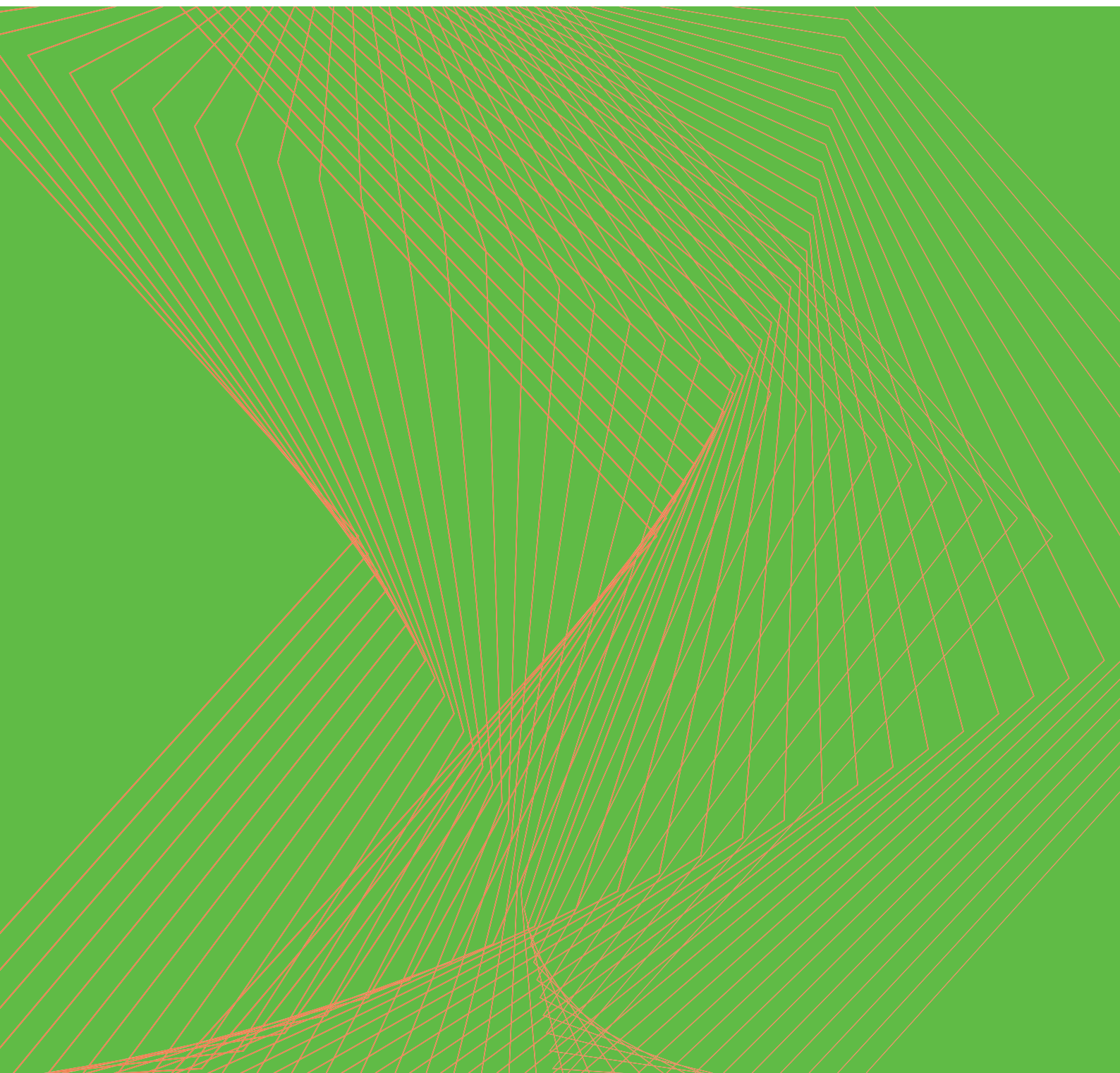




2018  
REFERENCE  
DOCUMENT





# MERSEN

## 2018 Reference Document

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*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 12, 2019.*



# 1 GROUP PROFILE

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## 2018 HIGHLIGHTS

2018 was another very strong year for Mersen.

Combining robust markets with seamless execution, the Group's successful growth strategy saw it exceed the financial objectives set at the beginning of the year.

Against an upbeat economic backdrop, the Group enjoyed like-for-like growth of 10% – a remarkable performance across the year, across all regions and across all end-markets. The Group's performance illustrates its capacity to harness expanding markets wherever they are, and markets that are particularly buoyant, such as solar energy, semiconductor and green transportation.

External growth also featured strongly in 2018 as the Group looked to the future with the acquisition of FTCAP in Germany and Idealec in France to strengthen its position in power electronics, which is one of its growth markets. Its partnership with the start-up Caly Technologies brings new expertise in the design of silicon carbide semiconductors for electrical protection, LGI is an important addition to develop the Group's services for the chemicals industry in the United States and the acquisition of a minority stake in Cirprotec will enable Mersen to step up global sales in certain product ranges. Lastly, the Group also set up a joint venture in China to capitalize on the buoyant growth of the solar market around the world.

Strong sales in 2018 drove Mersen's operating margin before non-recurring items up 120 points year-on-year to 10.4%, for an EBITDA margin of 15%. This increase was primarily due to a positive volume/mix effect. Higher prices and the positive impact of our competitiveness plan also offset the increase in payroll and raw materials costs.

2018 saw exceptional growth of 48% in net income. In addition to the increase in operating income before non-recurring items, the Group significantly reduced its non-recurring expenses and its effective tax rate following tax reforms in the United States.

Mersen's ROCE rose 200 points year-on-year to reach 11.8% despite the Group's investments in its future to meet very high demands in growing markets including solar energy, which has excellent potential due to its competitive prices and easy installation, industrial and electric vehicle power storage, and silicon carbide semiconductors, which are crucial power components for renewable energies and electric vehicles. The Group intends to pursue its investments and acquisitions program in 2019.

Despite the increase in net debt in 2018 as a result of these acquisitions and investment, Mersen's financial base remains solid, with a stable leverage ratio of 1.6, the same as in 2017.

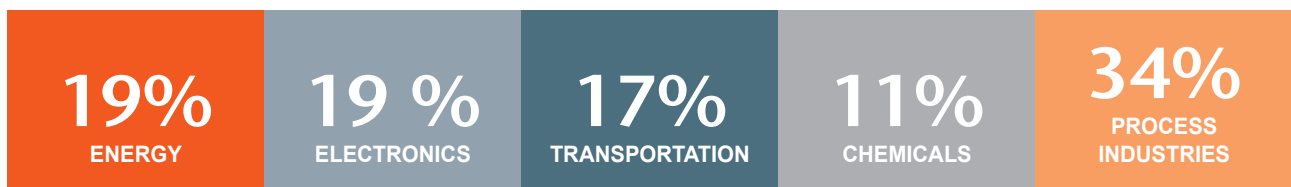
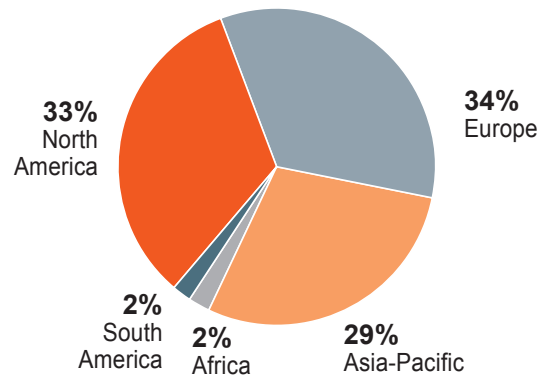
Mersen's performance in 2018 means its Board of Directors will be proposing a dividend of €0.90 per share at the General Meeting of Shareholders, an increase of 26% on last year.

## 2018 KEY FIGURES

### SALES

**€879 M**

+10% vs 2017  
organic growth



### RESULTS

**€130 M**

in EBITDA

+14% vs 2017

**€92 M**

Operating income before  
non-recurring items

+23% vs 2017

**€59 M**

Net income

+48% vs 2017

### FINANCIAL STRUCTURE

**11.8%**

Return on  
capital employed

**1.6**

Leverage

### DIVIDENDE PER SHARE\*

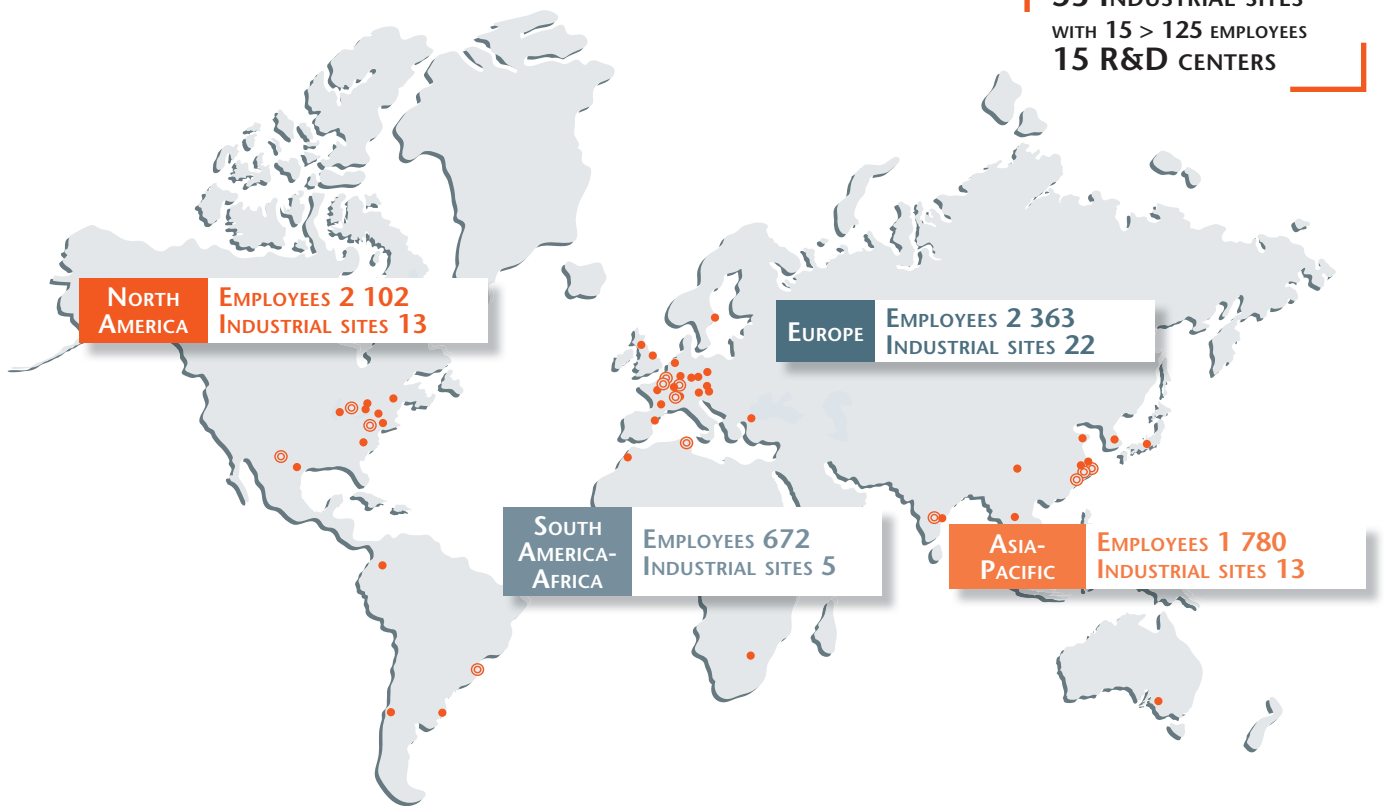
**€0.95**

\* Subject to shareholders' approval at the General Meeting.



