astrolite business. Astrolite, which specializes in brazing technologies, was sold in early 2016.

The result of the sale was -€3.5 million in 2015, following recognition of an impairment in value of goodwill of this business in the amount of €3.6 million. This amounted to -€0.8 million in 2016, principally related to the adjustment of the sale price with relation to estimates made at December 31, 2015.

Business in the Advanced Materials Segment

The businesses of Mersen Grésy France and the Brignais site (Mersen France PY) were sold at end November, 2013.

In 2015, the company posted results of -€0.2 million.

At end 2016, the result was -€0.6 million (depreciation 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 businesses held for sale and discontinued operations

ASSETS

In millions of euros	Dec. 31, 2016	Dec. 31, 2015
- Trade receivables		0.8
ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS	**0.0**	**0.8**

EQUITY AND LIABILITIES

In millions of euros	Dec. 31, 2016	Dec. 31, 2015
- Current provisions	0.5	1.8
- Trade payables	0.1	
- Other payables	0.5	
LIABILITIES RELATED TO ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS	**1.1**	**1.8**
NET ASSETS IN THE PROCESS OF BEING SOLD OR DISCONTINUED OPERATIONS	**(1.1)**	**(1.0)**

Income statement for assets held for sale and discontinued operations

In millions of euros	Dec. 31, 2016	Dec. 31, 2015 adjusted
Sales	7.9	10.7
Cost of sales	(7.5)	(9.9)
Total gross margin	**0.4**	**0.8**
Selling and marketing costs	(0.4)	(0.8)
Central administrative and research costs	(0.3)	(0.7)
Other operating expenses	0.0	0.0
Operating income before non-recurring items	**(0.3)**	**(0.7)**
Non-recurring income and expense	(1.0)	0.0
Impairment losses/Gains (losses) on sale	(5.0)	(3.2)
Operating income	**(6.3)**	**(3.9)**
Financial costs	0.0	0.0
Income before tax and non-recurring items	**(6.3)**	**(3.9)**
Current and deferred taxes	0.2	(0.1)
Net income of assets held for sale/discontinued operations	**(6.1)**	**(4.0)**
Net earnings per share of assets held for sale and discontinued operations		
- Basic earnings per share *(€)*	(0.30)	(0.19)
- Diluted earnings per share *(€)*	(0.28)	(0.19)

Note 6 Goodwill

In millions of euros	Dec. 31, 2016	Dec. 31, 2015
Carrying amount at start of period	287.9	281.5
Acquisitions	0.0	5.0
Other movements	(1.2)	(10.0)
Disc. op. and assets held for sale	(2.0)	(3.6)
Cumulative translation adjustments	3.3	15.0
Carrying amount at end of period	288.0	287.9
Gross value at end of period	288.0	287.9
Total impairment losses at end of period	**(10.0)**	**(10.0)**

Breakdown by Cash-Generating Unit is given in the table below:

	Dec. 31, 2015	Movements during 2016			Cumulative translation adjustment	Dec. 31, 2016
In millions of euros	Carrying amount	Acquisitions	Other	Disc. ops. and assets held for sale		Carrying amount
Anticorrosion Equipment	57.0				0.9	57.9
Graphite Specialties	95.3				(0.7)	94.6
Power Transfer Technologies	12.3				0.4	12.7
Electrical Power and Control	81.1		(0.8)	(2.0)	1.8	80.1
Solutions for Power Management	42.2		(0.4)		0.9	42.7
TOTAL	**287.9**	**0.0**	**(1.2)**	**(2.0)**	**3.3**	**288.0**

Other movements in the amount of €1.2 million relate to the allocation of goodwill to the Chinese company ASP in 2015 (see Note 4).

Goodwill classified under “Assets held for sale and discontinued operations” is for the Saint-Loup-de-Naud site.

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 2016.

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 via Bloomberg. 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 7.2%, compared to 7.4% in 2015. This discount rate is applied to all of the CGUs. Indeed, no significant evidence exists making it possible to apply a different discount rate per CGU.
- The perpetual growth rate is 2% for the Power Transfer Technologies CGU (formerly Electrical Applications), 2.5% for the Anticorrosion Equipment CGU, 3% for the Electrical Protection & Control and the Solutions for Power Management CGUs (these two CGU formed a single unit last year under the Electrical Protection CGU) and for Graphite Specialties (formerly High Temperatures). The rates of growth applied to CGUs can be explained by the development of CGUs’ businesses in their respective markets; renewable energy for Power Transfer Technologies, Graphite Specialties and Anti-Corrosion Equipment, as well as more specifically electronics for Electrical Protection & Control, Solutions for Power Management CGU and Graphite Specialties, transportation for Power Transfer Technologies and shale gas and chemicals/ pharmaceutics for Anticorrosion Equipment. .
- The normative tax rate is 34%.

In 2015, impairment tests highlighted an impairment loss of €10 million for the Anticorrosion Equipment CGU recorded at December 31, 2015 and explained by a significant drop in business and an order book that indicated no recovery of activity before 2017.

The tests completed in 2016 concluded that no impairment loss existed 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 8% for the Anticorrosion Equipment CGU
- Around 9% for the Graphite Specialties CGU
- Around 33% for the Power Transfer Technologies CGU
- Around 11% for the Electrical Protection and Control CGU
- Around 16% for the Solutions for Power Management 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 of 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 test for specific assets

In 2014:

The Group reviewed the recoverable amount of its non-current assets. This review led to recognizing an additional impairment in the amount of €1.4 million following the implementation of the Transform plan.

In 2015:

The Group reviewed the recoverable amount of its assets. This review led to recognizing an additional impairment in the amount of €3.4 million on specific industrial tools.

Note 8 Property, plant and equipment and intangible assets

In millions of euros	Intangible fixed assets	Land	Buildings	Plant, equipment and other assets	Assets in progress	Total property, plant and equipment	TOTAL
Carrying amount at January 1, 2015	**34.4**	**29.4**	**67.0**	**169.3**	**24.3**	**290.0**	**324.4**
Acquisition of non-current assets	3.8	0.1	7.1	11.6	14.4	33.2	37.0
Retirements and disposals	(1.1)	(0.4)	(0.5)	(4.1)		(5.0)	(6.1)
Depreciation and amortization	(2.7)		(5.3)	(33.0)		(38.3)	(41.0)
Cumulative translation adjustments	0.9	0.4	4.4	10.3	1.7	16.8	17.7
Change in scope of consolidation	0.3			0.3		0.3	0.6
Assets held for sale and discontinued operations						0.0	0.0
Other movements	0.2	(0.2)	2.6	14.8	(17.4)	(0.2)	0.0
Carrying amount at December 31, 2015	**35.8**	**29.3**	**75.3**	**169.2**	**23.0**	**296.8**	**332.6**
Gross value at Dec. 31, 2015	84.3	31.8	146.7	582.9	23.0	784.4	868.7
Total depreciation and amortization at Dec. 31, 2015	(39.5)	(1.3)	(71.4)	(396.5)		(469.2)	(508.7)
Total impairment losses at Dec. 31, 2015	(9.0)	(1.2)		(17.2)		(18.4)	(27.4)
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 / impairment	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)
Cumulative 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)**

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, 2016, 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 Investments

At year-end, investments in non-consolidated companies held by consolidated companies represented:

In millions of euros	Dec. 31, 2016	Dec. 31, 2015
Gross value	7.8	8.0
Impairment losses	(5.5)	(5.5)
CARRYING AMOUNT	**2.3**	**2.5**

Impairments in value recognized as investments in non-consolidated companies at December 31, 2016 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, 2016	Dec. 31, 2015
Raw materials and other supplies	85.8	90.5
Work in progress	45.8	50.2
Finished products	39.2	43.2
Carrying amount of inventories	**170.8**	**183.9**
Impairment losses	(18.2)	(15.7)
CARRYING AMOUNT OF INVENTORIES	**152.6**	**168.2**

Net inventories fell by €15.6 million at December 31, 2016, of which €1.1 due to the classification of the high voltage switches of Saint-Loup-de-Naud in "Assets held for sale and discontinued operations" and €1.2 million due to exchange rate gains; at constant exchange rates, the value of inventory fell by €15.7 million (-9.3%).

Note 11 Trade receivables

In millions of euros	Dec. 31, 2016	Dec. 31, 2015
Gross trade receivables	146.1	145.7
Customer advances	(15.7)	(20.9)
Impairment losses	(6.6)	(5.8)
NET TRADE RECEIVABLES	**123.8**	**119.0**

Net trade receivables increased by €4.8 million at December 31, 2016, of which €0.8 million are due to exchange rate gains, -€0.4 million pursuant to the classification of the Saint-Loup-de-Naud site as an asset held for sale and -€0.1 million to other reclassifications. At like scope and exchange rates, trade receivables grew by €4.5 million, or 3.8%.

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, 2016 usage amounted to €14 million, compared to €13 million at end 2015.

At end 2016, late payments represented 15.9% of client accounts before advance payments, compared to 18% at end 2015. Payments late by over 15 days amount to around 10.6%. 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, 2016		Dec. 31, 2015	
	Gross	Impairment	Gross	Impairment
Receivables not yet due	111.1	(0.4)	115.9	(0.7)
Receivables 0-30 days past due	17.1	(0.1)	11.7	(0.1)
Receivables 31 to 120 days past due	9.9	(0.4)	12.0	(0.6)
Receivables 121 days to 1 year past due	2.9	(1.4)	3.1	(1.8)
Receivables more than 1 year past due	5.1	(4.3)	3.0	(2.6)
NET TRADE RECEIVABLES	**146.1**	**(6.6)**	**145.7**	**(5.8)**

Movements related to impairment in value of trade receivables are as follows:

In millions of euros	Dec. 31, 2016	Dec. 31, 2015
Impairment losses at January 1	(5.8)	(7.1)
Allowance/reversal during the fiscal year	(0.8)	1.3
IMPAIRMENT LOSSES AT DECEMBER 31	**(6.6)**	**(5.8)**

Impairment in trade receivables is reviewed 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, 2016	20,692,054
Capital increase/reduction *(in millions of euros)*	-0.5
Number of shares at December 31, 2016	20,471,854
Number of shares in issue and fully paid-up during the period	7,800
Number of canceled treasury shares	119,060
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	43,490

Capital management

The Company's share capital at December 31, 2016 amounted to €40,943,708, comprising 20,471,854 shares, of which 20,470,952 are category A ordinary shares and 902 category B preference shares, each with a par value of €2. The number of voting rights stood at 24,706,052 at December 31, 2016.