## MERSEN WORLDWIDE

**6 917 EMPLOYEES**  
**53 INDUSTRIAL SITES**  
WITH 15 > 125 EMPLOYEES  
**15 R&D CENTERS**



**50%**

of Sales geared  
towards sustainable  
development markets

**90%**

of Plant managers  
recruited locally



**WE SUPPORT**

A signatory of the United Nations  
Global Compact since 2009

## MISSION

We provide manufacturers all over the world with innovative solutions to enhance the performance of their offer

## RESOURCES

### MANUFACTURING

**53** sites  
in **35** countries

**€58 m** of industrial capex

### ENVIRONNEMENT

**50%** of sites certified **ISO 14001**  
(Environmental reporting)

### PEOPLE

**6,917** employees

### DEVELOPMENT

**15** R&D centers

### FINANCIAL

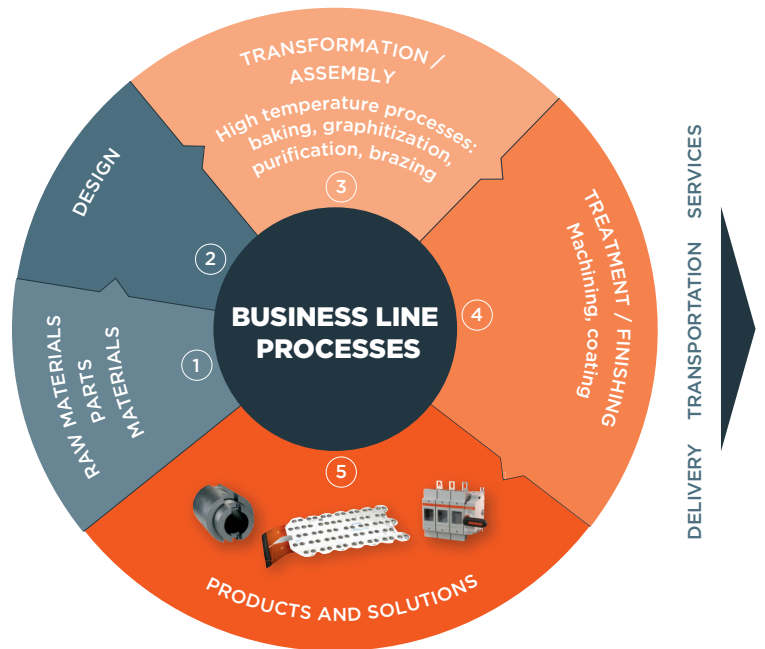
**Robust financial structure**  
Equity: **€530 m**

### ETHICS

**Code of Ethics**  
**Relationships built on trust**

## EXPERTISE

Provide greater efficiency and reliability of products and industrial processes



WORLD LEADER IN TWO AREAS OF EXPERTISE

### Advanced Materials

- Graphite specialties
- Anti-corrosion equipment
- Power transmission technologies

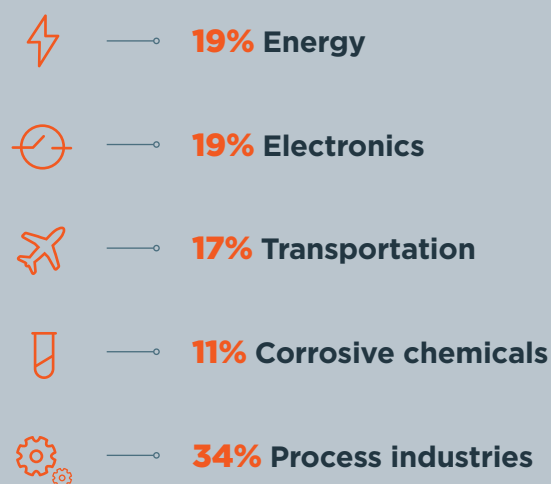
### Electrical Power

- Electrical protection & control
- Power management solutions

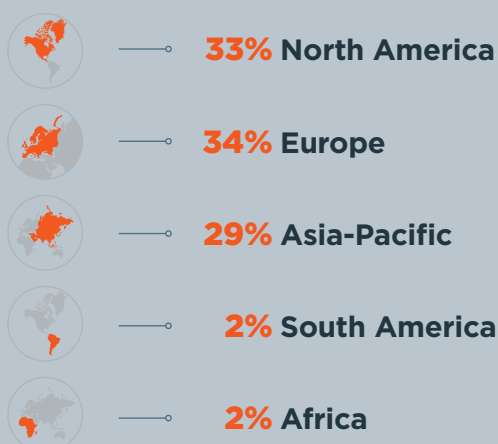
All figures related to 2018.

## MARKETS

Present in high-potential markets  
(in % of sales)



Balanced presence across  
all regions (in % of sales)



## VALUE CREATION

OUR EMPLOYEES

**€245 m**  
in fixed salaries  
**€20 m**  
in profit-sharing plans  
**70,000**  
hours of training

OUR SHAREHOLDERS

**€15 m** in dividends paid,  
i.e., 38% of net income

OUR PARTNERS

**€400 m** in purchases  
**€8 m** in interest paid  
to banks  
**€10 m** in income tax  
**24%** effective tax rate

SOCIETY

**€879 m** in sales, of which  
50% linked to sustainable  
development

# VISION, MISSION AND VALUES

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

## ***Our ambition is to contribute to technological progress across the globe***

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

To implement our vision and fulfill our purpose, the Group adheres to a set of shared values: **Excellence**, because it enhances our competitiveness and protects our flexibility and future; **Collaboration**, because by pooling our skills and working together we will progress together more rapidly and more effectively; **People-Conscious**, because our people are part of our culture; **Agility & Entrepreneurial Spirit**, because they are a game changer in today's complex environment; and **Partnering with our Customers**, because they are the strategic allies for whom we develop innovative products.

## Group strategy

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

### **1. The development of high value-added expertise**

As well as being our two areas of expertise, electrical power and advanced materials are two areas in which we can help our customers provide a more competitive offering. By anticipating market trends and ensuring that all the necessary means and resources are in place, Mersen Group is able to deliver bespoke solutions that meet the highest expectations.

Mersen works closely with major industry players around the world, developing tailored products through its 15 Research & Development (R&D) centers. This proximity gives Mersen unique insight into the challenges facing each player and enables the Group to offer custom-designed, innovative solutions backed by state-of-the-art technology.

The Group's policy of targeted acquisitions also enables it to continually consolidate its expertise and expand to new regions and markets.

### **2. Accelerated growth in markets that contribute to sustainable development by capitalizing on a balanced portfolio of business lines and a global manufacturing presence**

The Group uses its international sales and manufacturing network to strengthen its leadership positions in each of its markets. It focuses its efforts on markets with significant medium-term growth potential that contribute to the sustainable development of the planet, including from solar energy to

electronics, energy storage and green transportation with rail networks and electric vehicles.

### **3. Improved efficiency through the competitiveness and performance program**

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

### **4. The optimization of human capital development by providing a motivating working environment**

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

## Resources

Mersen works side-by-side with its customers all over the world. The Group draws on its production base of 53 sites in 35 countries, the majority of which are overseen by local managers to facilitate interaction with local stakeholders.

The Group leverages its knowledge of its customers' challenges to offer innovative products and solutions, which are sometimes developed jointly and draws on its network of 15 R&D centers across the world. Its agile strategy and structure means it is able to stay ahead of market and environment trends and seamlessly adapt its products and services to changing needs.

But Mersen's major strength is its 6,900 employees around the world who drive its development according to a strict code of ethics that guides all of the Group's activities and operations.

## Expertise

Since its beginnings at the end of the 19<sup>th</sup> century, Mersen has gradually transformed into an industrial group with recognized expertise in two key areas – Advanced Materials and Electrical Power – where it holds leadership positions or is the joint world leader. The Group primarily develops innovative solutions tailored to its customers' needs<sup>(1)</sup>.

(1) Some businesses are covered by the regulations on the control of exports of dual-use items and technology.

The Group's business model is built on a series of key stages that apply to:

- Product and solution design
- Supply of raw materials or components
- Manufacture, processing and/or assembly and machining
- Finishing and treatments
- Transportation, delivery and service

## 1. Advanced Materials segment (AM)

- Sales of €487 million
- 55% of total sales
- World no. 1-2<sup>(1)</sup> in graphite anticorrosion equipment
- World no. 1-2<sup>(1)</sup> in brushes and brush holders for industrial electric motors
- World no. 1-2<sup>(1)</sup> in high-temperature applications of isostatic graphite

### 1.1. Product range and applications

In the Advanced Materials segment, the Group operates across the entire value chain, from the manufacture of materials (graphite, silicon carbide and insulation) to the design of final products in line with customer needs.

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, rigid felt, and silicon carbide for solar applications, semiconductors and other refractory processes, electrodes for electrical discharge machining, kiln linings, etc.
- Protection against corrosion: this is provided by equipment using graphite, reactive metals (tantalum, zirconium, titanium, etc.) and fluorinated polymers (PTFE) for the chemical, pharmaceutical and metallurgy industries.
- Electric power transfer: the Group's range provides stable and constant generation, flow and transformation of electrical current in industry (steel, mining, power plants, etc.) 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. Main competitors (in alphabetic order):

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

## 2. Electrical Power segment (EP)

- Sales of €391 million
- 45% of total sales
- World no. 1<sup>(1)</sup> supplier of components for the power electronics market
- World no. 2<sup>(1)</sup> in industrial fuses
- World no. 1<sup>(1)</sup> in current collection for the rail market

### 2.1. Product range and applications

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

- Equipment and people protection: prevent the destruction of industrial and commercial electrical equipment, ensure an uninterrupted power supply and help to stabilize the electrical network. This function is performed by industrial fuses and all related accessories 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, the transformation of solar and wind energy, and the management of battery-based systems (electric cars or stationary storage). To perform this function, Mersen designs cooling devices, bus bars, capacitors and high-speed fuses that are integrated around power electronics components or lithium-ion battery packs.

(1) Internal source: the Group operates in niche markets. It draws on its in-depth sector expertise and the financial and technical documentation published by its competitors to establish its market position.

**2.2. Competition**

Mersen operates in cutting-edge markets where it holds leadership positions or is the joint world leader. Its competitors include several large international groups, as well as smaller regional players. None of its competitors can match Mersen’s wide range of products. Specifically, Mersen is the only Group with an offering for power electronics industry players that includes high-speed fuses, cooling devices, laminated bus bars and capacitors.

The Group’s industrial fuse and surge protection device ranges stand out for their ability to offer a wide range of products which meet various regional standards (e.g., UL, IEC, BS or DIN) and are aligned with the needs of the majority of its distributor and OEM customers.

In the rail sector, the Group complies with the International Railway Industry Standard (IRIS).

Main competitors (in alphabetic order)

- Aavid – cooling devices
- Cornell Dubilier Electronics – capacitors
- Dehn – surge protection devices
- Eaton – industrial fuses
- Littelfuse – industrial fuses
- Lytron – cooling devices
- Methode – bus bars
- Phoenix Contact – surge protection devices
- Rogers – bus bars
- TDK – capacitors

**Markets**

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

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

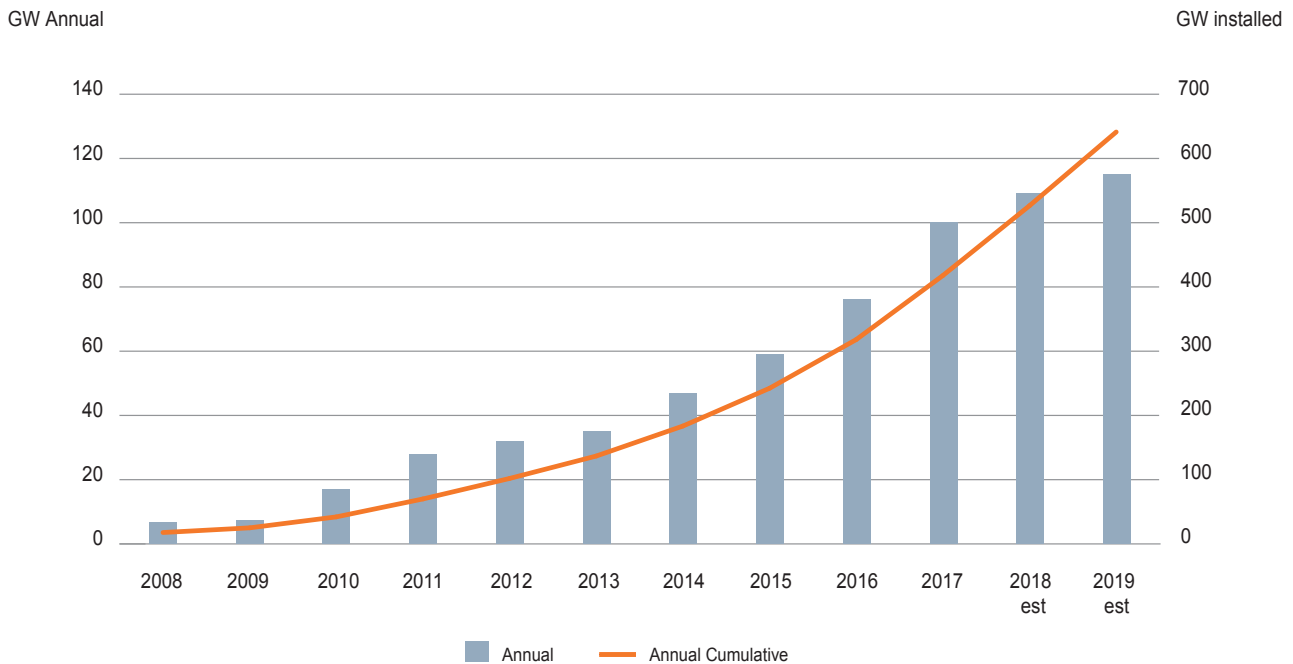
**1. Energy**

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

**1.1. Solar power**

After more than a decade, photovoltaic technology has demonstrated its capacity to become a major global energy source. An estimated 109 GW<sup>(1)</sup> of solar power were installed in 2018, pushing global installed capacity to 525 GW. 2019 is expected to bring a further increase of between 110 and 120 GW.

**Solar power (GW)**



Source: IHS Markit.

(1) Source: IHS Markit - PV Tech.

Mersen offers solutions for the entire photovoltaic industry.

- It is a key partner for leading polysilicon manufacturers around the world for which it develops graphite machined components (purified and sometimes coated), such as ultra-pure graphite electrodes used in the process for transforming silicon from a gaseous state into a solid.
- It produces all the graphite components for silicon ingot pulling which are needed to guarantee the purity of solar cells and to control the temperature of hot zones during crystallization (purified graphite heater, flexible felt insulation, carbon insulation, etc.). Mersen is particularly well positioned in Cz (czochralski) ingot pulling technology, which currently delivers the highest yield.
- It offers a full range of solutions for the protection of photovoltaic installations (circuit breakers, fuses and surge protection devices).

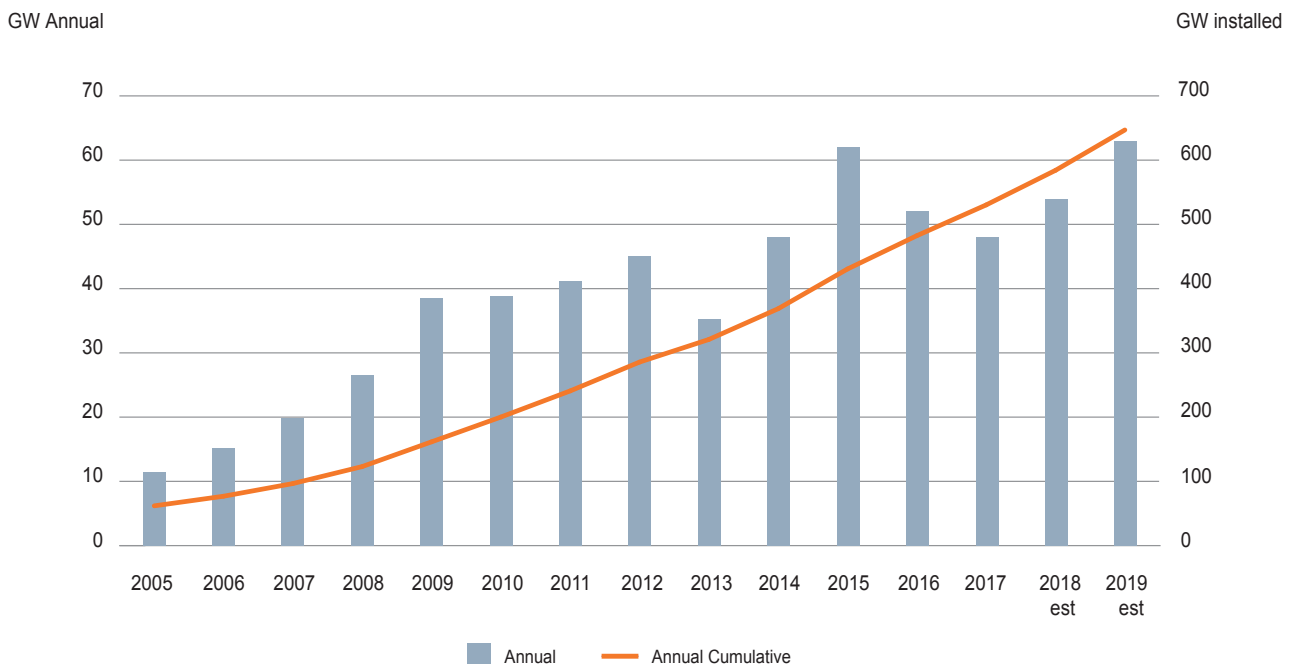
- It delivers power electronics solutions for the conversion and distribution of solar energy (high-speed fuses, capacitors, cooling devices and laminated bus bars which can be used in an integrated architecture).

Mersen has customers across the value chain from polysilicon manufacturers such as Wacker Chemie and OCI and solar cell manufacturers such as Longi and Zhonghang to power converter developers such as GE and TMEIC. Its range of solutions for the protection of photovoltaic installations is typically sold through electrical distributors such as Affiliated Distributors, Rexel and Sonepar.

### 1.2. Wind power

Installed wind power capacity was over 580 GW worldwide at the end of 2018, making it a very attractive replacement market for Mersen. Following the slight decline in 2017 due primarily to the end of certain projects in India, 2018 saw a slight increase driven by Europe.

Wind power (GW)



Source: Make Consultant.

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

- The Group works with leading wind turbine generator manufacturers for which it supplies carbon brushes, brush holders and slip ring assemblies.
- It offers modular solutions which provide greater flexibility to wind turbine manufacturers and operators such as signal transmission systems, brushes and brush holders for yaw motors, and grounding systems.

- Its full range of fuses, fusegears, fuseholders and surge protection devices protect generators and controls.
- It delivers power electronics solutions for the conversion and distribution on the network of wind energy using high-speed fuses, capacitors, bus bars and cooling devices for wind power electronics.

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

Its customers include wind turbine (Siemens-Gamesa, Senvion, Vestas, etc.) and generator (GE, Siemens, etc.) developers, as well as wind farm managers (Nawsa) and power converter developers.

**1.3. Hydroelectricity**

Mersen is also present on the hydroelectric market. The Group develops a broad range of solutions for hydro generators which meet both major manufacturer and aftermarket requirements. Its offering includes brushes, brush holders and dust collection systems, as well as on-site installation services.

**1.4. Energy storage**

The energy storage market includes stationary batteries used primarily in renewable energy applications, and mobile batteries used to power electric vehicles (see the Transportation section of this chapter).

For stationary batteries, Mersen operates at every level:

- It markets DC surge protection solutions for battery modules and laminated bus bars to connect lithium-ion battery modules.
- It markets a full range of DC surge protection solutions with fuse-based and hybrid devices (fuses and pyro-switches) and high-power relays for battery racks and packs.
- Its offering for battery containers includes high-speed DC protection fuses.
- It provides power conversion solutions such as high-speed fuses, capacitors, bus bars and cooling devices. Mersen’s solutions are needed to convert direct current (DC) to alternating current (AC).

**1.5. Conventional energies**

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

**2. Electronics**

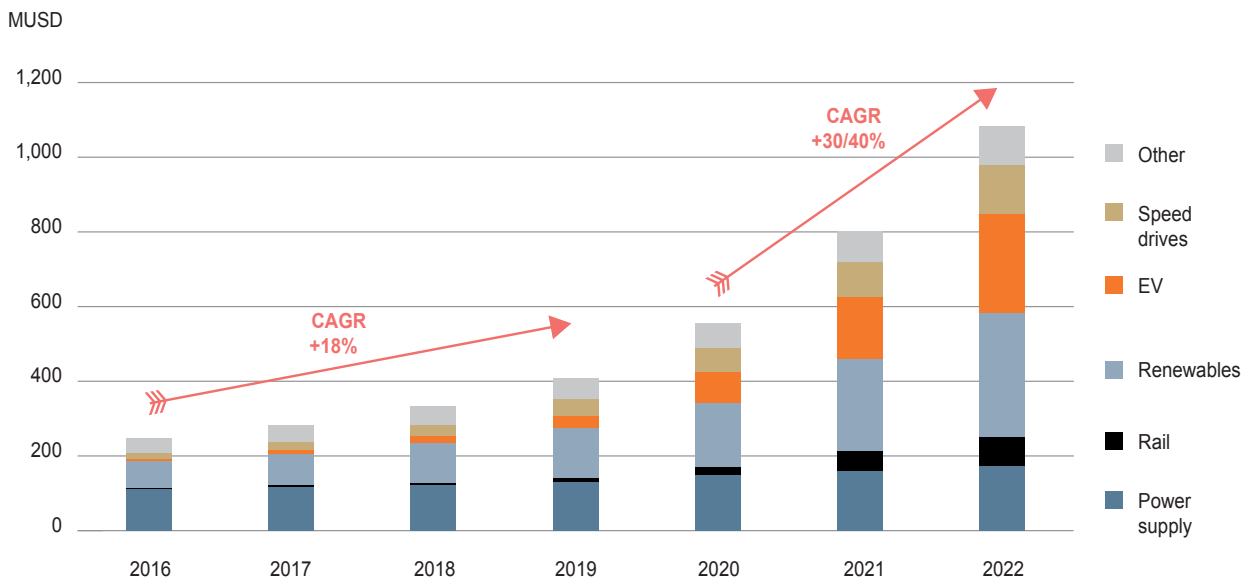
Mersen’s technologies support the development of semiconductors for new digital applications. The Group also provides the power electronics needed for electric power conversion.

**2.1. Semiconductor manufacturing**

The semiconductor market is evolving rapidly. In addition to silicon-based semiconductors (microprocessors, chips and memory) used in data networks and computers, demand for compound semiconductors is also on the rise. Their wide range of applications include, chips LED lighting using a gallium nitride (GaN) based active layer and opto electronic components with an indium phosphide (InP) substrate. Mersen’s power electronics components (IGBT, MOSFET, DIODE) use silicon carbide (SiC) semiconductors. These products are more powerful, efficient and compact.

The SiC semiconductor market is on the rise and set to accelerate further after 2020, in line with growth in the electric vehicle market.

**Silicon carbide (SiC) semiconductor market**



Source: Yole Development, Power SiC 2017.



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

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

- Metal Organic Chemical Vapor Deposition (MOCVD), which is a corrosive chemical process that deposits thin layers at high temperatures and is notably used in the production of high-performance LEDs. Mersen produces coated graphite supports for this process.
- Ion implantation, which is used to locally modify the composition and physical properties of a substrate by introducing doping agents, is a technology that operates thanks to a new generation of high-energy machines. Mersen is the preferred supplier of Applied Materials, which is the world leader in this technology.
- Compound semiconductors (high-performance LEDs, optics, radio frequencies and power electronics). Thanks to its unique expertise in providing rigid felt with guaranteed thermal homogeneity of 2,400°C, Mersen is very well positioned with the main producers of silicon carbide monocrystals. It also supplies graphite crucibles for the sublimation process used to make SiC ingots.

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

Its customers include SiC wafer developers and manufacturers such as SiCrystal and Dow Corning, and original equipment manufacturers such as Applied Materials.

## 2.2. Power conversion

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

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

Mersen's custom-made offering for high-power applications helps equipment suppliers to optimize the design of their power converters (Samsung, ABB, GE, Schneider Electric, Rockwell, etc.).

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

## 3. Transportation

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

### 3.1. Rail

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

Mersen offers rail manufacturers and system operators solutions to enhance the performance and reliability of their equipment. The Group is a recognized player in this market due to its ability to meet all rail standards and certifications, and to offer innovative solutions. Its market success is also the result of a unique long-standing positioning with major rail manufacturers in addition to a local commercial and industrial presence, especially now that orders are increasingly subject to the requirement that products be produced or assembled locally.

The Group's expertise also extends to rail infrastructure for urban and freight rolling stock. It develops solutions for:

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

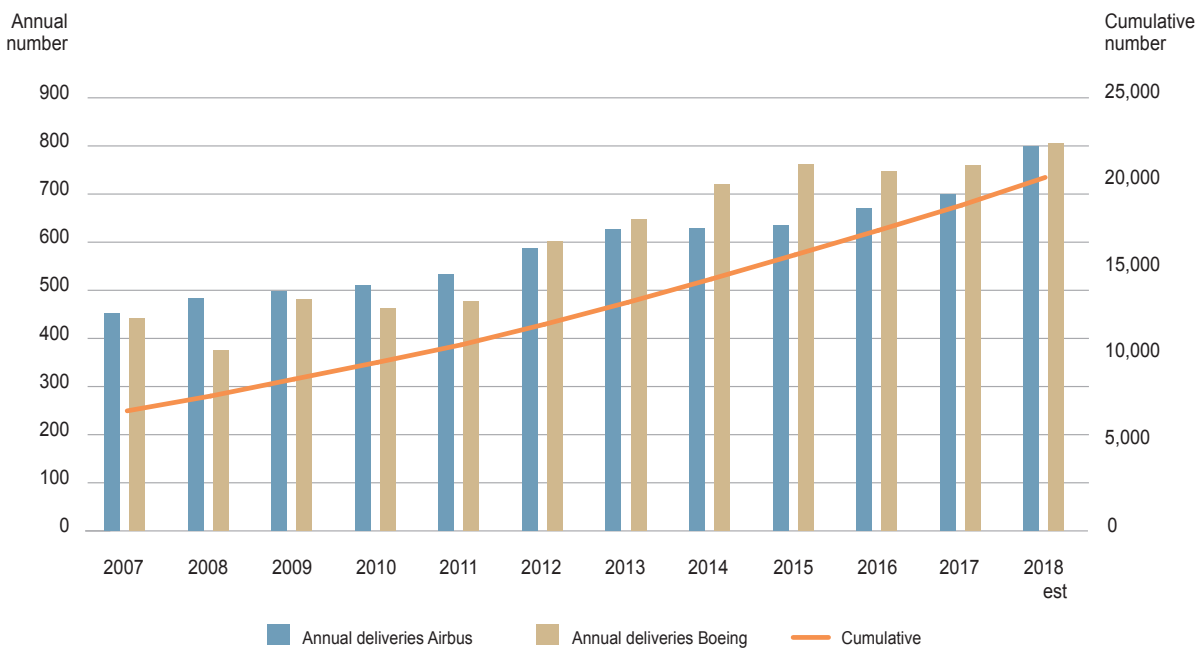
Mersen works with all the major rail market players such as Alstom, Bombardier, Siemens, GE, CRRC, etc.

**3.2. Aeronautics**

2018 was another record year for commercial aviation with the world's two leading aircraft manufacturers, Airbus and Boeing, announcing delivery of 800 and 806 aircraft, respectively, i.e., an increase of more than 8% from the year before. Over the medium

term, the civil aviation market is set to grow between 3% and 4% a year, according to Airbus and Boeing. Mersen benefits from this growth, as well as from the increase in air traffic, which constitutes a potential growth area for replacement products.

**Commercial aircraft deliveries**



Source: Airbus, Boeing.

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

Its range of products is designed to:

- Optimize aircraft, in particular via a range of carbon-carbon composite braking disks. The Group also supplies key components for auxiliary motors, air conditioning, electrical power generation and distribution systems.
- Improve flight conditions through the use of wear-resistant composite materials and brushes and brush holders designed for aircraft pressure systems.

- Reduce energy consumption thanks to optimal electronics cooling, turbine blade positioning devices and components with lower friction rates.