To the best of the Company's knowledge, its ownership structure at December 31, 2016 was as follows:

- French institutional investors: 57.9%
- International institutional investors: 31.3%
- Individual shareholders: 9.6%
- Employee shareholders: 1.0%
- Treasury shares: 0.2%

Since January 1, 2016, certain shareholders have reported crossing the following disclosure thresholds:

- February 17, 2016: BNP Paribas Investment Partners announced that it had exceeded the 2% statutory threshold and now holds 1.9873% of share capital and voting rights.
- February 2, 2016: Jousse Morillon Investissement announced that it had exceeded the 2% statutory threshold and now holds 2.0021% of share capital.
- March 4, 2016: BNP Paribas Investment Partners announced that it had exceeded the 1% statutory threshold of share capital and voting rights.
- March 14, 2016: Otus Capital Investment announced that it had exceeded the 1% statutory threshold of share capital and voting rights.
- March 30, 2016: The Nobel fund announced that it had exceeded the 1% statutory threshold and now holds 1.02% of share capital and 1.86% of voting rights.
- April 4, 2016: Bpifrance announced that it had dropped below the 10% statutory threshold and now holds 10.86% of share capital and 9.88% of voting rights.
- April 4, 2016: CDC announced that it had dropped below the 15% statutory threshold and now holds 15.34% of share capital and 13.95% of voting rights.
- April 4, 2016: Sofina announced that it had exceeded the 10% statutory threshold and now holds 8.1% of share capital and 14.8% of voting rights.
- May 3, 2016: The Nobel fund announced that it had exceeded the 2% statutory threshold and now holds 2.04% of share capital and 1.86% of voting rights.
- May 11, 2016: The Dimensional fund announced that it had exceeded the 2% statutory threshold and now holds 2.04% of share capital and 1.86% of voting rights.
- June 29, 2016: Teleios Capital Partner LLC announced that it had dropped below the 1% statutory threshold and now holds 1% of share capital and 1.04% of voting rights.
- October 21, 2016: EPIC Bpifrance announced that it had exceeded the 10% statutory threshold of share capital and 15% of voting rights and now holds 10.86% of share capital and 18% of voting rights.
- October 21, 2016: CDC announced that it had exceeded the 15% statutory threshold of share capital and 20% of voting rights and now holds 15.33% of share capital and 21.70% of voting rights.
- November 11, 2016: FRR (Fonds de Réserve pour les Retraites) announced that it had exceeded the 1% statutory threshold and now holds 0.83% of voting rights.
- November 15, 2016: FRR (Fonds de Réserve pour les Retraites) announced that it had dropped below the 1% statutory threshold and now holds 0.98% of share capital and 0.81% of voting rights.
- December 1, 2016: Crédit Suisse Group AG announced that it had exceeded the 1% statutory threshold and now holds 1.65% of share capital.

At December 31, 2016, 43,490 shares representing 0.21% of the share capital were held by the Company pursuant to the liquidity agreement entered into with Exane BNP Paribas. During 2016, the Company sold 50,001 treasury shares to be granted to employees that were not used.

On December 21, 2016, the Company canceled 165,000 treasury shares held by the company at December 31, 2016.

At December 31, 2016, the Group's employees owned 206,871 shares representing 1.0% of the share capital, plus 526,997 stock subscription options that, if exercised in full, would represent 2.57% 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 bonus shares. Definitive allotment of the shares is contingent upon beneficiaries' presence on the Group's payroll at the end of the vesting period. Allotments to Management Board members and employees making a significant contribution to the Company's performance are subject to performance conditions. Conversely, some allotment plans for employees who, by the nature of their jobs, contribute less directly to the Company's performance, are not subject to performance conditions. At December 31, 2016, the number of bonus shares likely to be allotted definitively stands at 178, 310 new shares, representing 0.87% of the current share capital.

The Group set up a share allotment plan, approved at the General Meeting of May 11, 2016 for a total of 84,000 shares . The plan is subject to performance conditions.

The number of stock subscription options likely to be awarded to members of the Management Board stood at 178,310, of which 40,810 to the Chief Executive Officer.

The Group also set up a preference share allotment plan that is subject to performance conditions. In 2015, 902 preference shares were awarded corresponding to 99,220 actions ordinary shares after conversion. The number of ordinary shares that may result from the conversion of preference shares and that remain to be allotted to members of the Management Board and managers of the Company totals 30,652 ordinary shares. In 2016, 1,172 preference shares were awarded corresponding to 128,920 ordinary shares after conversion.

In its third resolution, the Company's General Meeting of May 11, 2016 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, the double voting right is 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	**2012 plan Bonus share allotments**	**2014 plans Stock subscription options**	**2014 plan Bonus share allotments**	**2015 plan Bonus performance shares**	**2015 plan Bonus preference shares**	**2016 plan Bonus performance shares**	**2016 plan Bonus preference shares**
Allotment date	6/27/2012	5/21/2014	5/21/2014	7/9/2015	7/9/2015	5/11/2016	5/11/2016
Availability date	6/27/2016	5/21/2016	05/21/2016 / 05/21/2018	7/9/2017 / 7/9/2019	7/9/2017 / 7/9/2019	5/11/2018 / 5/11/2020	5/11/2018 / 5/11/2020
Expiration date	6/27/2016 (1)	5/21/2021	5/22/2018	7/10/2019	7/10/2019	5/12/2020	5/12/2020
Adjusted exercise price *(€)*	N/A	22.69	0.00	0.00	0.00	0.00	0.00
Adjusted share price at allotment date *(€)*	18.22	21.30	21.30	20.89	20.89	12.87	12.87
Estimated life *(number of years)*	4	4.5	4	4	4	4	4
Volatility *(%)*	36.50	31.00	31.00	25.90	25.90	25.90	25.90
Dividend per share *(as a % of share price)*	3	3	3	3	3	3	3
Risk-free interest rate	N/A	0.64%	N/A	N/A	N/A	N/A	N/A
Exercise period *(number of years)*	4	5	2/4	2/4	2/4	2/4	2/4
Lock-up period *(number of years)*	0	2	2/0	2/0	2/0	2/0	2/0
Adjusted number of options/share allotments	20,000	150,000	31,400/ 18,600	34,900/ 30,100	75,460/ 23,760	84,000	128,920
Estimated annual cancellation rate at the closing *(%)*	5	5	5	5	5	5	5
% of shares/options vested following satisfaction of the performance condition	39	85	0	100	100	100	100
Estimated number of options at end of vesting period	7,799	112,200	0	59,182	89,376	78,324	117,429
Valuation of options/shares *(€)*	16.16	3.68	19.08/18.89	18.71/18.53	17.73/18.53	12.12/12.12	10.92/11.41
Valuation as a % of the share price at grant	88.70	17.30	89.60 / 88.70	89.60 / 88.70	84.90 / 88.70	94.20 / 94.20	84.80 / 88.70

(1) Expiration of the non-transferability date

With respect to share-based payments, a net charge of €0.5 million was recognized in 2016, consisting of:

- a charge of – €1.3 million under current plans
- a gain of €0.8 million, as the Group expects that the performance criteria for final vesting of shares in share allotment and stock option plans for 2014 will not be fully achieved.

A charge of €1.2 million was recognized in 2015.

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 other liabilities

(in millions of euros)	Dec. 31, 2016		Dec. 31, 2015	
	Non-current	Current	Non-current	Current
- provision for restructuring	0.3	15.2	0.5	5.5
- provision for litigation	0.2	0.9	0.8	1.3
- other provisions	0.8	4.3	0.9	3.6
TOTAL	**1.3**	**20.4**	**2.2**	**10.4**

2015: recurring and non-recurring	Dec. 31, 2015	Provisions set aside / reversals	Uses	Other	2015: Cumulative translation adjustment	Dec. 31, 2016
- provision for restructuring	6.0	14.9	(5.5)	0.1		15.5
- provision for litigation	2.1	0.7	(1.6)		(0.1)	1.1
- other provisions	4.5	1.2	(0.4)		(0.2)	5.1
TOTAL	**12.6**	**16.8**	**(7.5)**	**0.1**	**(0.3)**	**21.7**

Provisions totaled €21.7 million at December 31, 2016 (€12.6 million at December 31, 2015), up by €9.1 million. This is linked to the setting aside of provisions for restructuring under the Operational Excellence Plan, an increase that was partially offset by payments of provisions for restructuring under the Transform plan.

Legal proceedings

None of the legal proceedings referred to below led to provisions being set aside, as the Group is not in a position as things stand to assess the financial risk.

Civil proceedings in Canada

The civil proceeding initiated in 2004 in Canada by certain customers against the main Canadian manufacturers of graphite brushes, including Mersen Toronto, a Canadian subsidiary of Mersen, is still underway and there have been no new 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.

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 Paris Commercial Court has not yet issued a judgment. Mersen rejects all of the allegations and demands put forward by the SNCF. The two proceedings are still underway.

Since 1999, the Group has developed a worldwide compliance program to provide training for and raise awareness among operational and commercial managers about competition legislation. This worldwide compliance program remains in place. It was updated again in June 2010 following the change in the Group's name and corporate identity. Highly stringent internal control measures and external audits ensure that competition legislation is scrupulously complied with in all the countries in which the Group does business.

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 2016.

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.

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.

Tax and customs proceedings

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 are the following:

- Mersen do Brasil 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 10 .6 million Brazilian reals, or approximately €2.7 million at the exchange rate on December 31, 2016. The Group has filed a challenge.
- Mersen Chongqing received notice of a VAT reassessment covering 2012 to 2015 following a change in calculations method beginning in 2012 that the Group apparently failed to comply with. The Group agreed to an assessment in the amount of €2.1 million, which was fully provided for in the financial statements at the end of December, 2016 and paid in early 2017.
- Mersen Gennevilliers received notice of a reassessment for Corporate Property Tax (CFE) on December 13 relating to the period of 2013 to 2015 and regarding Real Estate tax for 2016, in the total amount of €2.0 million after taking into account the CET tax cap. A provision for a part of this amount was recorded at end 2016. The tax reassessment proposal has been contested.

Other liabilities in the amount of €1.1 million at December 31, 2016 chiefly comprise liabilities related to property, plant and equipment.

No other material contingent liabilities were identified at December 31, 2016.

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 US (44% of obligations), the UK (21% of obligations), France (13% 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 96% for the salaried plan and 93% 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 97%. 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, 2016 with the assistance of independent actuaries and in accordance with IAS 19.

The rates used for the main countries are summarized below:

2016	Discount rate	Average rate of salary increases	Inflation rate
France	1.35%	Between 2.0% and 6.25% depending on age	1.8%
Germany	1.35%	2.50%	1.8%
United States	4.25%	Not applicable	Not applicable
United Kingdom	2.85%	2.75%	2.5% / 3.5%

2015	Discount Rate	Average rate of salary increases	Inflation rate
France	1.90%	Between 2.0% and 6.25%	1.9%
Germany	1.90%	2.5%	1.9%
United States	4.40%	Not applicable	Not applicable
United Kingdom	3.70%	2.4%	2.4% / 3.4%

Mortality assumptions are based on published statistics and mortality tables.