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

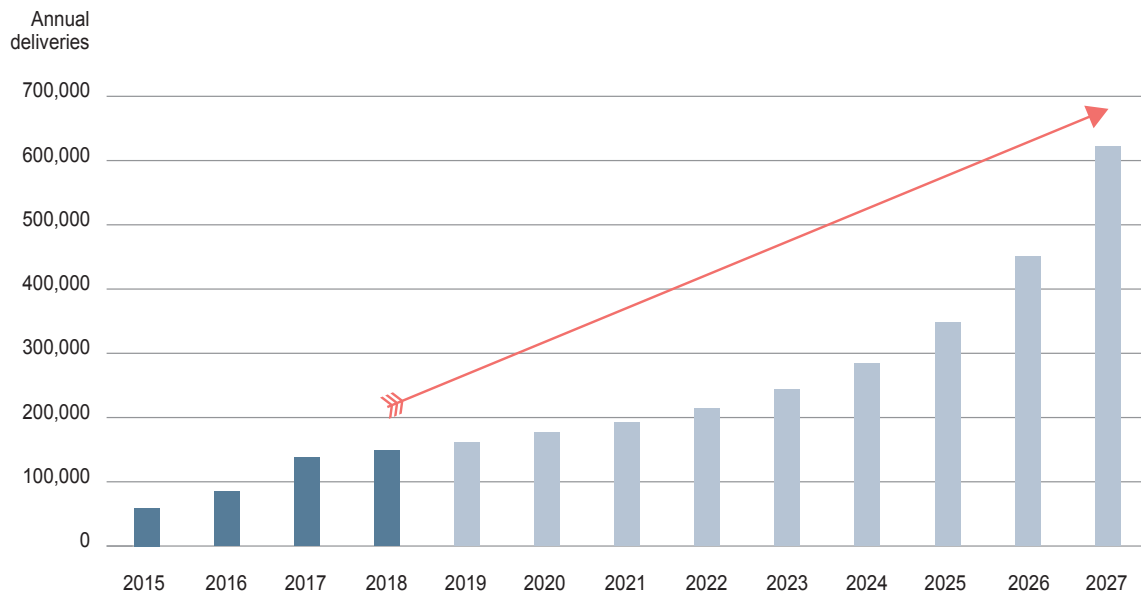
Mersen targets leading industry subcontractors for major aircraft manufacturers, such as Liebherr, Thales and Safran.

### 3.3. Electric vehicles

The electric vehicle (BEV, HEV or PHEV<sup>(1)</sup>) market is thriving, with both the passenger vehicle and heavy vehicle segments enjoying robust growth. Based on average annual growth between 2017

and 2018 of approximately 21% for passenger vehicles and 17% for heavy and commercial vehicles, the electric vehicle market is expected to continue to grow in the coming years.

#### EV and HEV Commercial vehicles



Source: IDTechEx.

The Group's solutions are primarily aimed at the high-end BEV and heavy vehicle markets:

- Its offering for battery modules and packs includes high-speed fuses, bus bars and cooling devices. The Group also develops semiconductor and pyro-switch based hybrid solutions to protect passengers by disconnecting high voltage batteries in the event of a shock or proven electrical faults.
- Its offering for power converters includes water cooling solutions that meet thermal management needs, laminated bus bars that provide for the safe flow of electricity between various components and capacitors that filter power conversion signals.
- In addition to all the advantages associated with its high-speed fuses, cooling devices, capacitors and laminated bus bars, Mersen's electric vehicle stations are also equipped with surge protection devices, for overall optimal protection.

Mersen's customers include automobile manufacturers, first and second tier subcontractors and battery manufacturers.

### 3.4. Aerospace

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

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

(1) Battery electric vehicle, hybrid electric vehicle, plug-in electric vehicle.

## 4. Corrosive chemicals

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

Tens of thousands of chemical products are present in our day-to-day environment – in PVC construction materials, in polyurethanes used in the automotive industry, in silicones for adhesives and in high-performance plastics used in new technologies.

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

Mersen has developed advanced materials and acquired expertise in industrial equipment to provide customized solutions suited to highly corrosive chemical processes.

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

Its custom-made graphite and reactive metal equipment:

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

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

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

Mersen's customers are the world's leading chemical manufacturers such as OCP (phosphate), Evonik, Grasim Industries (viscose), Novartis (pharmaceuticals), etc.

## 5. Process industries

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

Mersen brings expertise in:

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

Mersen's customers are the world's leading manufacturers such as Arcelor Mittal, Owens Illinois, Saint Gobain, International Paper, LafargeHolcim, etc.

## Value creation

The value created by the Group is a combination of its financial, non-financial and business performance. Mersen contributes to society in general through its products and services, as well as through jobs, purchases, dividends. The value it creates is shared by numerous stakeholders including:

- Employees and their families
- Shareholders
- Local suppliers and subcontractors
- Financial partners

Mersen also contributes to the development of the regions where it does business through local and regional taxes paid to local or national authorities.

Lastly, Mersen works toward the development of environmentally responsible activities. In 2018, the Group recorded consolidated sales of €879 million, some 50% of which is bound for sustainable markets.

# 2 CORPORATE GOVERNANCE REPORT

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# ADMINISTRATIVE AND MANAGEMENT BODIES

## 1. Legislative and regulatory environment

### 1.1. Legal provisions

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

In accordance with the provisions of Articles L. 225-37-2 to L. 225-37-5 of the French Commercial Code (*Code de commerce*), the Board of Directors submits a report on corporate governance, which covers in particular the composition, preparation and organization of the Board's work. This report was prepared by the Board of Directors in respect of the fiscal year ended December 31, 2018.

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

This report was submitted for the opinion of the Governance and Remuneration Committee on March 5, 2019, and for the approval of the Board of Directors on March 12, 2019, in accordance with the aforementioned arrangements.

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

Pursuant to Article L. 225-37-4 of the French Commercial Code, the Mersen group refers to the AFEP-MEDEF Corporate Governance Code for listed companies (as revised in November 2018), available (in French) on the AFEP website, [www.afep.com](http://www.afep.com), and the MEDEF website, [www.medef.com](http://www.medef.com).

## 2. The Board of Directors

### 2.1. The Internal Charter of the Board of Directors

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 revised by the Board at its meeting of October 12, 2017 to take into account revisions to the AFEP-MEDEF Code. It was further revised at the Board meeting of February 14, 2019 to include the review of strategic issues in the Board's role as decided at the Board meeting of January 23, 2019.

The Internal Charter has seven articles:

- Article 1 defines the composition of the Board of Directors, its diversity policy, training of its members, and the concept of "independent" members;
- Article 2 relates to the role and duties of the Board of Directors and indicates the lists of decisions made by the Chief Executive Officer subject to authorization or prior opinion by the Board of Directors;
- Article 3 relates to the holding and the procedures of meetings of the Board of Directors (notices of meetings, participation, majority rules, minutes, and Board secretary);
- Article 4 covers the compensation and benefits paid to members of the Board of Directors (attendance fees, compensation and benefits paid to the Chairman, and exceptional compensation and benefits);

- Article 5 covers the obligations applicable to members of the Board of Directors;
- Article 6 covers the assessment rules for the Board of Directors; and
- Article 7 governs the operating rules for the Committees set up by the Board of Directors.

The Internal Charter of the Board of Directors is available for download from the Company's website at [www.mersen.com](http://www.mersen.com), in the section on corporate governance.

### 2.2. 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.

The Board's main duties are:

- Review of the financial position, cash position and commitments of the Company and its subsidiaries;
- Annual review and approval of the budget;
- Approval of the management report and the corporate governance report;
- Review and approval of the company and consolidated financial statements;

- Prior authorization of related-party agreements and their annual review in order to ensure that they are in the Company's interests;
- Appointment and removal of the Chief Executive Officer and setting of his compensation;
- Review and approval of the senior executive succession plan;
- Co-optation of members of the Board of Directors;
- Allocation of attendance fees among the members of the Board of Directors, and setting of the Chairman's compensation;
- Prior consultation on the content of the interim financial information released to the market;
- Authorizations relating to guarantees and endorsements;
- Review of resolutions to be put to the General Meeting of shareholders;
- Setting up of stock option and bonus share plans.

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

- Issues of securities conferring rights directly or indirectly to the Company's share capital;
- Funding operations likely to substantially alter the Company's financing structure;
- Investments or asset disposals (excluding shareholdings) in an amount of over €10 million;
- Business acquisitions or acquisitions of stakes in any form, of which the individual price, or aggregate price for multiple stakeholdings within a single entity, exceeds €3 million, inclusive of any liabilities assumed;
- Granting of guarantees and collateral of any kind that exceed an amount set by the Board, valid for the period determined by the Board in its decision;
- Strategic partnership agreements that are likely to have a substantial impact on the Company's business activities or financial results;
- Major internal restructuring operations;
- Major transactions that do not fall within the scope of the Company's announced strategy.

### 2.3. Promoting long-term value creation

The Board looks after the interests of the Company and its shareholders whilst taking into consideration the social and environmental impacts on all stakeholders: customers and suppliers, employees, partners and local authorities.

It believes that finding a sustainable balance between all of these interests is vital to the Group's long-term future and value creation.

The Board regularly reviews opportunities and risks in line with the strategy it has defined, such as financial, legal, operational, social and environmental risks, as well as the measures taken in response.

It ensures that effective arrangements are in place, where necessary, for preventing and detecting corruption and influence peddling.

### 2.4. Assessment of the Board of Directors

The Board of Directors conducts a self-assessment each year to measure its practices and procedures, the quality of preparation for Board meetings and the effective contribution of each of its members to the Board's work and discussions. This assessment also covers the Board Committees.

A formal assessment is conducted at least once every three years. It may either be conducted under the guidance of the Governance and Remuneration Committee or of an independent member of the Board, if necessary assisted by an outside consultant.

In 2018, the assessment was conducted by the Chairwoman of the Governance and Remuneration Committee, who reported on the outcome at the Board meeting on December 20, 2018. The conclusion was that the members of the Board were broadly satisfied with its practices and procedures and with the expertise of each of its members.

In terms of areas for improvement mentioned during the self-assessment, all Board members said that they would like to have the opportunity to discuss strategic issues more regularly and to devote more time to human capital and succession planning.

After discussion at its meeting on January 23, 2019, the Board decided that full Board meetings would now be held regularly to discuss strategic issues.

### 2.5. Board of Directors' training

Directors who deem it necessary may receive additional training in the Company's specific characteristics, business lines, business sector and corporate and social responsibility issues. This training may take the form of visits to the Group's sites.

Upon their appointment, Audit Committee members are given information about the Company's specific accounting, financial and operational requirements.

In addition, Directors representing employees, if appointed, will receive training adapted to their role on the Board.

### 2.6. Board of Directors' diversity policy

The Board of Directors pays close attention to diversity, particularly in terms of gender and expertise. It has formally described the expertise it deems necessary to fulfill its role and carry out its duties. This expertise is described in Section 2.7.2.

The Board of Directors complies with the provisions of the Copé-Zimmermann law passed in 2011 and supports management in its policy of increasing the number of women in engineering and management jobs.

The Board also acknowledges the Group's exemplary position in terms of international diversity, as more than 90% of site managers are locals.

## 2.7. 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 of office of four years.

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

As of December 31, 2018, the Board of Directors was composed of 11 members:

	Duties within the Board	Personal information			Experience			Position within the Board			Participation in a committee		
		Age	Gender	Nationality	Number of shares	Number of directorships in listed companies	Independence	Date of first appointment	Term ends	Length of service on the Board at the date of the AGM (years)	Audit	Gov. & Rem.	Strategy
Olivier Legrain	Chairman	66	M	FR	1,800	0	x	5/18/2017	2021 AGM	2	x	x	
Isabelle Azemard	Director	67	F	FR	800	1		5/15/2014	2018 AGM	5	x		
Yann Chareton	Director	41	M	FR	920	0		01/01/2019	2021 AGM	10	x		
Pierre Creusy	Director representing employees	57	M	FR	N/A	0		10/12/2017	10/12/2021	1		x	x
Michel Crochon	Director	67	M	FR	800	0	x	05/18/2017	2021 AGM	2	x	x	
Catherine Delcroix	Director	67	F	FR	810	0	x	03/10/2015*	2019 AGM	4	x	x	
Carolle Foissaud	Director	52	F	FR	823	1	x	05/16/2013	2021 AGM	6	x		
Dominique Gaillard	Director	59	M	FR	790	0		01/01/2019	2021 AGM	10		x	x
Magali Joessel**	Director	45	F	FR	2,242,770	0		10/30/2013*	2019 AGM	5	x	x	
Henri-Dominique Petit	Director	70	M	FR	832	0	x	24/05/2007	2019 AGM	11	x	x	
Ulrike Steinhorst	Director	67	F	DE	800	2	x	05/16/2013	2021 AGM	6		x	x

■ Chairman

\* Co-opted

\*\* Permanent representative of Bpifrance Investissement



### 2.7.1. Changes in the composition of the Board in 2018

		Resignation	Appointment	Change of representative	Renewal
Board of Directors	March 22	Fonds Nobel represented by Bénédicte Levinson			
	April 12	Edward Koopman representing Sofina			
	May 7			Magali Joëssel replaces Thierry Sommelet as permanent representative of Bpi	
	May 17				Isabelle Azemard
Audit and Accounts Committee	May 17			Magali Joëssel replaces Thierry Sommelet as permanent representative of Bpi	
Governance and Remuneration Committee	March 22	Fonds Nobel represented by Bénédicte Levinson			Isabelle Azemard
Strategy Committee	April 12	Edward Koopman representing Sofina		Magali Joëssel replaces Thierry Sommelet as permanent representative of Bpi	

### 2.7.2. Profile, experience and expertise of Directors

The following table summarizes the main areas of expertise and experiences of Board members.

	O. Legrain	I. Azemard	Y. Chareton	P. Creusy	M. Crochon	C. Delcroix	C. Foissaud	D. Gaillard	M. Joëssel	H.D. Petit	U. Steinhorst
Chief Executive Officer					X	X	X	X		X	
Innovation						X			X		X
Strategy	X	X	X		X			X	X		X
Experience in Mersen's business activities				X	X						
Industrial expertise	X	X				X	X			X	
International/knowledge of a strategic geographic area for Mersen		X	X	X	X						
Finance/risk management/knowledge of financial markets/M&A			X				X	X	X	X	
CSR/Human capital	X			X			X			X	X

### 2.7.3. Detailed presentation of members of the Board of Directors

**Olivier Legrain**

66 years  
French nationality  
Term ends: 2021  
Shares held: 1,800

**Chairman of Mersen's Board of Directors**

Biography – Professional experience

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

Main activities exercised outside the company

Olivier Legrain is now a therapist.

Current directorships

Director of: Kiloutou, Minafin, Astance  
Chairman of the Board of: Parex  
Member of the Governance Committee of: Balas

**Isabelle Azemard**

67 years  
French nationality  
Term ends: 2022  
Shares held: 800

**Member of Mersen's Board of Directors**

Biography – Professional experience

Isabelle Azemard spent her career at the Thales Group, including 20 years in sales and marketing management positions, primarily at the international level. Since 2013, she has been a consultant to business executives.

Main activities exercised outside the company

Since 2013, she has been a consultant to business executives.

Current directorships

Director of: AXA mutuelle IARD, Mutuelle Vie, Latécoère, Majencia

**Yann Chareton**

41 years  
French nationality  
Term ends: 2021  
Shares held: 920

**Member of Mersen's Board of Directors**

Biography – Professional experience

In Italy, Yann Chareton 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.

Main activities exercised outside the company

N/A

Current directorships

Member of the Board of Managers of: ACF I Investment  
Chairman of the Board of Directors of: Italmatch Chemicals  
Director of: Ardian Italy, Calimax 1 SA, Calimax 2 SA, PhotoTechLuxco 1 SA, PhotoTechLuxco 2 SA, Dedalus Spa, Dedalus Holding Spa, Dedalus Holding 2 Spa

**Pierre Creusy**

57 years  
French nationality  
Term ends: 2021  
Shares held: N/A

**Member of Mersen's Board of Directors representing the employees**

Biography – Professional experience

Pierre Creusy joined Mersen in 1986. After working in Korea, he held positions in production engineering and subsequently in product management before joining Mersen's Corporate Finance team as a financial controller. He took on business responsibilities in Asia in 1999 and is now Director of Strategic Projects and Integrated Business Planning in the Electrical Power segment.

Main activities exercised outside the company

N/A

Current directorships

N/A

<p><b>Michel Crochon</b> 67 years French nationality Term ends: 2021 Shares held: 800</p>	<p><b>Member of Mersen's Board of Directors</b> <u>Biography – Professional experience</u> Michel Crochon has spent his entire career at Schneider Electric, where he accumulated years of experience in many different roles. In addition to managing departments and production plants, he has also worked in sales and marketing, held cross-functional roles and managed large units. He was a member of the Executive Committee for 12 consecutive years. During that time, he was Head of the Customers and Markets Division, and later Head of the Industry Business and the Energy and Infrastructure Business, before becoming Head of the Group's Corporate Strategy and Technology. Michel Crochon has experience in working abroad and facing cross-cultural challenges, having traveled and managed teams in a variety of countries. He spent three years in both China and Hong Kong. <u>Main activities exercised outside the company</u> N/A <u>Current directorships</u> N/A</p>
<p><b>Catherine Delcroix</b> 67 years French nationality Term ends: 2019 Shares held: 810</p>	<p><b>Member of Mersen's Board of Directors</b> <u>Biography – Professional experience</u> Catherine Delcroix has spent her career in engineering and industrial maintenance, primarily in the energy sector. She served as Managing Director for Energy of the CNIM group from 2002 to 2014 and was appointed as a Management Board member and corporate secretary of the Group in 2009. <u>Main activities exercised outside the company</u> N/A <u>Current directorships</u> N/A</p>
<p><b>Carolle Foissaud</b> 52 years French nationality Term ends: 2021 Shares held: 823</p>	<p><b>Member of Mersen's Board of Directors</b> <u>Biography – Professional experience</u> Carolle Foissaud has spent the bulk of her career with the Areva Group, primarily in operational positions within the Fuel and Reactors units and in management positions as Chair and Chief Executive Officer of STMI and its subsidiaries in the field of Cleanup and as Chair and Chief Executive Officer of Areva TA, which specializes in naval propulsion reactors and research reactors. She was also a member of the Areva Group's Executive Management Board. <u>Main activities exercised outside the company</u> Carolle Foissaud has been Chief Executive Officer of the Industry segment at Bouygues Energies &amp; Services since September 1, 2017. <u>Current directorships</u> Board member of GFI</p>
<p><b>Magali Joessel</b> 45 years French nationality Term ends: 2019 Shares held by Bpifrance: 2,242,770</p>	<p><b>Member of Mersen's Board of Directors</b> <u>Biography – Professional experience</u> Magali Joessel began her career with the Inspectorate General of Finance at the French Ministry of Economic and Financial Affairs, before being named General Interest Investment Manager with Caisse des Dépôts et Consignations. She joined Bpifrance when it was created in mid-2013 and currently holds the position of Strategy Manager. <u>Main activities exercised outside the company</u> Since September 2014, Magali has been in charge of the Industrial Project Companies (SPI) fund, which invests in the development of innovative industrial activities and projects. <u>Current directorships</u> Board member of Naval Energies, Yposkesi</p>

**Dominique Gaillard**

59 years  
French nationality  
Term ends: 2021  
Shares held: 790

**Member of Mersen's Board of Directors**

Biography – Professional experience

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. Until end-2018, he was Chairman of the Management Board of Ardian France in charge of Direct Funds of Ardian.

Main activities exercised outside the company

Chairman of France Invest  
Senior Advisor of Ardian France (since 01/01/2019)

Current directorships

Director and Managing Director of: Penfret SA  
Vice-Chairman of the Supervisory Board of: Fives  
Member of the Board of Directors of: Fives Orsay  
Non-voting director of: Club Med Holding  
Member of the Supervisory Board of: Alvest Holding  
Vice-Chairman of the Supervisory Board of: CLS

Directorships until 12/31/2018

Member of the Board of Managers of: ACF I Investment Sarl  
Chairman of the Board of Directors: Ardian Italy Srl, Ardian Spain SL  
Chairman of the Management Board of: Ardian France  
Chairman of the Supervisory Board: Ardian Germany GmbH  
Managing Director: APEP GmbH (AXA Private Equity Participations GmbH)  
Chief Executive Officer of: Ardian, Ardian Holding  
Member of the Board of Directors: Ardian Investment UK Limited, Ardian Investment Switzerland Holding AG, RPAX One SA  
Member of the Supervisory Committee: Ardian US LLC  
Vice Chairman of: 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 of: AXA Infrastructure Investissement

**Henri-Dominique Petit**

70 years  
French nationality  
Term ends: 2019  
Shares held: 832

**Member of Mersen's Board of Directors**

Biography – Professional experience

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.

Main activities exercised outside the company

Since April 2011, Mr. Petit has been Senior Advisor to the European corporate finance house, DC Advisory.

Current directorships

Non-voting director of: Ipackchem

**Ulrike Steinhorst**

67 years  
German nationality  
Term ends: 2021  
Shares held: 800

**Member of Mersen's Board of Directors**

Biography – Professional experience

Ulrike Steinhorst began her career in France at the Ministry of European Affairs. She joined EDF's International Division in 1990 before returning to Germany, where she joined the Degussa Group in 1999. She held several positions there, first in Germany and later in France, where she managed Degussa's French subsidiary. She joined EADS in 2007 as Chief of Staff to the CEO before becoming Head of Strategy, Planning and Finance at Airbus Group's Research Directorate in 2012.

Main activities exercised outside the company

N/A

Current directorships

Member of the Board of Directors of: Valeo, Albioma  
Member of the Board of *École des Mines* Paris Tech and of the French-German Chamber of Industry and Commerce

## 2.7.4. Independent Directors

To verify whether or not each member is independent, the Board, after being informed of the recommendations of the Governance and Remuneration Committee, reviews all the criteria recommended by the AFEP-MEDEF Code and set out in the Board's Internal Charter, which state that an independent member may not:

- be, or have been in the past five years, an employee or executive corporate officer of the Company or Group, or an employee, executive corporate officer or director of a shareholder which, alone or in concert, controls the Company within the meaning of Article L. 233-3 of the French Commercial Code, or of a company within the Company's consolidation;
- be an executive corporate officer of another company in which the Company holds, directly or indirectly, a directorship, or in which an employee appointed as such or an executive corporate officer of the Company (currently in office or having been in office within the past five years) is a director;
- be (or be directly or indirectly linked to) a customer, supplier, commercial banker, financial banker or adviser that is material to the Company or its Group, or for which the Company or its Group accounts for a significant part of its business;
- have close family ties to a corporate officer of the Company or its Group;
- be, or have been in the past five years, a statutory auditor for the Group's financial statements or for the financial statements of a Group company;
- have been a corporate officer of the Company for more than 12 years.

A non-executive corporate officer may not be regarded as independent if he or she receives variable compensation in cash or in shares or any other compensation related to the performance of the Company or the Group.

Directors representing major shareholders of the Company or its parent company may be regarded as independent if those shareholders do not exercise any control over the Company. However, where the shareholder owns more than 10% of the capital or voting rights, the Board will systemically review the director's independence based on a report by the Governance and Remuneration Committee, taking into account the Company's ownership structure and any potential conflict of interest.

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

At its March 6, 2018 meeting, based on the recommendations of the Governance and Remuneration Committee, the Board of Directors reviewed the independence of the Board members and decided that the representatives of Ardian and Bpi Investissement could not be regarded as independent due to their level of holding in the Company's capital. The Director representing employees cannot be regarded as independent either.

	Non-independent Directors				Independent Directors						Director representing employees
	I. Azemard	Y. Chareton	D. Gaillard	M. Joëssel	O. Legrain	M. Crochon	C. Delcroix	C. Foissaud	H.D. Petit	U. Steinhorst	P. Creusy
Not an employee or corporate officer in the past five years	X	X	X	X	X	X	X	X	X	X	
No cross-directorships	X	X	X	X	X	X	X	X	X	X	X
No significant business relationships	X	X	X	X	X	X	X	X	X	X	X
No close family ties to a senior manager	X	X	X	X	X	X	X	X	X	X	X
No CAC relationships in the past five years	X	X	X	X	X	X	X	X	X	X	X
Not a director of the Company for more than 12 years	X	X	X	X	X	X	X	X	X	X	X
Not a major shareholder					X	X	X	X	X	X	X
No compensation related to the Group's performance	X	X	X	X	X	X	X	X	X	X	

Independent members therefore make up more than 60% of the Board, in line with the recommendations of the AFEP-MEDEF Code. The Director representing employees is not taken into account for this calculation, as per §8.3 of the AFEP-MEDEF Code.

### 2.7.5. No convictions or conflicts of interest

As of the date of this Registration Document and to the Company's knowledge:

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

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

### 2.7.6. Black-out periods

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

For fiscal 2019, the black-out periods are:

- from **Tuesday, January 15 to Wednesday, January 30, 2019 inclusive**: owing to the announcement of fourth-quarter 2018 sales on January 30, 2019.
- from **Monday, February 11 to Tuesday, March 12, 2019 inclusive**: owing to the announcement of the 2018 annual financial statements on March 13, 2019.
- from **Tuesday, April 9 to Wednesday, April 24, 2019 inclusive**: owing to the announcement of the 2019 first-quarter sales on April 24, 2019.
- from **Monday, July 1 to Tuesday, July 30, 2019 inclusive**: owing to the announcement of half-yearly results on July 31, 2019.
- from **Monday, October 14 to Tuesday, October 29, 2019 inclusive**: owing to the announcement of the 2019 third-quarter sales on October 29, 2019.

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

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

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

## 2.8. Work of the Board of Directors

The table below gives a summary of each Board member's attendance at Board and Committee meetings during the year.

	Attendance at Board meetings	Attendance at Audit and Accounts Committee meetings	Attendance at Strategy Committee meetings	Attendance at Governance and Remuneration Committee meetings
Isabelle Azemard	100%	N/A	N/A	100%
BpiFrance Investissement <sup>(1)</sup>	67%	80%	50%	N/A
Yann Chareton	67%	100%	N/A	N/A
Pierre Creusy	100%	N/A	100%	100%
Michel Crochon	100%	N/A	100%	N/A
Catherine Delcroix	100%	80%	100%	N/A
Carolle Foissaud	83%	80%	N/A	N/A
Dominique Gaillard	33%	N/A	100%	100%
Olivier Legrain	100%	N/A	100%	100%
Fonds Nobel	100%	N/A	N/A	100%
Henri-Dominique Petit	100%	100%	N/A	100%
Sofina <sup>(2)</sup>	50%	N/A	0%	N/A
Ulrike Steinhorst	100%	N/A	100%	100%
<b>Average</b>	<b>86%</b>	<b>90%</b>	<b>87%</b>	<b>100%</b>

■ Chairman

(1) Represented by Thierry Sommelet until May 7, 2018 and by Magali Joëssel since then.

(2) Represented by Edward Koopman until April 12, 2018.

Some Directors were unable to attend all Board or Committee meetings, mainly because of changes in their professional duties. Sofina only attended two Board meetings in 2018.

At least one a year, an informal meeting is organised without executive management being present. As they are informal, these are not minutes.

The Board of Directors met six times in 2018, with an average attendance rate of 86%.

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

- Group strategy and development
  - Approval of strategic plans, business plan and budget;
  - Approval of acquisitions, including FTCAP, Idealec, Cirprotec minorities and JV Mersen Galaxy.
- Group results
  - Regular review of the Group's business;
  - Approval of interim and annual financial statements, management forecasts and draft press releases on results and guidance.
- Corporate governance
  - Approval of Isabelle Azemard's re-appointment as director;
  - Review of the outcome of the Board assessment and resulting action plans;
  - Review of directors' independence.