Reconciliation between assets and liabilities recognized

	Dec. 31, 2016	Dec. 31, 2015
Actuarial obligation	186.4	186.2
Fair value of plan assets	(112.7)	(109.9)
PROVISION BEFORE THE LIMIT ON ASSETS	73.7	76.3
Surplus management reserve	0.2	0.2
PROVISION AFTER THE LIMIT ON ASSETS	73.9	76.5

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, 2016
Actuarial obligation	24.7	16.7	82.8	39.2	23.0	186.4
Fair value of plan assets	(0.2)	0.0	(53.8)	(44.5)	(14.0)	(112.5)
NET AMOUNT RECOGNIZED	24.5	16.7	29.0	(5.3)	9.0	73.9

Movements in the Group's obligations

	France	Germany	United States	United Kingdom	Rest of the world	Total
December 31, 2015	**22.6**	**16.3**	**83.6**	**42.1**	**21.6**	**186.2**
Payments made	(0.9)	(0.9)	(3.4)	(1.4)	(1.7)	(8.3)
Expense charged to income (including US and Netherlands plan amendments)	1.8	0.7	(1.7)	1.4	0.6	2.8
Translation adjustment			2.4	(6.2)	1.0	(2.8)
Actuarial gains and losses	1.7	0.6	1.9	3.3	1.5	9.0
Other movements	(0.5)					(0.5)
DECEMBER 31, 2016	24.7	16.7	82.8	39.2	23.0	186.4

Change in plan assets

	France	Germany	United States	United Kingdom	Rest of the world	Total
December 31, 2015	**0.2**	**0.0**	**53.8**	**43.2**	**12.5**	**109.7**
Return on plan assets			2.3	1.4	0.4	4.1
Employer contribution			3.4	0.6	0.5	4.5
Employee contribution						0.0
Payment of benefits			(3.4)	(1.5)	(0.6)	(5.5)
Actuarial gains and losses			1.2	7.3	0.6	9.1
Translation adjustment			1.7	(6.5)	0.6	(4.2)
Other movements (including US and Netherlands plan amendments)			(5.2)			(5.2)
DECEMBER 31, 2016	**0.2**	**0.0**	**53.8**	**44.5**	**14.0**	**112.5**

The plan assets cover primarily the United States plans (48% of total plan assets, with 56% invested in equities and 44% in bonds) and the United Kingdom plans (40% of total plan assets, with 36% invested in equities, 61% in government bonds and 3% in real estate and cash).

The charge recognized at December 31, 2016 in respect of these plans was €3.9 million, compared with €1.3 million in 2015.

The 2015 charge included a gain of €8.1 million following the freeze of the salaried plan in the United States.

The 2016 charge includes a gain of €2.3 related to:

- the closing of the defined commitments 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, 2016	Dec. 31, 2015
Current service cost	1.3	0.4	0.8	0.0	0.8	3.3	6.8
Interest cost	0.4	0.3	3.5	1.4	0.7	6.3	6.6
Expected return on plan assets			(2.3)	(1.4)	(0.4)	(4.1)	(4.1)
Administrative costs			0.6			0.6	0.5
Plan amendment			(1.4)		(0.9)	(2.3)	(8.2)
Other movements	0.1					0.1	(0.3)
TOTAL CHARGE FOR THE PERIOD	**1.8**	**0.7**	**1.2**	**0.0**	**0.2**	**3.9**	**1.3**

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, 2016	Dec. 31, 2015
Adjustments linked to changes in demographic assumptions			(1.1)	(2.7)	(0.1)	(3.9)	(1.3)
Adjustments linked to changes in financial assumptions	1.4	0.9	1.6	5.8	1.2	10.9	(7.1)
Experience adjustments to obligations	0.3	(0.3)	1.3	0.2	0.4	1.9	(1.5)
Experience adjustments to plan assets			(1.1)	(7.3)	(0.6)	(9.0)	1.0
ACTUARIAL GAINS AND LOSSES	**1.7**	**0.6**	**0.7**	**(4.0)**	**0.9**	**(0.1)**	**(8.9)**

Sensitivity analysis

An increase of 0.50 points in discount rates would lead to a reduction of €13.0 million in the estimated actuarial obligation.

An increase of 0.5 points in inflation rates would lead to a reduction of €2.6 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	(1.4)	0.0
Germany	(1.0)	0.0
United Kingdom	(3.2)	2.1
United States	(5.9)	0.0
Rest of the world	(1.5)	0.5
TOTAL	**(13.0)**	**2.6**

Note 15 Net debt

Analysis of total net debt at Dec. 31, 2016

In millions of euros	Dec. 31, 2016	Dec. 31, 2015
Long- and medium-term borrowings	161.8	211.1
Current financial liabilities (a)	53.0	10.9
Current advances	1.1	0.6
Bank overdrafts	22.1	52.8
TOTAL GROSS DEBT	**238.0**	**275.4**
Current financial assets	**(6.0)**	**(16.5)**
Cash and cash equivalents	(29.2)	(22.4)
Cash	**(29.2)**	**(22.4)**
TOTAL NET DEBT	**202.8**	**236.5**

Including €47 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, 2016 amounted to €202.8 million compared to €236.5 million at year-end 2015.

Of the €238.0 million in total gross debt, €165.4 million stems from the use of the confirmed loans and borrowings, €47 million from drawdowns of the commercial paper program and the remainder chiefly from use of non-confirmed lines (bank overdrafts and other lines).

Net debt/equity

(in millions of euros)	Dec. 31, 2016	Dec. 31, 2015
Total net debt	202.8	236.5
Net debt/equity [(a)]	0.41	0.47

(a) Calculated using the covenant method

Net debt amounted to 41% of equity at December 31, 2016, compared with 47% at December 31, 2015.

Reconciliation between changes in net debt shown in the balance sheet and the cash flow statement

In millions of euros	Dec. 31, 2016	Dec. 31, 2015
Prior year debt	**236.5**	**216.0**
Cash generated/(used) by operating and investing activities after tax	(65.2)	(41.0)
Cash used by restructurings and litigation (*)	10.8	24.8
Net cash inflows/(outflows) attributable to changes in the scope of consolidation	0.7	5.7
Cash generated by the operating and investing activities of continuing operations	**(53.7)**	**(10.5)**
Cash generated by the operating and investing activities of divested and discontinued operations	(3.8)	(0.5)
Increase/decrease in capital	1.1	1.8
Dividends paid	10.5	10.5
Interest payments	8.2	9.5
Translation adjustments and other	(2.3)	10.3
Impact of changes in the scope of consolidation	0.0	(0.2)
Other changes	6.3	(2.2)
DEBT AT YEAR-END	**202.8**	**236.5**

(*) o/w the Transform plan €19.7 million in 2015

Financial covenants at December 31, 2016

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 oblige Mersen to repay the relevant borrowings ahead of schedule. Under the cross-default clauses, early repayment of one significant borrowing may oblige 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, 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	-
Actual ratios at December 31, 2014			
Confirmed credit lines, Group	2.19	0.46	-
2003 US private placement	2.11	0.46	10.74
2011 US private placement	2.19	0.46	10.32
Confirmed credit lines, China		0.46	-

(a) Method for calculating 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. Solely for the calculation of the net debt/EBITDA ratio, net debt has to be recalculated at the average €/USD exchange rate for the period in the event of a difference of over 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, 2016, there were no material borrowings or liabilities secured by assets or guaranteed by third parties.

Breakdown by currency of total net debt at December 31, 2016

Total net debt at December 31, 2016 stood at €202.8 million and is broken down by currency as follows:

(By currency)	%
EUR	50.9
USD	33.1
GBP	8.1
RMB	3.8
Other	4.1

By interest rate	%
Fixed	42.7
Floating	57.3

Breakdown by currency of the drawdowns on credit lines and confirmed long- and medium term borrowings including the short-term portion at December 31, 2016

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 and < 5 years	> 5 years
Borrowings in USD	47.4	0.0	47.4	0.0
Borrowings in EUR	97.3	0.0	37.3	60.0
Borrowings in GBP	1.9	0.3	1.2	0.4
Borrowings in RMB	18.8	3.8	15.0	0.0
TOTAL	**165.4**	**4.1**	**100.9**	**60.4**
Amortization of issuance costs at the EIR [(a)]	(0.9)			
Fair value of interest-rate derivatives	0.0			
TOTAL	**164.5**			

(a) Effective interest rate.

Of the €100.9 million in debt due to mature in between one and five years' time, €4.8 million had a maturity of less than two years at December 31, 2016.

(in millions of euros)	Total	O/w maturity < 5 years	O/w maturity > 5 years
Debt	238.0	177.6	60.4
Financial assets	(35.2)	(35.2)	0.0
Net position before hedging	**202.8**	**142.4**	**60.4**
Fixed-rate debt	86.6	86.3	0.3
Net position after hedging	**116.2**	**56.1**	**60.1**

Assuming Mersen's debt and exchange rates remain unchanged at their December 31, 2015 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 €1.2 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 (unadjusted) 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, 2016		Carrying value						Fair value			
Asset and liability accounts and instrument categories	Note:	Assets/ liabilities designa-ted as at fair value	Held-to-maturity assets	Available-for-sale assets	Loans and recei-vables	Liabi-lities stated at amor-tized cost	Total carrying value of the category	Level 1	Level 2	Level 3	TOTAL
Financial assets designated as at fair value											
Unlisted investment securities	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 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)		
Current advances	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)				

December 31, 2015		Carrying value						Fair value			
Asset and liability accounts and instrument categories	Note:	Assets/ liabilities designa-ted as at fair value	Held-to-maturity assets	Available-for-sale assets	Loans and recei-vables	Liabi-lities stated at amor-tized cost	Total carrying amount of the category	Level 1	Level 2	Level 3	TOTAL
Assets/ liabilities measured at their fair value											
Unlisted investment securities	9			2.5			2.5			2.5	2.5
Derivatives held as current and non-current assets	3	0.4					0.4		0.4		0.4
		0.4	**0.0**	**2.5**	**0.0**	**0.0**	**2.9**	**0.0**	**0.4**	**2.5**	**2.9**
Financial assets not measured at their fair value											
Current and non-current financial assets	15				20.5		20.5				
Trade receivables	11				119.0		119.0				
Cash and cash equivalents	15				22.4		22.4				
		0.0	**0.0**	**0.0**	**161.9**	**0.0**	**161.9**				
Financial liabilities measured at their fair value											
Derivatives held as current and non-current liabilities	3	(2.6)					(2.6)		(2.6)		(2.6)
		(2.6)	**0.0**	**0.0**	**0.0**	**0.0**	**(2.6)**	**0.0**	**(2.6)**	**0.0**	**(2.6)**
Financial liabilities not measured at their fair value											
Bank borrowings	15					(211.1)	(211.1)		(210.9)		
Current advances	15					(0.6)	(0.6)				
Bank overdrafts	15					(52.8)	(52.8)				
Current financial liabilities	15					(10.9)	(10.9)				
Trade payables						(56.3)	(56.3)				
		0.0	**0.0**	**0.0**	**0.0**	**(331.7)**	**(331.7)**				
Carrying amount by class		**(2.2)**	**0.0**	**2.5**	**161.9**	**(331.7)**	**(169.5)**				

Regarding financial derivative instruments to include 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 Other non-recurring income and expense

Other non-recurring income and expense breaks down as follows:

In millions of euros	Dec. 31, 2016	Dec. 31, 2015
Operational Excellence plan	(22.3)	0.0
Goodwill impairment		(10.0)
Litigation and other gains and expenses	(4.2)	(6.0)
Transform plan		(3.0)
Restructuring costs		(2.6)
TOTAL	**(26.5)**	**(21.6)**

At December 31, 2016, non-recurring income and expenses stood at €26.5 million and included primarily:

- expenses related to the Operational Excellence plan in the amount of €22.3 million
- litigation and other non-recurring expenses of a material amount of €4.2 million, which primarily involve:
  - tax and VAT litigation in France and China,,
  - losses related to a customer in Chapter 11 proceedings in the United States,,
  - significant, non-recurring commercial litigation,
  - inversely, gains and income from the sale of industrial buildings not used essentially related to the Transform plan.
- The costs of the Operational Excellence plan were valued according to a process formulated and supervised by the Management Board of the group.

At end 2015, non-recurring income and expenses stood at €21.6 million and included primarily:

- Goodwill impairment related to the impairment of the Anticorrosion Equipment CGU impairment for €10 million (cf. note 7)
- impairment of property, plant, and equipment and of intangible assets in the amount of €6.8 million related primarily to the under-use of certain graphite production equipment, and abandoned projects
- Litigation and other gains and expenses (net income of €0.8 million) concerning:
  - provisions for litigation (€2.1 million)
  - a provision for risk related to import taxes in Asia amounting to €1.8 million
  - expenses and other charges in the amount of €3.4 million
  - gain of €8.1 million for the amendment to the pension plan following the freeze of the salaried plan in the United States (cf. note 14)
- costs related to the last phase of the Transform plan €3 million
- other restructuring costs in the amount of €2.6 million.

Note 18 Segment reporting

Operating income

In millions of euros	Advanced Materials (AM)			Electrical Power (EP)			Total for continuing operations		
	Dec. 31, 2016	Dec. 31, 2015 adjusted	Dec. 31, 2015 new organization	Dec. 31, 2016	Dec. 31, 2015 adjusted	Dec. 31, 2015 new organization	Dec. 31, 2016	Dec. 31, 2015 adjusted	Dec. 31, 2015 published
Sales to third parties	411.8	419.5	419.5	351.8	348.1	352.7	763.6	767.6	772.2
Breakdown of sales	53.9%	54.3%	54.7%	46.1%	45.7%	45.3%	100.0%	100.0%	100.0%
Segment operating income before non-recurring items	**32.1**	**34.5**	**33.1**	**40.6**	**39.5**	**38.2**	**72.7**	**74.0**	**71.3**
Recurring unallocated costs							(12.8)	(13.1)	(13.2)
Segment operating margin before non-recurring items*	**7.8%**	**8.2%**	**7.9%**	**11.5%**	**11.3%**	**10.8%**			
Recurring operating income from continuing operations							59.9	60.9	58.1
Operating margin from continuing operations before non-recurring items							7.8%	7.9%	7.5%
Segment non-recurring income and expense	(17.0)	(19.5)	(19.5)	(9.6)	(1.1)	(1.1)	(26.6)	(20.6)	(20.6)
Amortization of revalued intangible assets	(0.5)	(0.5)	(0.5)	(0.7)	(0.6)	(0.6)	(1.2)	(1.1)	(1.1)
Segment operating income	**14.6**	**14.5**	**13.1**	**30.3**	**39.7**	**39.7**	**44.9**	**54.2**	**49.6**
Segment operating margin*	3.5%	3.5%	3.1%	8.6%	8.8%	8.8%			
EBIDTA margin (1)	14.6%	15.7%	15.3%	13.9%	13.7%	13.2%			
Non-recurring unallocated costs							0.1	(1.0)	(1.0)
Operating income from continuing operations							**32.2**	**38.2**	**35.4**
Operating margin from continuing operations							4.2%	4.6%	4.6%
Financial costs							(11.0)	(12.5)	(10.0)
Current and deferred income tax							(11.9)	(19.1)	(19.1)
Net income from continuing operations							**9.3**	**6.6**	**6.3**

** 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, 2016	%	Dec. 31, 2015 adjusted	%
France	65.7	9%	66.6	9%
Rest of Europe	192.5	25%	195.0	25%
North America	273.5	36%	288.3	38%
Asia	194.4	25%	177.9	23%
Rest of the world	37.5	5%	39.8	5%
TOTAL	**763.6**	**100%**	**767.6**	**100%**

No single customer accounts for over 10% of the Group's sales. The number one customer accounted for 3.6% 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, 2016
Non-current assets, net (excluding investments)	425.2	195.1	620.3
Inventories	104.0	48.6	152.6
Trade receivables	69.7	54.1	123.8
Other receivables	7	7.9	14.9
TOTAL SEGMENT ASSETS	**605.9**	**305.7**	**911.6**
Deferred tax assets			38.1
Non-current portion of current tax assets			7.7
Current portion of current tax liabilities			6.8
Other current assets			0
Current financial assets			6.0
Current derivatives			1.8
Financial assets			0
Cash and cash equivalents			29.2
Assets held for sale and discontinued operations			0
TOTAL UNALLOCATED ASSETS			**89.6**
TOTAL			**1001.2**

Segment liabilities

In millions of euros	AM	EP	Dec. 31, 2016
Trade payables	34.1	27.5	61.6
Other payables and other liabilities	39.8	37.6	77.4
Non-current and current provisions	15.2	6.5	21.7
Employee benefits	51.4	22.5	73.9
TOTAL SEGMENT LIABILITIES	**140.5**	**94.1**	**234.6**
Deferred tax liabilities			29.6
Long- and medium-term borrowings			161.8
Non-current derivatives			0.3
Current portion of current tax liabilities			3.8
Other current financial liabilities			53.0
Current derivatives			1.2
Current advances			1.1
Bank overdrafts			22.1
Liabilities related to assets held for sale and disc. op.			1.1
TOTAL UNALLOCATED LIABILITIES			**274.0**
TOTAL			**508.6**

Note 19 Staff costs and headcount

Group payroll costs (including social security contributions, provisions for pension obligations and retirement compensation) came to €245.6 million in 2016 compared with €246.5 million in 2015.

On a like-for-like basis, payroll costs were stable, including those related to temporary staff.

Headcount of consolidated companies at end of period by geographical area

Geographical area	Dec. 31, 2016	%	Dec. 31, 2015	%
France	1,418	23%	1,472	23%
Rest of Europe	754	12%	777	12%
North America (+ Mexico)	1,855	31%	1,937	30%
Asia	1,584	26%	1,654	26%
Rest of the world	499	8%	535	9%
TOTAL	**6,110**	**100%**	**6,375**	**100%**

The headcount fell by 265 persons: 11 in North America, 70 in Asia, 54 in France, 36 in the rest of the world and 23 in Europe (excluding France).

Headcount of consolidated companies at end of period broken down by category

Categories	Dec. 31, 2016	%	Dec. 31, 2015	%
Engineers and managers	1,168	19%	1,231	19%
Technicians and supervisors	1,010	16%	994	16%
Employees	585	10%	617	10%
Blue-collar workers	3,347	55%	3,533	55%
TOTAL	6,110	100%	6,375	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	Dec. 31, 2016	Dec. 31, 2015 adjusted
Product sales	736.1	739.8
Trading sales	27.5	27.8
TOTAL SALES	763.6	767.6
Other operating revenues	8.0	6.5
Cost of trading sales	(19.2)	(19.5)
Raw material costs	(201.7)	(193.2)
Costs on other operating revenues	(1.8)	(2.4)
Manufacturing costs	(138.3)	(143.2)
Salaries, incentives and profit-sharing	(245.6)	(246.5)
Other expenses	(75.1)	(68.7)
Financial components of operating income	(4.8)	(4.7)
Depreciation and amortization	(36.8)	(39.6)
Impairment losses and provisions	(17.2)	(16.8)
Gains/(losses) on asset disposals	1.1	(1.3)
OPERATING INCOME	32.2	38.2

Provisions are specified in note 13

Note 21 Financial income and costs

In millions of euros	Dec. 31, 2016	Dec. 31, 2015 adjusted
Amortization of bond issuance expenses	(0.4)	(0.5)
Interest paid on debt	(7.3)	(8.8)
Short-term financial expense	(0.4)	
Commission on debt	(0.8)	(0.7)
Ineffective portion of interest-rate hedges		
Net interest income from employee benefits	(2.1)	(2.5)
Interest income from bank deposits		
NET FINANCE COST	**(11.0)**	**(12.5)**

The net finance cost shown above includes the following items from assets and liabilities that are not shown at fair value through the income statement:

Total interest income from financial assets	0.0	0.0
Total interest income from financial liabilities	(11.0)	(12.5)
Net Finance costs	**(11.0)**	**(12.5)**

Recognized directly in equity *In millions of euros*	Dec. 31, 2016	Dec. 31, 2015 adjusted
Change in fair value of currency hedges	1.1	(0.6)
Change in fair value of interest rate hedges	0.2	0.2
Change in fair value of commodity hedges	0.4	0.5
Impact on changes recognized in equity	(0.5)	(0.1)
Net finance costs recognized directly in equity, net of tax	**1.2**	**0.0**

Note 22 Taxes

In millions of euros	Dec. 31, 2016	Dec. 31, 2015 adjusted
Current income tax	(13.3)	(13.2)
Deferred income tax	2.2	(5.6)
Withholding tax	(0.8)	(0.3)
Total tax expense	**(11.9)**	**(19.1)**

The Group has:

- One consolidated tax group in France
- One consolidated tax group in the United States
- Two consolidated tax groups in Germany
- One consolidated tax group in the United Kingdom (group relief)

The tax rate on the Group's continuing operations (excluding impairments of goodwill and other assets and excluding impairments of deferred tax assets on non recurring and/or non-capitalizable losses) was 30% in 2016, compared to 33% in 2015.

Analysis of income tax expense

In millions of euros	Dec. 31, 2016
Net income	**3.2**
Net income from assets held for sale/discontinued operations	(6.1)
Net income from continuing operations	**9.3**
Income tax expense/(benefit) on continuing operations	(11.9)
TOTAL INCOME TAX EXPENSE (BENEFIT)	**(11.9)**
TAXABLE INCOME	**21.2**
Current tax rate in France	34.43%
Theoretical tax benefit/(expense) (taxable income x current income tax rate in France)	(7.3)
Difference between income tax rate in France and other jurisdictions	0.8
Transactions qualifying for a reduced rate of taxation	
Permanent timing differences	0.6
Impact of limiting deferred tax assets	(6.6)
Other	0.6
ACTUAL INCOME TAX BENEFIT (EXPENSE) RECOGNIZED	**(11.9)**

The permanent differences take into account primarily non-deductible exceptional charges.

The impact of limiting deferred tax assets (€6.6 million) includes impairments of the net deferred tax asset position on losses, specifically in France, and China.

The deferred tax assets and liabilities recognized in the statement of financial position are as follows:

In millions of euros	Dec. 31, 2016	Dec. 31, 2015
Deferred tax assets	38.1	36.8
Deferred tax liabilities	(29.6)	(29.9)
Net position	**8.5**	**6.9**

Deferred tax movements during fiscal 2016 were as follows:

*(in millions of euros)**	Dec. 31, 2015	Net income for the year	Other com-prehensive income	Other	Cumulative translation adjustment	Dec. 31, 2016
Employee benefit obligations	22.7	(3.2)	0.2	(0.1)	0.0	19.6
Depreciation of non-current assets	(42.8)	(0.9)	0.0	0.0	0.0	(43.7)
Tax-regulated provisions	(1.5)	0.6	0.0	0.0	0.0	(0.9)
Impact of tax losses	29.5	(1.6)	0.0	0.5	0.0	28.4
Impairment losses	(0.7)	0.1	0.0	0.0	0.0	(0.6)
Other	(0.3)	7.2	(0.3)	(0.1)	(0.8)	5.7
DEFERRED TAX IN THE STATEMENT OF FINANCIAL POSITION - NET POSITION	**6.9**	**2.2**	**(0.1)**	**0.3**	**(0.8)**	**8.5**

** (- 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 primarily from France (€59.9 million), China (€29 million) and Brazil (€5 million).