### ■ Compensation

- Approval of the Chief Executive Officer's compensation (including setting of targets for the current year and approval of target achievement levels for the previous year) and review of related-party agreements with the Chief Executive Officer (including severance payment, executive unemployment insurance and non-compete benefits);
- Approval of the Long-Term Incentive (LTI) programs and beneficiaries, including for the Chief Executive Officer.

### ■ Preparation of the General Meeting

- Approval of the stock repurchase program;
- Approval of resolutions to be put to the General Meeting.

### ■ Other

- Approval of stock repurchases, particularly under the March 15<sup>th</sup> Accelerated Book Building procedure (ABB);
- Approval of guarantees issued by Mersen SA;
- Review of Board Committee reports (Audit and Accounts, Strategy, and Governance and Remuneration).

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

In its Internal Charter, the Board of Directors defined the functions, duties, and resources of its three committees: the Audit and Accounts Committee, the Governance and Remuneration Committee and the Strategy Committee. As far as possible and depending on the applicable circumstances, all decisions by the Board of Directors concerning an area of a Committee's jurisdiction must 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:

- have the Company communicate any document that it deems useful for the performance of its duties;
- interview some or all members of the Executive Committee or any person that the Committee deems useful to interview;
- 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.

### 2.9.1. 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 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. He reports at least once a year on the Group's risk exposure, including social and environmental risk. The Director of Risk, Compliance and Internal Audit attends these meetings at least once a year, as does the Director of Management Control and the Director of Treasury and Financing.

The role of the Audit and Accounts Committee is to:

- monitor the financial reporting process and, where applicable, make recommendations to ensure its integrity;
- monitor the effectiveness of internal control, risk management and, where applicable, internal audit systems, regarding procedures for preparing and processing financial and extra-financial accounting information;
- review the financial statements and ensure the appropriateness and ongoing consistency of the accounting methods used to prepare the Company's consolidated and annual financial statements; review the statutory auditors legal audit of the annual and consolidated financial statements;
- ensure compliance with the conditions for the Statutory Auditors' independence;
- make a recommendation on the Statutory Auditors nominated for appointment at the Annual General Meeting in accordance with Article L. 823-19 3 of the French Commercial Code. The Committee's recommendations and preferences are brought to the attention of the Annual General Meeting asked to vote on the appointment of the Statutory Auditors;

- approve the provision of non-audit services, provided they are permitted by the regulations. The Committee will make its decision after analyzing the risks related to the independence of the Statutory Auditors and the safeguard measures applied.

The Committee met five times in 2018, with an attendance rate of 90%.

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

- Review and approval of the Group's annual and interim results;
- Review of the Reference Document;
- Changes to accounting standards, in particular the impact on the Group of IFRS 16 on leases;
- Regulatory developments, particularly in terms of compliance following the enactment of the "Sapin 2" Act;
- Risk assessment with a focus on cybersecurity;
- Review and approval of the internal audit plan and relations with the internal auditors;
- Review of the missions beside audit services;
- Other matters, such as taxation, pensions and cash management.

The Committee also met twice with the Statutory Auditors without management being present.

### 2.9.2. Governance and Remuneration Committee

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

In accordance with §8.4 of the AFEP-MEDEF Code, the Director representing employees is not taken into account in the calculation of the proportion of independent members. A majority of the Committee's members are independent (3/5), in line with the recommendations of the AFEP-MEDEF Code.

The role of the Governance and Remuneration Committee is to:

- **Governance**
  - make proposals on the appointment, removal and re-appointment of the Chief Executive Officer, Chairman of the Board, Committee members and, if applicable, the Deputy Chief Executive Officers;
  - give an opinion on proposed candidates for the above offices in terms of competency, availability, suitability and complementarity with other members of the Board, taking into account the Board's diversity policy;
  - prepare a succession plan for the executive corporate officers and make sure a succession plan is in place for members of the Executive Committee;



- be informed in advance about Executive Management's proposals to appoint or remove members of the Executive Committee;
- determine which Board members can be regarded as independent;
- review and assess the Company's corporate governance practices and, in particular, review and inform the Board of developments in the corporate governance rules to which the Company refers;
- periodically review the structure, composition, procedures and practices of the Board of Directors and make recommendations on potential changes;
- prepare the assessment of the Board of Directors provided for in its Internal Charter and make recommendations to the Board of Directors on its procedures and practices based on the outcome of the assessment.

#### ■ Compensation

- propose the compensation of the Chairman and Vice-Chairman of the Board of Directors and make a recommendation to the Board of Directors, with a view to submitting a resolution to the Annual General Meeting, on any changes to the total amount of attendance fees or the method of allocating them between the Directors;
- make recommendations to the Board of Directors on the annual and multi-annual compensation of the Chairman of the Board of Directors, the Chief Executive Officer and, where applicable, the Deputy Chief Executive Officers, the rules for determining their variable compensation, and other items of compensation such as pension plans and benefits in kind;
- make recommendations on the compensation and benefits envisaged in the event of the removal from office or the termination of the mandate of the Chairman of the Board of Directors, the Chief Executive Officer and, where applicable, the Deputy Chief Executive Officers;
- be informed of the termination benefits proposed by the Chief Executive Officer upon the termination of the employment contract of a member of the Executive Committee, and give an opinion thereon to the Chairman of the Board of Directors;
- give advice on the policy for granting stock options, performance shares or any other type of securities implemented by the Board of Directors for all categories of beneficiary and more particularly for the Chief Executive Officer and the members of the Company's Executive Committee, and make recommendations on the frequency and terms of grant;
- be informed in advance about conditions and changes in the compensation of Executive Committee members.

The Governance and Remuneration Committee met on three occasions during the year, with an attendance rate of 100%.

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

#### ■ Remuneration

- 2017 results and 2018 proposals for the fixed and variable compensation of all members of the Executive Committee (including the Chief Executive Officer);
- Benchmarking survey of the Chief Executive Officer's compensation.

#### ■ Governance

- Impacts of the revision of the AFEP-MEDEF code and the future Pacte law;
- Self-assessment of the Board, review of the Directors' expertise;
- Review of the attendance rate at Board and Committee meetings;
- Composition of the Board of Directors, re-appointments;
- Review of information to be published in the Registration Document, in particular the ex-post and ex-ante votes;
- Preparation of the General Meeting: review of governance information.

#### ■ Development and succession plans

### 2.9.3. Strategy Committee

Until the Board meeting of January 23, 2019, the Board's Internal Charter provided for a Strategy Committee composed of at least three and no more than eight members, the majority of them independent. This Strategy Committee met at least twice per year and, whenever it deemed necessary, in advance of Board of Directors' meetings for which the agenda included the review of an issue in its area of expertise. Its role was to study various subjects of a strategic nature (for example, forward-looking analysis of various markets, technological developments, new marketing approach, development in the competition, etc.) to assist the Board of Directors in taking positions.

Following the self-assessment of the Board conducted at end-2018, it was decided to review the interaction between the Board and the Strategy Committee. The Board will now discuss strategic issues on a regular basis. The Strategy Committee has therefore been dissolved.

The Strategy Committee met twice in 2018, with an attendance rate of 87%.

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

#### ■ Strategy:

- Review of the commercial excellence plan;
- Analysis of the capacitor market;
- Analysis of the competitive environment in the fuse market;
- Analysis of the potential for the use of carbon composites in batteries;
- Update on the development of electronic vehicles.

#### ■ Acquisitions

- Review of proposed acquisitions.

## Other directorships held by members of the Board of Directors

Members of the Board of Directors	Date of first appointment	Date of re-election as director	End of term of office
<p><b>Isabelle Azemard</b> Born 02/27/1952 Member of the Governance and Remuneration Committee <b>Business address:</b> 3 bd Pershing – Paris, France</p>	05/15/2014	05/17/2018	Annual General Meeting called to vote on the 2021 financial statements
<p><b>Bpifrance Investissement</b> represented by: <b>Magali Joessel</b> Born 10/24/1973 Member of the Audit and Accounts Committee Member of the Strategy Committee <b>Business address:</b> 6-8 Boulevard Haussmann – Paris, France</p>	10/30/2013 (co-opted)	05/11/2016	Annual General Meeting called to vote on the 2018 financial statements
<p><b>Yann Chareton</b> Born 01/08/1978 Member of the Audit and Accounts Committee <b>Business address:</b> Piazza San Fedele 2 – Milan, Italy</p>	01/01/2009	05/18/2017	Annual General Meeting called to vote on the 2020 financial statements
<p><b>Pierre Creusy</b> Born 09/27/1962 Member of the Governance and Remuneration Committee Member of the Strategy Committee Director representing employees <b>Business address:</b> Tour Eqho, 2 avenue Gambetta, 92066 – La Défense, France</p>	10/12/2017		10/12/2021
<p><b>Michel Crochon</b> Born 10/14/1951 Member of the Audit and Accounts Committee Chairman of the Strategy Committee Independent director* <b>Business address:</b> Tour Eqho, 2 avenue Gambetta, 92066 – La Défense, France</p>	05/18/2017		Annual General Meeting called to vote on the 2020 financial statements
<p><b>Catherine Delcroix</b> Born 09/19/1951 Member of the Audit and Accounts Committee Member of the Strategy Committee Independent director* <b>Business address:</b> 25 rue Cino Del Duca – Paris, France</p>	03/10/2015 (co-opted)	05/11/2016	Annual General Meeting called to vote on the 2018 financial statements
<p><b>Carolle Foissaud</b> Born 09/02/1966 Member of the Audit and Accounts Committee Independent director* <b>Business address:</b> Bouygues Energies &amp; Services, 19 rue Stephenson, Saint Quentin en Yvelines – France</p>	05/16/2013	05/18/2017	Annual General Meeting called to vote on the 2020 financial statements

\* According to AFEF-MEDEF criteria.

\*\* Listed company.

Number of Mersen shares held	Other positions held
800	<b>Director of:</b> AXA mutuelle IARD and mutuelle Vie, Latécoère**, Majencia
2,242,770	<b>Director of:</b> Naval Energies, Yposkesi
920	<b>Member of the Board of Managers of:</b> ACF I Investment <b>Chairman of the Board of Directors of:</b> Italmatch Chemicals <b>Director of:</b> Ardian Italy, Calimax 1 SA, Calimax 2 SA, PhotoTechLuxco 1 SA, PhotoTechLuxco 2 SA, Dedalus Spa, Dedalus Holding Spa, Dedalus Holding 2 Spa.
N/A	N/A
800	N/A
810	N/A
823	<b>Chief Executive Officer of:</b> Industry segment at Bouygues Energies & Services <b>Director of:</b> GFI**

Members of the Board of Directors	Date of first appointment	Date of re-election as director	End of term of office
<p><b>Dominique Gaillard</b> Born 02/17/1960 Member of the Governance and Remuneration Committee Member of the Strategy Committee <b>Business address:</b> 20 place Vendôme – Paris, France</p>	01/01/2009	05/18/2017	Annual General Meeting called to vote on the 2020 financial statements
<p><b>Olivier Legrain</b> Born 09/30/1952 Chairman of the Board Member of the Strategy Committee Member of the Governance and Remuneration Committee Independent director* <b>Business address:</b> Tour Egho, 2 avenue Gambetta, 92066 – La Défense, France</p>	05/18/2017		Annual General Meeting called to vote on the 2020 financial statements
<p><b>Henri-Dominique Petit</b> Born 07/03/1948 Chairman of the Audit and Accounts Committee Member of the Governance and Remuneration Committee Independent director* <b>Business address:</b> 1 bis avenue de Lowendal – Paris, France</p>	05/24/2007	05/11/2016	Annual General Meeting called to vote on the 2018 financial statements
<p><b>Ulrike Steinhorst</b> Born 12/02/51 Chairman of the Governance and Remuneration Committee Member of the Strategy Committee Independent director* <b>Business address:</b> 3, Villa du Coteau – Clamart, France Nationality: German</p>	05/16/2013	05/18/2017	Annual General Meeting called to vote on the 2020 financial statements

\* According to AFEP-MEDEF criteria.

\*\* Listed company.

Number of Mersen shares held	Other positions held
790	<p><b>Chairman of:</b> France Invest  <b>Director and Managing Director of:</b> Penfret SA  <b>Vice-Chairman of the Supervisory Board of:</b> Fives  <b>Member of the Board of Directors of:</b> Fives Orsay  <b>Non-voting director of:</b> Club Med Holding  <b>Member of the Supervisory Board of:</b> Alvest Holding  <b>Vice-Chairman of the Supervisory Board of:</b> CLS            Until 12/31/2018:  <b>Member of the Board of Managers of:</b> ACF I Investment Sarl  <b>Chairman of the Board of Directors of:</b> Ardian Italy Srl, Ardian Spain SL  <b>Chairman of the Management Board of:</b> Ardian France  <b>Chairman of the Supervisory Board of:</b> Ardian Germany GmbH  <b>Managing Director of:</b> APEP GmbH  <b>Chief Executive Officer of:</b> Ardian, Ardian Holding  <b>Member of the Board of Directors of:</b> Ardian Investment UK Limited, Ardian Investment Switzerland Holding AG, RPAX One SA  <b>Member of the Supervisory Committee of:</b> Ardian US LLC  <b>Vice Chairman of:</b> AXA CDP Co-Investment Fund LLC, AXA Co-Investment II LLC, AXA PE FS LLC  <b>Director of:</b> AXA CEE Management Ltd, AXA Co-Investment II Ltd  <b>Member of the AESF V Committee of:</b> Ardian Investment UK Limited  <b>Member of the ASF V Committee of:</b> Ardian Investment UK Limited  <b>Member of the ASF VI Committee of:</b> Ardian Investment UK Limited  <b>Chairman, Member of the Management Committee and Coordination Committee of:</b> AXA Infrastructure Investissement</p>
1,800	<p><b>Director of:</b> Kiloutou, Minafin, Astrance  <b>Chairman of the Board of:</b> Parex  <b>Member of the Governance Committee of:</b> Balas</p>
832	<p><b>Senior Advisor to:</b> European investment bank DC Advisory  <b>Non-voting director of:</b> Ipackchem</p>
800	<p><b>Member of the Board of Directors and Chairman of Strategic Committee of:</b> Valeo**  <b>Member of the Board of Directors and Chairman of the Remuneration, Nomination and Governance committee of:</b> Albiona**  <b>Member of the Board of:</b> <i>École des Mines</i> Paris Tech and of the French-German Chamber of Industry and Commerce.</p>

In regards to “Date of re-election as director”, please note that the General Meeting of May 11, 2016 appointed directors who were members of the Supervisory Board before the Company’s governance changed for a term equivalent to their remaining term as members of the Supervisory Board.