Note 23 Earnings per share

Basic and diluted earnings per share are presented below:

Continuing operations and assets held for sale	Dec. 31, 2016	Dec. 31, 2015 adjusted	Dec. 31, 2015 published
Numerator: net income used to compute basic earnings per share (net income for the period in millions of euros)	1.8	1.3	1.3
Denominator: weighted average number of ordinary shares used to compute basic earnings per share	20,428,364	20,529,504	20,529,504
Adjustment for dilutive potential ordinary shares: unexercised options	894,647	768,215	768,215
Weighted average number of ordinary shares used to compute diluted earnings per share	21,323,011	21,297,719	21,297,719
Basic earnings per share *(€)*	0.09	0.07	0.07
Diluted earnings per share *(€)*	0.08	0.06	0.06

Continuing operations	Dec. 31, 2016	Dec. 31, 2015 adjusted	Dec. 31, 2015 published
Numerator: net income used to compute basic earnings per share (net income for the period in millions of euros)	7.9	5.3	5.0
Denominator: weighted average number of ordinary shares used to compute basic earnings per share	20,428,364	20,529,504	20,529,504
Adjustment for dilutive potential ordinary shares: unexercised options	894,647	768,215	768,215
Weighted average number of ordinary shares used to compute diluted earnings per share	21,323,011	21,297,719	21,297,719
Basic earnings per share *(€)*	0.38	0.26	0.24
Diluted earnings per share *(€)*	0.37	0.25	0.24

By adjusting net earnings, earnings per share for 2016 and 2015 would stand at:

Continuing operations and assets held for sale			
Basic earnings per share *(€)*	1.41	1.32	1.32
Diluted earnings per share *(€)*	1.35	1.27	1.27

Continued operations			
Basic earnings per share *(€)*	1.41	1.33	1.32
Diluted earnings per share *(€)*	1.35	1.28	1.27

Adjustment:	Dec. 31, 2016	Dec. 31, 2015 adjusted
Net income	**1.8**	**1.3**
Non-recurring expenses for the Operational Excellence Plan, net of tax	21.1	
Goodwill impairment of the Anti-Corrosion Equipment GGU		10
Impairment of assets		4.1
Impairments of deferred tax assets against deficits and correction of tax		4
Non-recurring charges on discontinued businesses	6	3.5
Charges for the Transform plan net of tax		2.6
Abandoned projects		1.5
Adjusted net income	**28.9**	**27**

Note 24 Dividends

The General Meeting of the Shareholders of May 11, 2016 decided to distribute a dividend of €0.5 euro per share for fiscal 2015. In July 2016, the Group paid out cash dividends totaling €10.3 million.

The dividend proposed in respect of fiscal 2016 stands at €0.50 per share, representing an aggregate amount of €10 million.

Note 25 Leases

1 - Finance leases

Carrying amount by asset category

(in millions of euros)	Dec. 31, 2016	Dec. 31, 2015
Buildings	0	0

2 - The Group is the lessee (operating lease)

Schedule of minimum payments

(in millions of euros)	Total at Dec. 31, 2016	< 1 year	> 1 year	O/w five years or more
Minimum payments	31.9	6.7	25.2	7.6

Minimum payments represent the amount of certain future property lease payments up until the expiration of the lease prior to any renewals. The leases do not contain any clause restricting debt or on dividend payments.

The reduction in minimum payments by comparison with December 31, 2015 (€37.4 million) derived mainly from lease depreciation.

Note 26 Related party disclosures

Mersen SA 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 33 countries.

Transactions between the Group's consolidated companies are eliminated for consolidation purposes.

1 - Relations with unconsolidated subsidiaries

Group sales to unconsolidated subsidiaries amounted to €3.1 million in 2016 (€4.5 million in fiscal 2015).

At December 31, 2016, the management and administrative fees charged to unconsolidated subsidiaries by the Group (deducted from administrative costs) amounted to €0.3 million, in contrast with under €0.1 million in 2015.

The amounts receivable by the Group from its unconsolidated subsidiaries came to €1.3 million at December 31, 2016, while amounts payable stood at €0.2 million.

At December 31, 2016, Mersen made shareholders' advances to non-consolidated subsidiaries amounting to €0.1 million (identical to fiscal 2015).

2 - Compensation and benefits paid to main executives who are corporate officers

The table below includes, in 2016, annual compensation of the two members of the Management Board as it stood on January 1, 2016. In 2015, the compensations included those paid to two other officers who have since resigned from their positions as members of the Management Board.

(in millions of euros)	Dec. 31, 2016	Dec. 31, 2015
Salaries, bonuses, benefits in kind	0.8	1.7
Top-up pension plan payments (1)	0.2	0.2
Other long-term employee benefits		
TOTAL	**1.0**	**1.9**

(1) By contract, the Chief Executive Officer is entitled to the benefit of a top-up pension plan, defined as follows: provided that the relevant person is still employed by the Group upon his/her retirement, this regime guarantees ta op-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, 2016 at €3.9 million (€3.5 million at December 31, 2015).

The Chief Executive Officer does not qualify for any other long-term employee benefits.

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 and to the Chief Financial Officer (corporate officer until May 11, 2016):

- Stock options: 105,626 stock subscription options were granted to the Management Board in 2007, 2009, and 2014:

	2007 plan Tranche 11
Date of Board of Directors' meeting	July 25, 2007
Total number of shares allotted	15,577
Subscription price	53.10
Start of option exercise period	July 2011
Expiration date	July 2017

	2009 plan Tranche 12
Date of Board of Directors' meeting	January 22, 2009
Total number of shares allotted	42,049
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	48,000
Subscription price	22.69
Start of option exercise period	May 2016
Expiration date	May 2021

- Bonus share allotments: table of past allotments to the Management Board below:

	2012 plan Tranche 7 (reallocation)
Date of the Management Board's meeting	June 27, 2012
Total number of shares allotted	2,500
Reference price at allotment date	16.16
Definitive allotment date (end of the vesting period)	May 27, 2016
End of lock-up period	May 28, 2016

The 2012 plan is subject to performance conditions.

No bonus shares were allotted to Management Board members in respect of the 2008, 2009, and 2014 and 2015 plans.

- Bonus preference shares: table of past allotments to the Management Board below:

	2015 plan
Date of the Management Board's meeting	July 09, 2015
Total number of preference shares allotted	291
Equivalent in number of ordinary shares after conversion subject to achievement of performance criteria	2,910
Equivalent in number of ordinary shares after conversion	31,930
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 (French tax residents)[1]
End of lock-up period	July 09, 2019

(1) For beneficiaries who are non-French tax residents, an additional two-year period applies.

	2016 plan
Date of Board of Directors' meeting	May 11, 2016
Total number of preference shares allotted	317
Equivalent in number of ordinary shares after conversion subject to achievement of performance criteria	3,170
Equivalent in number of ordinary shares after conversion	31,700
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 (French tax residents)[1]
End of lock-up period	May 11, 2020

(1) For beneficiaries who are non-French tax residents, an additional two-year period applies.

Note 27 Commitments and contingencies

A - Financial commitments and liabilities

(in millions of euros)	Dec. 31, 2016	Dec. 31, 2015
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	19.5	21.3
Payment guarantee on acquisitions	0.0	0.0
Other guarantees	22.0	22.2
Other commitments given	2.7	3.2
TOTAL	**44.2**	**46.7**

The above table summarizes the Group's commitments and contingencies.

Nature

The "other guarantees" item, which amounted to €22.0 million, notably includes an €18 million guarantee covering the maximum daily drawings by subsidiaries under the European cash pooling arrangements.

Maturity

Commitments and contingencies with a maturity of over one year amounted to €28.9 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 commitments and contingencies without obtaining the prior approval of the Group's Finance department and, where appropriate, of the Management Board. 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 commitments or contingencies under the accounting standards in force have been omitted.

B - Title retention clause

None

Note 28 Subsequent events

Disposal of the high voltage switches business at Saint-Loup-de-Naud on March 3, 2017.

Note 29 Approval of the financial statements

The Group's consolidated financial statements for the fiscal year to December 31, 2016 were approved by the Board of Directors at its meeting on March 7, 2017.

Report of the Statutory Auditor on the consolidated financial statements

Year ended on December 31, 2016

Ladies and Gentlemen,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended on December 31, 2016, on:

- the audit of the consolidated financial statements of Mersen SA, as attached hereto;
- the justification of our assessments;
- the specific verifications and disclosures required by law.

The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

1. Opinion on the consolidated financial statements

We conducted our audit in accordance with the professional standards applicable in France. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis or using other selection methods, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We certify, with reference to the IFRS framework as adopted by the European Union, that the consolidated financial statements for the fiscal year give a true and fair view of the assets and liabilities, financial position and income of the group comprised of the persons and entities included in the consolidation scope.

2. Justification of our assessments

The accounting estimates used to prepare the consolidated financial statements at December 31, 2016, were prepared in the environment described in Note 2-V of the notes to the consolidated financial statements ("Use of estimates" section), which made it rather difficult to assess the future outlook. Against this backdrop, in accordance with the provisions of Article L. 823-9 of the French Commercial Code on the justification of our assessments, we conducted our own assessments.

Measurement of property, plant and equipment and of intangible assets

As disclosed in Notes 2.F.1 and 2.I to the financial statements, the Group performs goodwill impairment tests systematically at each balance sheet date and also assesses whether there is evidence of impairment in property, plant and equipment, and in intangible assets. We have examined the method used to implement these impairments test as well as the estimated cash flows and the assumptions made. We have also verified that Notes 6 and 7 to the financial statements provide appropriate disclosures.

Costs relating to the operational excellence plan

During the fiscal year, your company recognized costs relating to the operational excellence plan, as described in Note 17 to the financial statements. Our work consisted in assessing the figures and assumptions on which the management's estimates were based, reviewing on a test basis the calculations made by the company and examining the management's procedures for approving these estimates. In the course of our assessments we checked that these estimates were reasonable and that Note 17 of the financial statements provides appropriate disclosure.

The assessments thus conducted formed part of our audit of the consolidated financial statements, and therefore contributed to the formulation of the opinion we expressed in the first part of this report.

Specific verification

In accordance with professional standards applicable in France, we also conducted the specific verifications provided for by law of the information disclosed in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Statutory Auditors

Paris La Défense, March 7, 2017	Neuilly sur Seine, March 7, 2017
KPMG Audit	Deloitte & Associés
Département de KPMG S.A.	
Philippe Cherqui	Laurent Odobez
Partner	*Partner*

PARENT COMPANY FINANCIAL STATEMENTS

7

INCOME STATEMENT

(in € thousands)	2016	2015
OPERATING REVENUES (1)		
Revenues		
Other revenues	1,541	1,364
TOTAL SALES	**1,541**	**1,364**
Operating subsidies	0	0
Reversals of operating provisions	44	815
Transferred operating costs	930	(296)
Other income	12,972	8,912
TOTAL 1	**15,487**	**10,795**
OPERATING EXPENSES (2)		
Other purchases	7	16
External charges	17,342	12,499
Taxes other than income tax	543	317
Wages and salaries	1,289	1,077
Social security charges	495	358
Depreciation, amortization and charges to provisions:		
- against fixed assets: depreciation and amortization	70	15
- for liabilities and charges: charges to provisions	386	379
Other expenses	364	364
TOTAL 2	**20,486**	**15,025**
OPERATING INCOME (TOTAL 1 - 2)	**(4,999)**	**(4,230)**

(in € thousands)	2016	2015
FINANCIAL INCOME (3)		
Income from participating interests	53,350	40,728
Other income from fixed assets	124	124
Other interest and related income	1,684	2,537
Reversals of depreciation, amortization and charges to provisions	1,265	33
Foreign exchange gains	4,389	5,356
TOTAL 3	**60,812**	**48,778**
FINANCIAL EXPENSE (4)		
Depreciation, amortization and charges to provisions	22,985	20,506
Interest and related expenses	5,371	6,899
Foreign exchange losses	4,463	4,662
TOTAL 4	**27,970**	**32,067**
NET FINANCIAL INCOME (3 - 4)	**27,993**	**16,711**
INCOME BEFORE TAX AND NON-RECURRING ITEMS	**22,994**	**12,481**
EXCEPTIONAL INCOME		
Management transactions	124	176
Capital transactions	1,222	1,270
Reversals of provisions and transferred costs	498	211
TOTAL 5	**1,844**	**1,657**
EXCEPTIONAL CHARGES		
Management transactions	772	515
Capital transactions	456	1,069
Depreciation, amortization and charges to provisions	91	426
TOTAL 6	**1,319**	**2,010**
NET EXCEPTIONAL INCOME (TOTAL 5 - 6)	**525**	**(353)**
INCOME TAX	**(2,319)**	**(2,168)**
NET INCOME FOR THE YEAR	**25,838**	**14,296**
TOTAL INCOME	**78,143**	**61,230**
TOTAL EXPENSES	**52,305**	**46,934**

BALANCE SHEET

ASSETS

(in € thousands)	Dec. 31, 2016 Gross	Dec. 31, 2016 Depreciation and amortization	Dec. 31, 2016 Net	Dec. 31, 2015 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	332	86	246	62
Property, plant and equipment in progress	0		0	39
Advances and down payments	0		0	32
SUB-TOTAL	**332**	**86**	**246**	**133**
Financial fixed assets [(a)]				
Participating interests	520,655	88,661	431,994	432,896
Loans and advances to participating interests	126,474		126,474	128,987
Other fixed assets	5		5	5
Other	2,588	1,132	1,456	4,559
SUB-TOTAL	**649,722**	**89,793**	**559,929**	**566,447**
TOTAL A	**657,672**	**97,497**	**560,175**	**566,580**
CURRENT ASSETS				
Advances and down payments paid on orders [(b)]	0		0	0
Trade receivables and related accounts [(b)]	1,150		1,150	1,301
Other [(b)]	53,240	706	52,534	50,464
Investment securities	0		0	985
Cash and cash equivalents	1,177		1,177	499
ACCRUALS				
Prepaid expenses [(b)]	322		322	548
TOTAL B	**55,889**	**706**	**55,183**	**53,797**
Deferred costs D	760		760	804
Foreign currency translation losses E	10,779		10,779	11,162
TOTAL (A+B+C+D+E)	**725,100**	**98,203**	**626,897**	**632,343**

(a) Due in less than one year: 1,750
(b) Due in over one year: 7,505

LIABILITIES AND SHAREHOLDERS' EQUITY

(in € thousands)	Dec. 31, 2016	Dec. 31, 2015
SHAREHOLDERS' EQUITY		
Share capital	40,944	41,384
Issue premium	208,858	211,490
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	66,948	62,935
Retained earnings	135	35
Net income for the year	25,838	14,296
Tax-regulated provisions	179	160
TOTAL A	**363,741**	**351,139**
PROVISIONS FOR LIABILITIES AND CHARGES		
Provisions for liabilities	381	120
Provisions for charges	3,378	3,424
TOTAL B	**3,759**	**3,544**
FINANCIAL LIABILITIES [(a)]		
Bond issues	2,329	2,329
Borrowings from credit institutions [(b)]	7,500	30,086
Other borrowings	192,142	184,985
Trade payables and related accounts	1,263	532
Tax and social security liabilities	2,266	1,974
Amounts due on fixed assets	1	19
Other financial liabilities	43,149	46,341
ACCRUALS		
Prepaid income	0	0
TOTAL C	**248,650**	**266,266**
Foreign exchange translation gains D	10,747	11,394
TOTAL (A+B+C+D)	**626,897**	**632,343**

(a) Due in over one year: 148,114 due in less than one year: 100,536
(b) Including current bank loans and overdrafts: 7,287

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 2016 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 notably determined by reference to the share of the equity, development prospects and sales recorded by the subsidiary. The Company's development prospects are assessed based on past experience and various factors. The current backdrop of a significant deterioration in the economic and financial environment makes it hard to assess the future outlook. It is therefore possible that future performance may well differ from the estimates used to assess the value of the securities portfolio.

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, 2015 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 1.80% 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 1.35%;
- an average cost ratio of 40% to 45%;
- staff turnover calculated by age bracket;
- return on plan assets: 3.00%;
- 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 cancelled 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 of its 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 (€1,541 thousand) primarily derive from services billed in France and abroad. Other revenues (€12,972 thousand) relate primarily to royalties from trademarks and intangibles.

Operating income

The operating loss of €4,999 thousand reflects the holding company's operating costs and costs of the trademark and intangibles.

Net financial income

Financial income of €27,993 thousand was significantly higher than the €16,711 thousand recorded in the previous financial year. This was mainly due to the substantial increase in dividends received from subsidiaries.

Exceptional items

The exceptional loss was €375 thousand.

Income tax

The Company recorded a 2016 income tax benefit of €2,319 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 reduction in net value of €6,405 thousand results mainly from a €19,735 thousand capital increase for certain subsidiaries, offset by loan repayments for €3,200 thousand and impairment of securities for €21,822 thousand.

Debt

The Company's total net debt at December 31, 2016 was down compared with 2015.

(in € thousands)	Dec. 31, 2015	Dec. 31, 2015
Bank overdrafts	7,287	29,482
Bond issue	2,329	2,329
Other borrowings	191,719	184,578
Other financial liabilities [(a)]	42,616	45,768
Total debt	**243,951**	**262,157**
Cash and cash equivalents	(1,177)	(1,484)
Other receivables [(b)]	(42,985)	(42,479)
Marketable securities, cash and cash equivalents	**(44,162)**	**(43,963)**
Loans to subsidiaries	**(126,182)**	**(128,706)**
Other financial fixed assets	**(1,411)**	**(4,542)**
Net debt	72,196	84,946
o/w: - due in over one year	20,866	57,671
- due in less than one year	51,330	27,275

(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	8,596	0	978	7,618	8,596	0	978	7,618
Assets in progress	0	0	0	0	0	0	0	0
TOTAL 1	**8,596**	**0**	**978**	**7,618**	**8,596**	**0**	**978**	**7,618**
Property, plant and equipment								
Buildings and technical installations	0	0	0	0	0	0	0	0
Other property, plant and equipment	430	254	352	332	368	70	352	86
Assets in progress	39	215	254	0	0	0	0	0
Advances and down payments	32	0	32	0	0	0	0	0
TOTAL 2	**501**	**469**	**638**	**332**	**368**	**70**	**352**	**86**
Financial assets								
Participating interests	500,956	19,735	36	520,655	68,060	21,822	1,221	88,661
Loans and advances to participating interests	128,987	44,204	46,717	126,474	0	0	0	0
Other fixed assets	5	0	0	5	0	0	0	0
Other financial fixed assets	5,240	4,943	7,595	2,588	681	532	81	1,132
TOTAL 3	**635,188**	**68,882**	**54,348**	**649,722**	**68,741**	**22,354**	**1,302**	**89,793**
TOTAL	**644,285**	**69,351**	**54,986**	**657,672**	**77,705**	**22,424**	**2,632**	**97,497**

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	160	19	0	0	179
TOTAL 1	**160**	**19**	**0**	**0**	**179**
Provisions for liabilities and charges					
Retirement indemnities	96	0	41	0	55
Long-service awards	5	2	3	0	4
Senior manager pensions	1,634	345	0	0	1,979
Professional fees	789	72	61	0	800
Risk related to liability guarantee	500	0	0	0	500
La Fayette refurbishment	400	0	173	227	0
Risk related to CL PI	26	0	0	0	26
Risk related to Mersen RUS	94	0	0	0	94
Personnel costs	0	40	0	0	40
Foreign exchange loss	0	261	0	0	261
TOTAL 2	**3,544**	**720**	**278**	**227**	**3,759**
Provisions for impairment					
Mersen China Holding participating interest	18,000	4,216	0	0	22,216
Mersen France SB participating interest	5,000	10,090	0	0	15,090
Mersen France PY participating interest	8,047	6,330	0	0	14,377
Mersen Maroc participating interest	0	1,186	0	0	1,186
Mersen Deutschland Holding KG participating interest	14,788	0	0	1,184	13,604
Other participating interests	22,225	0	37	0	22,188
in shares held in treasury	81	2	81	0	2
Bonds	600	530	0	0	1,130
Mersen Rus short-term credit facility	706	0	0	0	706
TOTAL 3	**69,447**	**22,354**	**118**	**1,184**	**90,499**
TOTAL	**73,151**	**23,093**	**396**	**1,411**	**94,437**

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	126,474	292	126,182
Other financial fixed assets	2,588	1,458	1,130
Trade receivables	1,150	1,150	0
Other receivables	53,240	45,734	7,506
Prepaid expenses	322	322	0
TOTAL	**183,774**	**48,956**	**134,818**

(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	7,500	7,500	0	0
Other borrowings	192,142	47,423	84,719	60,000
Trade payables and related accounts	1,263	1,263	0	0
Tax and social security liabilities	2,266	1,200	400	666
Amounts due on fixed assets	1	1	0	0
Other financial liabilities	43,149	43,149	0	0
TOTAL	**248,650**	**100,536**	**85,119**	**62,995**

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 or income statement item**	Amount for related parties at least 50%-owned	Amount for participating interests (less than 50%-owned)
Loans and advances to participating interests	126,474	0
Trade receivables	1,151	0
Borrowings from credit institutions	76	0
Other receivables	43,105	61
Cash and cash equivalents	4	0
Trade payables	222	0
Other financial liabilities	42,837	0
Financial expense	22,062	0
Financial income	56,015	30

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		292
Other financial fixed assets		47
Other receivables		181
Cash and cash equivalents		81
TOTAL		**601**
2. Amount of accrued expenses included in the balance sheet items below		
Borrowings from credit institutions		213
Other borrowings		423
Trade payables and related accounts		930
Tax and social security liabilities		2,136
Other financial liabilities		304
TOTAL		**4,006**
3. Amount of prepaid income and expenses	**Expenses**	**Income**
Operating items	293	0
Financial items	29	0
TOTAL	**322**	**0**
4. Costs deferred over several periods		
Bond issuance expenses at Jan. 1, 2016	804	
Bond issuance expenses 2016	327	
2015 amortization of bond issuance costs	(371)	
TOTAL	**7,604**	

Note 9 Share capital

Share capital

The share capital is made up of 20,471,854 fully paid-up shares each with a par value of €2.