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

### 3. 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 this age limit, s/ he is deemed to have resigned as a matter of course. The Chief Executive Officer may be removed by the Board of Directors.

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

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

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

#### 3.1. Chief Executive Officer

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

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

Name	Date of first appointment to the Management Board	Most recent renewal date*	Number of shares held in Mersen’s share capital	Other positions held
<b>Luc Themelin</b> Born 02/23/1961 Chief Executive Officer (since May 11, 2016)	05/19/2009	05/11/2016	11,862	Chairman and/or director of various Mersen group subsidiaries

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

### 3.2. 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.

As at the date of this Registration Document, the members of the Executive Committee were:

Name	Position	Date of joining the Group
<b>Thomas Baumgartner</b>	Group Vice President, Finance and Administration	1999
<b>Gilles Boisseau</b>	Group Vice President, Electrical Power	2015
<b>Christophe Bommier</b>	Group Vice President, Technology, Research, Innovation and Business Support	1989
<b>Thomas Farkas</b>	Group Vice President, Strategy and M&A	2006
<b>Jean-Philippe Fournier</b>	Group Vice President, Operational Excellence	2013
<b>Eric Guajioty</b>	Group Vice President, Advanced Materials	2016
<b>Estelle Legrand</b>	Group Vice President, Human Resources	2009
<b>Didier Muller</b>	Group Vice President, Asia & Latin America	1989
<b>Luc Themelin</b>	Chief Executive Officer	1993

# COMPENSATION AND BENEFITS IN KIND

## 1. Principles and criteria for setting, allocating and awarding the components making up the compensation package of the executive corporate officers

The executive compensation policy, which comprises the principles and criteria for setting, allocating and awarding the fixed, variable and exceptional components and the benefits making up the compensation package of the corporate officers, is determined by the Board of Directors based on the recommendation of the Governance and Remuneration Committee, which contributed to preparing this Chapter.

These principles and criteria form part of the Corporate Governance report provided for in Article L. 225-37-2 of the French Commercial Code, which is submitted to the shareholders for approval.

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

The executive compensation policy is determined by the Board of Directors on the recommendation of the Governance and Remuneration Committee, taking into account the principles set out in the AFEP-MEDEF Code of Corporate Governance, which are as follows:

- **Comprehensiveness:** the compensation determined through this process must be comprehensive. All the components of the compensation must be taken into account when determining the overall compensation level;
- **Balance between the compensation components:** each component of the compensation must be clearly substantiated and correspond to the general interest of the company;
- **Comparability:** the compensation must be assessed within the context of a business sector and the reference market. If the market is taken as a reference, it must not be the only one since the compensation of an executive corporate officer depends on the responsibilities assumed, the results achieved and the work performed. It may also depend on the nature of the tasks entrusted to the corporate officer or the specific situations;
- **Consistency:** the executive corporate officer's compensation must be determined in a manner consistent with that of the other officers and employees of the company;
- **Understandability of the rules:** the rules should be simple, stable and transparent. The performance criteria used must correspond to the company's objectives, and be demanding, explicit, and, to the greatest extent possible, long-lasting;
- **Proportionality:** the determination of the compensation components must be well balanced and simultaneously take account of the company's general interest, market practices, the performance of the senior managers, and the other stakeholders in the company.

The Board of Directors ensures that the compensation policy is in line with market practices for comparable companies, is adapted to the Company's strategy and context, and is intended to promote its medium- and long-term performance and competitiveness.

The principles underlying the executive compensation policy for 2019 are fundamentally unchanged from 2018.

### 1.2. Principles and criteria for setting, allocating and awarding the components making up the compensation package of the Chairman of the Board of Directors

The Board of Directors is responsible for setting the compensation of the Chairman of the Board, based on recommendations made by the Governance and Remuneration Committee.

The compensation of the Chairman of the Board comprises fixed compensation of €80,000, unchanged since 2010, as well as directors' fees based mainly on attendance at Board meetings and membership of Board Committees (see section 2.1).

The Chairman of the Board does not receive any cash-based or equity-based variable compensation or any compensation related to the performance of either the Company or the Group.

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

None.

### 1.3. Principles and criteria for setting, allocating and awarding the components making up the compensation package of the Chief Executive Officer

#### 1.3.1. Structure of the compensation package

The Board of Directors is responsible for setting the compensation of the Chief Executive Officer based on recommendations made by the Governance and Remuneration Committee.

The Board of Directors and the Governance and Remuneration Committee may take into account benchmarking studies and any exceptional events that have occurred during the year.



The compensation of the Chief Executive Officer comprises fixed compensation, annual variable compensation, multi-year compensation subject to performance conditions, and benefits.

A severance payment upon the termination of his mandate, based on length of service and performance conditions, may also be agreed in accordance with the provisions of the AFEP-MEDEF Code and with Article L. 225-42-1 of the French Commercial Code.

### Fixed compensation

Fixed compensation may only be reviewed on a multi-annual basis. Any change may only be agreed after a benchmarking study has been carried out by a reputable consultant.

The fixed compensation has not been changed since January 2015.

To set the 2019 compensation, the consulting firm Mercer carried out a benchmarking study based on a sample of comparable companies ("the panel").

Several criteria were used to select the panel:

- Business sector: preferably companies with production facilities.
- Sales: similar to that of Mersen. However, given the limited amount of comparable market data, most of the companies selected have higher sales than Mersen. To take account of this difference, the Group has taken the first quartile as the target value for its compensation policy, whereas most of the panel companies take the median.
- Employees: mostly at least as many as Mersen. Due to data availability, most of the companies selected have more employees than Mersen, but within reasonable limits.
- Nationality of company: French multinationals generating at least 30% of their business outside France. Comparisons are made within a framework (French market) governed by identical social and fiscal rules.
- Companies listed on the SBF 250.

The panel must remain as stable as possible from one year to the next to guarantee consistent monitoring of results and effective positioning of the Chief Executive Officer's compensation. If there is a change in the composition of the panel, proposals will be made for new companies with the same characteristics as referred to above.

The panel used for the benchmarking study conducted to set the Chief Executive Officer's compensation for 2019 comprised the following companies: Albioma, Bic, Biomérieux, Boiron, CGG, Elis, Exel Industries, Guerbet, Ingénico Group, Ipsen, Manutan, Neopost, Rémy Cointreau, Sartorius Stedim Biotech, Soitec, Tarkett, Trigano and Vicat.

Each separate component of compensation as well as the overall compensation package is benchmarked. The components of compensation benchmarked were the same as in 2018.

Based on the work and recommendations of the Governance and Remuneration Committee, the Board proposes that with effect from January 1, 2019 the Chief Executive Officer's fixed annual compensation will stay at €440,000 as in previous years.

### Annual variable compensation

As is the case for fixed compensation, the maximum amount of annual variable compensation may only be reviewed on a multi-annual basis. Any change may only be agreed after a benchmarking study carried out by a reputable consultant. For 2019, the conditions for the benchmarking study were the same as those described above in the paragraph on fixed compensation. The maximum amount of the annual variable compensation is maintained at 112% of annual fixed compensation.

The Chief Executive Officer's annual variable compensation is contingent on performance conditions aligned to the Group's strategy. There is no minimum guaranteed amount.

The Board defines the specific financial criteria and individual criteria for setting the annual variable compensation.

The financial criteria represent 70% of the total. They are based on the main financial indicators used by the Board to assess the Group's financial performance, in particular those reported in the Registration Document such as recurring ROCE before tax (ratio of operating income before non-recurring items to weighted average capital employed) and net operating cash flow from continuing operations as defined in the statement of cash flows.

The Board has revised the criteria previously used in order to avoid adjustments. ROCE will now be calculated before tax to avoid the adjustments previously made to eliminate non-recurring items that are not related to the Chief Executive Officer's performance; the cash flow target will be cash flow as published.

The individual criteria are defined by the Board of Directors in line with the Group's strategy. They are reviewed independently. They are based on:

- Security and waste recycling rates
- Electric vehicle market performance
- The Competitiveness plan
- External growth
- A 3-year strategy
- The Succession plan

### Outperformance clause

In 2017, the Board decided to introduce an outperformance condition to motivate senior executives (including the Chief Executive Officer), managers and sales staff to outperform relative to budget. The condition is based on the Group's recurring operating margin. It is a multiplier applied to 30% of the maximum bonus. The upper and lower limits will be set by the Board at the beginning of the year once the budget has been approved:

Recurring operating margin (ROM)	Multiplier	Max. bonus
ROM < target	N/A	
ROM = target max	1	100%
ROM > target max + X pts	1.4	112%

Between the lower and upper limit, the achievement rate is linear.

### Multi-annual variable compensation

Under the long-term compensation policy, the Chief Executive Officer may be awarded multi-year variable compensation contingent on meeting objectives related to the Group's medium/long-term strategy.

Such compensation will take the form of stock options and/or bonus shares.

The value or amount of stock options or performance shares granted to the Chief Executive Officer (measured on an IFRS basis as at the date of the Board meeting that decides on the grant) may not exceed 30% of his entire compensation in the previous calendar year (fixed, maximum annual variable and multi-year variable measured based on the method used for the consolidated financial statements). This maximum amount will be set by the Board of Directors based on market practices.

#### Bonus share allotments

As part of an overall strategy to motivate and retain the Chief Executive Officer over the long term, the Board of Directors may grant him ordinary or preference shares free of consideration that will vest only if certain performance objectives are met. The Chief Executive Officer must not be the only beneficiary of a performance share plan.

From 2019 onwards, the minimum performance period for these plans is three years. The performance conditions are based on a stock market criterion, a profitability criterion and a multiple CSR criterion (as of 2019). One of the two or three criteria must be relative to the performance of other comparable companies (SBF 120, Eurostoxx or other relevant, documented benchmarks).

The achievement of each of these criteria will be assessed separately.

#### Stock option grants

As part of an overall strategy to motivate and retain the Chief Executive Officer over the long term, the Board of Directors may grant him stock options that will vest only if certain performance objectives are met. The Chief Executive Officer must not be the only beneficiary of a stock option plan.

The minimum performance period for these plans is three years. The performance conditions are based on two profitability criteria and a multiple CSR criterion (as of 2019). One of the two or three criteria must be relative to the performance of other comparable companies (SBF 120 or 250 or other relevant, documented benchmarks).

The achievement of each of these criteria will be assessed separately.

The Chief Executive Officer may not receive more than 10% of all stock options and bonus shares granted each year, measured on an IFRS basis. This percentage will be set by the Board of Directors based on market practices.

### Exceptional compensation

In order to facilitate the recruitment of an executive corporate officer from outside the Group, the Board of Directors may, on the recommendation of the Governance and Remuneration Committee, grant a signing bonus. The amount of this bonus may not exceed the amount of the executive officer's compensation package in his previous job.

Apart from this specific case, no exceptional compensation may be paid.

### Attendance fees

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

### Benefits of any kind

The Chief Executive Officer may be entitled to certain benefits in kind, such as the use of a company car, executive unemployment insurance, health and welfare insurance and a pension plan. He is also eligible for the staff incentive plans set up at Company and/or Group level.

Payment of variable compensation and any exceptional compensation awarded for 2019 is contingent on the shareholders' approval of the components of the Chief Executive Officer's compensation paid or awarded for that year (*ex ante* vote).

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

#### ■ Severance payment

Should the Company terminate the Chief Executive Officer's mandate, he will be entitled to a severance payment provided that certain performance conditions are met.

#### ■ Non-compete covenant

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

#### ■ Retirement

The Chief Executive Officer is a member of a defined benefit supplementary pension plan.

The Group's commitments to Luc Themelin – i.e., relating to his severance payment, non-compete/non-solicitation indemnity and supplementary pension plan – are described in section 5 of this Chapter.

### 1.3.3. Appointment of Deputy Chief Executive Officers

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

### 1.3.4. Change in governance structure

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

## 2. Compensation paid to directors and corporate officers for 2018

### 2.1. Compensation paid to members of the Board of Directors

#### 2.1.1. Rules for allocating attendance fees among the Directors

The rules for paying attendance fees to members of the Board of Directors comply with the relevant recommendations of the AFEP-MEDEF Code. 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 Board Committee. Of that one-third, 45% is reserved for membership and 55% for actual attendance at Committee meetings. This amount is allocated as follows: 13.3% for the Audit and Accounts Committee, 10% for the Governance and Remuneration Committee, and 10% for the Strategy Committee.
- Lastly, the compensation of each Committee Chairman is equal to 1.5 times a member's compensation, both for membership and actual attendance.