In 2016, capital reductions were made for a total of 220,200 shares which had been purchased on the market in 2015 and 2016. A total of 902 bonus preference shares were also issued in 2015. After conversion, these shares will entitle their holders to 99,220 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. They mature 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.

Three stock option plans were set up on July 25, 2007, 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 June 27, 2012, May 21, 2014, July 9, 2015 and May 11, 2016.

Two bonus preference share plans were set up on July 9, 2015 and May 11, 2016.

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	2007 Stock options plan	2009 Stock options plan	2014 Stock options plan
Allotment date	7/25/2007	2/11/2009	5/21/2014
Availability date	7/25/2011	2/11/2013	5/21/2016
Expiration date	7/25/2017	2/11/2019	5/21/2021
Adjusted exercise price *(€)*	53.10	17.53	22.69
Adjusted share price at allotment date *(€)*	52.35	17.95	21.30
Estimated life *(number of years)*	5.5	8	4.5
Volatility	30.9%	38.1%	31.0%
Dividend per share *(as a % of share price)*	1.9	2.5	3.0
Risk-free interest rate	4.44%	3.26%	0.64%
Exercise period *(number of years)*	4	4	5
Lock-up period *(number of years)*	0	0	2
Adjusted number of options/share allotments	177,876	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	End of the plan		
Estimated annual cancellation rate at year-end 2008	End of the plan		
Estimated annual cancellation rate at year-end 2009	End of the plan	7.0%	
Estimated annual cancellation rate at year-end 2010	End of the plan	7.0%	
Estimated annual cancellation rate at year-end 2011	End of the plan	7.0%	
Estimated annual cancellation rate at year-end 2012	End of the plan	7.0%	
Estimated annual cancellation rate at year-end 2013	End of the plan	End of the plan	
Estimated annual cancellation rate at year-end 2013	End of the plan	End of the plan	
Estimated annual cancellation rate at year-end 2014	End of the plan	End of the plan	5.0%
Estimated annual cancellation rate at year-end 2015	End of the plan	End of the plan	5.0%
% of shares/options vested after performance condition satisfied (a)	60	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	155,321		
Estimate of the number of options/shares ultimately vested in 2008	155,321		
Estimate of the number of options/shares ultimately vested in 2009	167,442	274,222	
Estimate of the number of options/shares ultimately vested in 2010	172,892	314,391	
Estimate of the number of options/shares ultimately vested in 2011	104,616	338,055	
Estimate of the number of options/shares ultimately vested in 2012	104,616	361,191	
Estimate of the number of options/shares ultimately vested in 2013	104,616	361,191	
Estimate of the number of options/shares ultimately vested in 2014	104,616	361,191	142,505
Estimate of the number of options/shares ultimately vested in 2015	86,342	361,191	129,375
Estimate of the number of options/shares ultimately vested in 2016	86,342	361,191	112,200
Valuation of options/shares	€15.58	€6.11	€3.68
Valuation as a % of the share price on allotment	29.8%	34.1%	17.3%

(a) The definitive performance condition for the 2007 stock option plan was 60% satisfied, compared with 100% for the 2009 stock options plan. The definitive performance condition for the 2014 stock option plan was 85% satisfied, rather than 100% previously.

The characteristics of the bonus share allotment plans were as follows:

Characteristics/Assumptions	2012 plan Bonus share allotments	2014 plan Bonus share allotments
Allotment date	6/27/2012	5/21/2014
Availability date	6/27/2016	5/21/2016 5/21/2018
Expiration date	6/27/2016	5/22/2018
Adjusted exercise price *(€)*	0.00	0.00
Share price at allotment date *(€)*	18.22	21.30
Estimated life *(number of years)*	4	4
Volatility	36.5%	31.0%
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)*	4	2 – 4
Lock-up period *(number of years)*	0	2 – 0
Number of options/shares allotted	20,000	50,000
Estimated annual cancellation rate at year-end 2011	N/A	
Estimated annual cancellation rate at year-end 2012	5.0%	
Estimated annual cancellation rate at year-end 2013	5.0%	
Estimated annual cancellation rate at year-end 2014		5.0%
Estimated annual cancellation rate at year-end 2015		5.0%
% of shares/options vested after performance condition satisfied (a)	39	100
Estimate of the number of options/shares vested in 2011	N/A	
Estimate of the number of options/shares vested in 2012	16,724	
Estimate of the number of options/shares vested in 2013	6,161	
Estimate of the number of options/shares vested in 2014	2,818	44,876
Estimate of the number of options/shares vested in 2015	2,966	44 260
Estimate of the number of options/shares vested in 2016	7,799	0
Valuation of options/shares	€16.16	€19.08 - €18.89
Valuation as a % of the share price on allotment	88.7%	89.6% - 88.7%

(a) The definitive performance condition for the 2014 bonus share allotment plan is 0%, rather than the 100% expected previously.

Characteristics/Assumptions	Plan 2015 Bonus shares	Plan 2016 Bonus shares
Allotment date	7/9/2015	5/11/2016
Availability date	7/9/2017 7/9/2019	5/11/2018 5/11/2020
Expiration date	7/10/2019	5/12/2020
Adjusted exercise price *(€)*	0.00	0.00
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
Number of options/shares allotted	65,000	84,000
Estimated annual cancellation rate at year-end 2014	N/A	N/A
Estimated annual cancellation rate at year-end 2015	5.0%	N/A
Estimated annual cancellation rate at year-end 2016	5.0%	5.0%
% of shares/options vested after performance condition satisfied (a)	100	100
Estimate of the number of options/shares vested in 2015	56,769	
Estimate of the number of options/shares vested in 2016	59,182	78,324
Valuation of options/shares	€18.71 - €18.53	€12.12 - €12.12
Valuation as a % of the share price on allotment	89.6% - 88.7%	94.2% - 94.2%

(a) The provisional performance condition for the 2015 and 2016 bonus share allotment plans is 100%.

Characteristics/Assumptions	2015 Bonus share plan Preference	2016 Bonus share plan Preference
Allotment date	7/9/2015	5/11/2016
	7/9/2017	5/11/2018
Availability date	7/9/2019	5/11/2020
Expiration date	7/10/2019	5/12/2020
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 share 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]	100	100
Estimate of the number of ordinary shares ultimately vested in 2015	87,933	
Estimate of the number of ordinary shares ultimately vested in 2016	89,376	117,429
Valuation of guaranteed ordinary shares	€17.73 - €18.53	€10.92 - €11.41
Valuation of non-guaranteed ordinary shares [b]	€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 provisional performance condition for the 2015 and 2016 bonus preference share plans is 100%.
(b) The non-guaranteed shares are subject to performance conditions.

Statement of changes in equity

(in € thousands)	
Opening equity at January 1, 2016	**351,139**
Net income for the year	25,838
Change in tax-regulated provisions	19
Issue of new shares	(3,071)
Dividend payment	(10,184)
Closing equity at December 31, 2016	**363,741**

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	38,250
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	2,372
Sabic contract guarantee covering Mersen USA Bn corp.	1,945
Rental guarantee covering Mersen Hittisau building	4,948
Leases for Mersen SA building lettings	3,814
Other guarantees and deposits	1,457
TOTAL	**87,786**
Commitments received	**0**
TOTAL	**87,786**

Other reciprocal commitments

(in € thousands)	
Reciprocal commitments given	
Currency hedges	16,212
Commodity hedges	155
TOTAL	**16,367**
Reciprocal commitments received	
Currency hedges	53,726
Commodity hedges	155
TOTAL	**53,881**

Employee benefits

Retirement indemnities, long-service awards and defined-benefit top-up pension plans

(in € thousands)	
Present value of plan obligations at 12/31/2016	5,262
Mathematical value of plan assets	(131)
Unrecognized actuarial gains and losses	(1,928)
TOTAL	**3,203**

Note 11 Leases

The Company did not hold any finance leases in progress at Saturday, December 31, 2016.

Note 12 Executive compensation

The compensation and benefits paid to members of the Management and Supervisory Boards for 2016, either directly by the Company or indirectly by certain subsidiaries, came to €1,199 thousand.

Net top-up pension obligations for senior managers came to €3,917 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	27,843	0
Exceptional	525	0
Tax benefit received from subsidiaries consolidated for tax purposes		2,319

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	965	(40)	925
Top-up pension provision	252	(11)	241
Provision for senior manager pension obligations	1,634	345	1,979
Retirement indemnities	96	(41)	55
Paid vacation	17	(4)	13
Class action professional fees	789	11	800
Bond loan depreciation	600	530	1,130
Tax base or future tax credit (significant items)	4 352	790	5,142
Group French tax deficit	105,811	8,368	114,179
Total	110,163	9,158	119,321
Future short-term tax rate adopted	34.43%		34.43%
Future long-term tax rate (2018)	34.43%		34.43%
Future long-term tax rate (after 2019)	34.43%		28.92%
Amount of future tax receivable	37,929		35,122

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 currency position	Other	Provisions for liabilities and charges
On financial fixed assets	404	176		228
On miscellaneous borrowings	10,375	10,375		
TOTAL	**10,779**	**10,551**		228
On financial fixed assets	10,543	10,400	143	
On miscellaneous borrowings	204		204	
TOTAL	**10,747**	**10,400**	**347**	
On bank currency hedging (unrealized loss)	58	25		33
TOTAL	**58**	**25**		**33**
On bank currency hedging (unrealized gain)	181	176	5	
TOTAL	**181**	**176**	**5**	

Note 17 Treasury shares

Under the liquidity agreement established with Exane BNP, the Company held 43,490 treasury shares at December 31, 2016.

Note 18 Information about exceptional items

Exceptional income

(in € thousands)	
Management transactions	
Rebilling of professional fees and expenses	123
Other	1
SUB-TOTAL	**124**
Capital transactions	
Nippon Mersen liquidation dividend	267
Gains on the sale of treasury shares	455
Insurance compensation	500
SUB-TOTAL	**1,222**
Reversals of class action professional fees	61
Reversal of provision for La Fayette refurbishment work	400
Reversal of impairment on Nippon Mersen securities	37
SUB-TOTAL	**498**
TOTAL	**1,844**

Exceptional charges

(in € thousands)	
Management transactions	
Class action professional fees and expenses	130
Other fees on exceptional items	200
La Fayette refurbishment work	174
Employee dispute settlement	220
GPC pensions for non-active workers	48
SUB-TOTAL	**772**
Capital transactions	
Losses on the sale of treasury shares	419
Carrying amount of Nippon Mersen shares	37
SUB-TOTAL	**456**
Allowance for accelerated tax depreciation	19
Increase in provision for class action fees	72
SUB-TOTAL	**91**
TOTAL	**1,319**

Note 19 Information about risk factors

The financial risk management policy is approved by the Management Board based on proposals submitted by the finance department. Currency and commodity hedging transactions are carried out subject to strictly defined procedures.

Liquidity risk

The Company has signed the following major borrowing agreements:

A multi-currency syndicated bank loan arranged in July 2012 and amended in July 2014 for €220 million with a five-year maturity, repayable in full in July 2019.

A USD100 million US private placement (USPP) was negotiated in November 2011 with a US investor, comprising one USD50 million tranche with a final maturity of 10 years and one USD37.2 million tranche with a final maturity of eight years, both with a bullet structure. The investor will receive a fixed rate of interest.

A €60 million German private placement (“Schuldschein”) arranged in November 2016 with a pool of European and Asian investors, repayable at maturity after seven years. Investors receive interest at the variable Euribor plus a credit margin.

Lastly, 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, 2016, €47 million had been used.

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**		**Dividends received by the Company**	**Loans and advances, net**	**Guarantees and sureties given**
				Gross	**Net**			
Mersen France SB SAS	40,936	(19,599)	100	49,589	34,499		40,000	
Mersen France Amiens SAS	22,477	5,518	100	25,402	25,402	3,500		
Mersen France Gennevilliers SAS	14,482	(4,490)	100	23,896	23,896			
Mersen Corporate Services SAS. (France)	3,574	744	100	3,646	3,646	414		
Mersen France PY SAS	18,339	(9,285)	100	43,321	28,944			
Mersen Boostec (France)	3,243	6,342	95.07	11,792	11,792			20
Mersen Deutschland FFM AG (Germany)	10,021	15,983	10	1,635	1,635			
Mersen Deutschland Holding GmbH & Co KG (Germany)	28,700	(12,297)	100	28,700	15,096		414	8,000
Mersen Argentina SA (Argentina)	73	481	97.99	962	807	94		
Mersen Oceania Pty Ltd (Australia)	754	2,817	100	702	702	402		
Mersen do Brasil Ltda (Brazil)	11,749	(7,242)	100	25,172	11,025			
Mersen Canada Dn Ltee/Ltd (Canada)	1,360	3,393	100	1,322	1,322	9,448	5,286	
Mersen China Holding Co Ltd (China)	122,849	(57,919)	100	101,736	79,520			
Mersen Korea Co. Ltd (South Korea)	3,844	8,484	100	12,060	11,540	1,755		
Cirprotec (Spain)	1,000	4,217	51	5,143	5,143			
Mersen Ibérica SA (Spain)	2,404	3,952	50.02	680	680	219		
Mersen Ibérica Bcn SA (Spain)	2,043	230	100	2,396	2,396			
Mersen USA Bn Corp. (United States)	110,269	98,520	100	68,926	68,926	28,211	64,510	10,945
Mersen UK Holdings Ltd (United Kingdom)	7,274	(552)	100	903	903		1,518	
Mersen Scot. Holding Ltd (United Kingdom)	77,727	(1,208)	100	75,409	75,409		11,680	
Mersen India Pvt Ltd (India)	5,550	6,976	100	11,443	11,225			
Mersen Italia Spa (Italy)	5,500	1,830	100	11,590	10,090	600		
Mersen Fma Japan KK (Japan)	406	10,412	8.70	2,977	917	141		
Mersen Maroc SARL (Morocco)	1,221	(1,336)	100	1,186	0			
Mersen Mexico Monterrey S. de R.L. de C.V. (Mexico)	1,315	104	100	1,149	1,149	274		750
Mersen South Africa Pty Ltd (RSA)	73	23	54.77	813	813			
Mersen Rus (Russia)	731	(1,025)	100	1,200	0			
Mersen Nordic AB (Sweden)	209	1,796	100	551	551	832		
Mersen Istanbul Sanayi Urunleri AS (Turkey)	770	900	100	5,016	2,907	354		
Aggregate information (regarding other subsidiaries and participating interests)								
Subsidiaries (at least 50%-owned)								
in France				138	60			
outside France				1,020	818	1,047		
Shareholdings (10% to 50%-owned)								
outside France				180	180	30		
Other shareholdings (less than 10%-owned)				**0**	**0**			
TOTAL				**520,655**	**431,993**	**47,321**	**123,408**	**19,715**

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.

Report of the Statutory Auditors on the consolidated financial statements Year ended on December 31, 2016

Ladies and Gentlemen,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended on December 31, 2016, on:

- the audit of the annual financial statements of Mersen SA, as attached hereto;
- the justification of our assessments;
- the specific verifications and disclosures required by law.

The annual financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

1. Opinion on the annual financial statements

We conducted our audit in accordance with the professional accounting standards applicable in France. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the annual financial statements are free of material misstatements. An audit includes examining, on a test basis or using other selection methods, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We certify that the annual financial statements are consistent and accurate according to French accounting rules and principles and give a true and fair view of the company's operations during the previous fiscal year as well as the financial position and assets and liabilities of the company at the end of said fiscal year.

2. Justification of our assessments

In accordance with the provisions of Article L. 823-9 of the French Commercial Code on the justification of our assessments, we are bringing to your attention the following points.

The Company assesses on an annual basis the carrying amount of its participating interests and other fixed assets using the method described in Note 1 to the financial statements on accounting principles and methods. We conducted the assessment of the approach adopted by the Company, which is described in the notes to the financial statements, based on the information available, and conducted tests of how these methods are applied on a test basis.

These assessments were made in the context of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed, which is expressed in the first part of this report.

3. Specific verifications and disclosures

We also performed the specific verifications required by law in accordance with the professional standards applicable in France.

We have no matters to report concerning the fair presentation and conformity with the annual financial statements of the information disclosed in the management report of the Board of Directors and in the documents sent to the shareholders with respect to the financial position and the annual financial statements.

With regard to the disclosures provided in accordance with the provisions of Article L.225-102-1 of the French Commercial Code on the compensation and benefits paid to corporate officers and on the commitments given to them, we verified their consistency with the financial statements and with the figures used to prepare these financial statements and, where appropriate, with the data gathered by the Company from companies controlling the Company or controlled by it. Based on these procedures, we certify the accuracy and fair presentation of this information.

In accordance with the law, we verified that the management report contains the appropriate disclosures of the identity of the holders of the share capital.

Paris La Défense, March 7, 2017

KPMG Audit

Département de KPMG S.A.

Philippe Cherqui

Partner

Neuilly sur Seine, March 7, 2017

Deloitte & Associés

Laurent Odobez

Partner

Five-year financial summary

	2016	2015	2014	2013	2012
1. Share capital at year-end					
Capital *(€000s)*	40,944	41,234	41,234	41,633	40,702
Number of shares outstanding	20,471,854	20,692,054	20,616,834	20,816,364	20,350,969
Par value of shares *(€)*	2	2	2	2	2
2. Overall result of operations (€000s)					
Income before tax, depreciation, amortization, charges to provisions and employee profit-sharing	45,244	32,395	29,191	9,801	21,739
Income tax	(2,319)	(2,168)	(1,608)	(1,500)	(1,724)
Employee profit-sharing	0	0	0	0	0
Net income after tax, depreciation, amortization and charges to provisions	25,838	14,296	30,604	1,762	10,649
Total earnings paid out [(a)]	10,236	10,317	10,308	9,259	9,136
3. Overall result of operations per share *(€)*					
Net income after tax and employee profit-sharing, but before depreciation, amortization and charges to provisions	2.32	1.67	1.49	0.54	1.15
Net income after tax, depreciation, amortization and provisions	1.26	0.69	1.48	0.08	0.52
Dividend paid on each share	0.50	0.50	0.50	0.45	0.45
4. Employees					
Average headcount	5	5	5	5	5
Total payroll costs *(€000s)*	1,289	1,077	1,078	954	1,040
Amount paid for welfare benefits *(€000s)*	495	358	404	371	334

(a) In January 2016, reduction in the number of securities for 55,200 shares

ADDITIONAL INFORMATION

8

Documents available to the public

1. Documents available for download from the Company's web site: www.mersen.com

The web site provides in-depth information about Mersen's products and markets, together with all the regulated information required, in line with the European Directive on Transparency.

Available documents notably include:

- This reference document as filed with the Autorité des Marchés Financiers;
- The 2016 interim report;
- Financial press releases,
- Financial presentations.

2. List of information published or made public in 2016

Pursuant to Article 222-7 of the General Regulation of the Autorité des Marchés Financiers, the following list sets forth the information made public by Mersen in 2016.

2.1. Press Releases

01.28.2016: Mersen: 2015 sales

02.23.2016: Mersen: order for the supply of ultra-speed laser mirrors

03.09.2016: Mersen: 2015 full-year results

03.09.2016: Mersen: 2015 reference document

04.04.2016: Mersen to propose changes to its governance framework

04.21.2016: Mersen's expertise at the heart of the MicroCarb satellite

04.25.2016: Mersen: additional draft resolution in the AGM

04. 27.2016: Mersen: First-quarter 2016 sales

05.11.2016: Mersen's new governance framework given the go-ahead

05.19.2016: Mersen teams up with TransPod on the "5th mode of transportation" hyperloop project

07.18.2016: Mersen: multi-year contract with Bombardier Transportation

07.28.2016: Mersen: 2016 Half-Year Results

09.13.2016: Mersen steps up its Operational Excellence plan

10.05 2016: Mersen: Calcarb® innovation

10.24.2016: Mersen: joint venture with Harbin Electric Carbon in China

10.26.2016: Mersen: 9-month sales in line with the guidance

11.16 2016: Mersen, a partner on the successful PerúSAT-1 satellite project

11.30.2016: Mersen strengthens its financial structure

12.01.2016: Mersen: 2016 Investor Day

2.2. Presentations

03.09.2016: Presentation of full-year 2015 results to the financial markets.

08.28.2016: Presentation of quarterly 2016 results to the financial markets.

12.02.2016: Investor Day

Information included by reference

The following information is included by reference in this annual report:

1. 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.

2. Fiscal 2014

The following information is included in annual report no. D-15-0123, submitted to the Autorité des Marchés Financiers on March 10, 2015:

- the consolidated financial statements for fiscal 2014 prepared in accordance with the IFRSs in force in 2014, together with the Statutory Auditors' reports on the consolidated financial statements, pages 121 to 175;
- the annual financial statements for 2014, together with the Statutory Auditors' reports on the annual financial statements, pages 178 to 201;
- the 2014 management report, pages 106 to 120.

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 123 to 139 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, 2016, presented in this document, were addressed in a report by the auditors, which appears on pages 195 and 196.

I obtained an end-of-assignment letter from the Statutory Auditors, Deloitte & Associés and KPMG, département de KMPG SA, 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)

3. Fees paid to the Statutory Auditors and members of their networks by the Group

	2016				2015			
	Deloitte		KPMG		Deloitte		KPMG	
	Amount	%	Amount	%	Amount	%	Amount	%
Audit								
Statutory audit, certification, review of the individual and consolidated financial statements	962	93%	885	92%	983	89%	851	75%
Other accessory and audit assignments	45	4%	5	1%	59	5%	131	12%
SUB-TOTAL	**1,007**	**98%**	**890**	**93%**	**1,042**	**94%**	**982**	**87%**
Other services, etc.								
Legal, tax law, labor law	18	2%	2	0%	23	2%	112	10%
Other	5	0%	65	7%	47	4%	38	3%
SUB-TOTAL	**23**	**2%**	**67**	**7%**	**70**	**6%**	**150**	**13%**
TOTAL	**1,030**	**100%**	**957**	**100%**	**1,112**	**100%**	**1,132**	**100%**

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