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

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

#### 2.1.2. Attendance fees paid to the Directors

Attendance fees for 2018 are paid in early 2019, divided among the members of the Board of Directors, as follows:

Amounts due in respect of the fiscal year (in euros)	2018	2017
Isabelle Azemard	22,550	20,532
Bpifrance Investissement	22,705	23,790
Yann Chareton	20,402	20,458
Hervé Couffin <sup>(1)</sup>	N/A	6,902
Pierre Creusy <sup>(5)</sup>	N/A	N/A
Michel Crochon	30,241	17,230
Catherine Delcroix	27,500	25,794
Carolle Foissaud	21,538	21,188
Dominique Gaillard	19,549	20,587
Jean-Paul Jacamon <sup>(2)</sup>	N/A	7,196
Olivier Legrain	26,719	15,222
Fonds Nobel <sup>(3)</sup>	8,318	16,017
Henri-Dominique Petit	31,127	29,907
Sofina (Edward Koopman) <sup>(4)</sup>	4,494	13,480
Ulrike Steinhorst	28,857	25,697
<b>TOTAL</b>	<b>264,000</b>	<b>264,000</b>

(1) Member did not stand for re-election on May 18, 2017.

(2) Member resigned on May 18, 2017.

(3) Member resigned on March 22, 2018.

(4) Member resigned on April 12, 2018.

(5) Director representing employees. Does not receive attendance fees.

### 2.1.3. Compensation of the Chairman of the Board of Directors

Upon the change of governance structure on May 18, 2016, the Board of Directors voted to award the Chairman of the Board the same fixed annual compensation of €80,000.

A new Chairman of the Board was appointed on May 18, 2017 to replace Hervé Couffin, who had decided not to stand for re-election. In 2017, the compensation paid to the Chairman of the Board of Directors was therefore allocated on a pro rata basis between the two Chairmen, which explains the change in Olivier Legrain's compensation between 2017 and 2018.

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

(in euros)	2018	2017
Compensation and benefits payable in respect of the fiscal year (broken down below)	106,719	64,898
Value of options due for the fiscal year		
Value of options granted during the fiscal year		
Value of performance shares granted during the fiscal year	N/A	N/A
Value of other long-term incentive plans		
<b>TOTAL</b>	<b>106,719</b>	<b>64,898</b>

(in euros)	2018		2017	
	Amounts payable for 2018	Payments made in 2018	Amounts payable for 2017	Payments made in 2017
Attendance fees*	26,719	15,222	15,222	0
Other compensation	80,000	80,000	49,676	0
<b>TOTAL</b>	<b>106,719</b>	<b>95,222</b>	<b>64,898</b>	<b>0</b>

\* Amounts payable in respect of 2018 will be paid in 2019.

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

## 2.2. Compensation of the Chief Executive Officer

### 2.2.1. Summary of the compensation and benefits, options and shares granted to the Chief Executive Officer

On May 17, 2018, the Board of Directors decided to maintain the components of Luc Themelin's compensation package for 2018 such as the Board of Directors had approved it on March 6, 2018, consisting of fixed compensation together with the conditions of the Chief Executive Officer's variable compensation for fiscal 2018.

The Chief Executive Officer was granted 189 performance shares in 2017 and 77 in 2018, as he wished his 2018 grant to be aligned to that of other members of the Executive Committee. The fall in the value of the performance shares granted in 2018 compared to 2017 was mainly due to the decrease in the number of shares granted, partly offset by a rise in the share price (see sections 11.3 and 11.4).

#### ■ Luc Themelin, Chief Executive Officer

(in euros)	2018	2017
Compensation and benefits payable in respect of the fiscal year (broken down below)	944,359	949,274
Value of options due for the fiscal year		
Value of options granted during the fiscal year		
Value of performance shares granted during the fiscal year	121,375	161,954
Value of other long-term incentive plans		
<b>TOTAL</b>	<b>1,065,734</b>	<b>1,111,228</b>

(in euros)	2018		2017	
	Amounts payable for 2018	Amounts paid in 2018	Amounts payable for 2017	Amounts paid in 2017
Fixed compensation	440,000	440,000	440,000	440,000
Annual variable compensation	466,189	466,400	466,400	358,402
Exceptional compensation	N/A	N/A	N/A	N/A
Incentives	20,262	19,866	19,866	19,555
Attendance fees	N/A	N/A	N/A	N/A
Benefits in kind	17,908	17,908	23,008	23,008
<b>TOTAL</b>	<b>944,359</b>	<b>944,174</b>	<b>949,274</b>	<b>840,965</b>

Note 1: The bonus is paid in Year Y +1.

Note 2: Benefits in kind include contributions toward the corporate executives' social guarantee, as well as a company car.

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

### 2.2.2. Fixed compensation

Luc Themelin's fixed compensation for 2018 was €440,000, unchanged since 2015.

### 2.2.3. Annual variable compensation

The bonus system for the Chief Executive Officer in 2018 was based on the following achievements:

- for 35%, related to the Group's ROCE objective (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 target;
- for 30%, related to certain individual objectives set at the beginning of the year by the Board of Directors.

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

The 2018 financial objectives were based on the Group's annual budget.

The financial criteria are based on internal performance metrics, which are very similar to the published information. Adjustments involved eliminating non-recurring items, which did not reflect the Group's intrinsic performance. This policy will evolve in 2019 (see section 1.3.1).

For 2018, the individual objectives were related to:

Criterion	Explanation	% of individual objectives	% bonus
Health & safety culture within the Group (CSR indicator)	Improvement in safety indicators (FR1, FR2, SR occupational accident rates)	15%	4.5%
External growth policy	Identification of specific acquisition targets in the Group's expanding business activities	20%	6.0%
Outlook for growth in new markets	Oversight of the Group's project to enter the electrical vehicle market	15%	4.5%
Supporting growth	Preparation of an expansion plan for the graphite business	20%	6.0%
Profitability of the Company	Preparation of a competitiveness plan for a product range in Europe	20%	6.0%
General criterion	Executive succession plans	10%	3.0%

The achievement rate for these criteria may not exceed 100%. However, in order to motivate the Chief Executive Officer (as well as all senior executives, managers and sales staff) to outperform compared with target max, in 2017 the Board decided to introduce an outperformance clause based on the Group's recurring operating margin. Thus, if the target max recurring operating margin (ROM) is exceeded in the reference year, an

additional bonus will be paid to the Chief Executive Officer, which may be up to 12% of his fixed compensation (corresponding to the 1.4 multiplier applied to the 30% maximum bonus).

In 2018, the recurring operating margin achieved was 10,4% (i.e., 10,5% before the effect of acquisitions made during the year) compared with a target of 10.1%, leading to the application of the maximum multiplier.

The Board of Directors of March 12th, proceeded to the performance assessment of Luc Themelin and set the overall performance to 94.6%, payable for 2018.

2018 variable compensation	Objectives set		Min	Max	Actual
Financial criteria 70% of annual variable	Group ROCE <sup>(1)</sup>	Indicator value (in %)	7%	8%	8.9%
		% of fixed compensation	0%	35%	35%
	Group's operating cash flow <sup>(2)</sup>	Indicator value (in €m)	71	89	95
		% of fixed compensation	0%	35%	35%
<b>Total financial criteria</b>			<b>0%</b>	<b>70%</b>	<b>70%</b>
Individual criteria 30% of annual variable	Safety		0%	4.5%	3.6%
	Oversight of Electrical Vehicle project		0%	4.5%	4.5%
	Adjustment of graphite capacities		0%	6.0%	6.0%
	Acquisitions		0%	6.0%	6.0%
	Europe competitiveness plan for EP business		0%	6.0%	3.0%
	5-7 year succession plan		0%	3.0%	1.5%
<b>Total individual criteria</b>			<b>0%</b>	<b>30%</b>	<b>24.6%</b>
<b>Total variable as % of fixed compensation</b>			<b>0%</b>	<b>100%</b>	<b>94.6%</b>
<b>Outperformance clause</b>				<b>12%</b>	<b>12%</b>

(1) Based on recurring operating income after tax (budget scope, i.e., before acquisitions).

(2) Group's operating cash flow before non-recurring flows and factoring (budget scope).

The achievements for the individual criteria are as follows:

- Security: security indicators (FR1 and FR2) maintained at target levels, setting up of a Group Health & Safety Committee. Only the severity rate (SR) exceeded the target (71 vs. 50)
- Management and monitoring of the "Electric Vehicle" project
- Proposal to adapt graphite capacities presented to the Board in October 2018
- Review of potential acquisitions presented throughout the year

- Study carried out to improve competitiveness in Europe
- Deployment will take place in 2019
- First avenues for the succession plan

#### 2.2.4. Long-term compensation

Luc Themelin received 77 bonus preference shares subject to performance criteria in 2018, as described in section 12.4.

### 3. Summary of commitments given to corporate officers

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

(1) Luc Themelin is eligible for a supplementary pension plan pursuant to his employment contract, the terms of which are described below (Agreements referred to in Article L. 225-38 of the French Commercial Code).

(2) Compensation and benefits payable or likely to be payable owing to the termination or change in duties are described below (Agreements referred to in Article L. 225-38 of the French Commercial Code).

### 4. Shares in the Company's capital held by senior executives

Number of shares held directly by members of the Board of Directors and by the Chief Executive Officer: 2,263,007 (of which 2,242,770 held by Bpifrance Investissement) and 11,862 of these are held by the Chief Executive Officer.

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

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

### 5.1. Review of agreements

On February 14, 2019, the Board of Directors re-examined the commitments of Luc Themelin's agreements, in accordance with Article L. 225-40-1 of the French Commercial Code, and decided to change the rules for calculating the revocation payment. The purpose of this changes – described below – is to clarify the revocation payment cap in the Company's interest. The other commitments are unchanged.

### 5.2. Severance payment for Luc Themelin

The terms and conditions of severance payment that would be granted to Luc Themelin are the following:

#### 5.2.1 Non-compete and non-solicitation clause

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

The non-compete undertaking referred to above will cover all of the Group's business activities and will be applicable in all of the countries in which Mersen is active (whether it has a physical presence there or whether it operates from a base in another country). At the Company's discretion, the non-compete and non-solicitation undertaking will be laid down and structured as a non-compete agreement, if necessary.

No payment will be made once the Chief Executive Officer has claimed his pension benefits. In any event, no payment will be made after he reaches the age of 65.

#### 5.2.2. Termination of his term of office

Should the Mersen group terminate, in any manner and for whatever reason (barring gross or willful misconduct, retirement, enforced retirement, resignation or change of function within the Group), Luc Themelin's mandate as Chief Executive Officer (notably by dismissal, non-renewal of mandate for whatever reason or elimination of office 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 and a Management Board), a lump sum payment will be made to Luc Themelin, calculated as stated below in the applicable performance

conditions (the "Severance Payment"), when his departure is forced. The Severance Payment will exclude the payment of any other indemnity of any kind, including damages, except for the non-compete and non-solicitation indemnity.

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 Payment.

The amount of the Severance Payment is calculated as follows:

$$I = 0.5 \times R \times C$$

where

- I is the amount of the Severance Payment;
- R is the gross total compensation (basic compensation and bonus, excluding benefits in kind and incentives) paid to Luc Themelin for the 3 calendar years prior to termination, whether this compensation and benefits have been paid to him in respect of his duties as Chief Executive Officer or as an employee; and
- C is Luc Themelin's performance condition as measured in accordance with the criteria defined below.

Payment of the Severance Payment I referred to above will be subject to the performance condition achievement under the following conditions:

- Performance rate (P):

P = the average bonus percentage of Luc Themelin in the 4 calendar years preceding his departure (as Chief Executive Officer).

The annual bonus percentage may vary from 0 to 112% of annual fixed compensation. The average performance rate P will be observed by the Board of Directors.

- Performance condition (C):

If  $P \geq 100\%$ ,  $C = 100\%$

If  $P \geq 90\%$  and  $< 100\%$ ,  $C = 90\%$

If  $P \geq 80\%$  and  $< 90\%$ ,  $C = 80\%$

If  $P \geq 60\%$  and  $< 80\%$ ,  $C = 60\%$

If  $P \geq 50\%$  and  $< 60\%$ ,  $C = 50\%$

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

The amount of any Severance Payment (I) that may be due upon termination of his mandate may not exceed 18 months of total gross compensation (fixed and annual variable). In addition to this Severance Payment, a non-compete indemnity may also be due and may not exceed six months of total gross compensation (fixed and annual variable), making a total of 24 months of total gross compensation (fixed and annual variable) for both payments.

### 5.2.3. Stock subscription options – Performance shares

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

However, the Board of Directors reserves the right to decide, where appropriate, to maintain the benefit of the stock options and performance shares, reduced on a pro rata basis, and subject to achievement of the corresponding performance conditions. The Board is required to give reasons for its decision.

The benefit of the stock options and performance shares referred to above will be maintained, after reduction on a pro rata basis, should Luc Themelin's responsibilities and/or compensation be modified substantially following a change of control of the Company or should he decide to leave the Company as a result of such change, or should his mandate be terminated following a change of control of the company or should he retire whether voluntarily or at the Company's initiative.

### 5.3. Pension plan for Luc Themelin

By a decision dated February 14, 2019, the Board of Directors decided to maintain the supplementary pension plan of which Luc Themelin is a beneficiary.

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

To date, Luc Themelin has 30 years of seniority with Mersen, of which 24 as an employee. The potential future pension rights of Luc Themelin have therefore been capped for the last ten years and can no longer be increased. This pension commitment is a significant tool to reward the loyalty of the Chief Executive Officer and enable him to achieve at retirement a replacement rate close to the rate that applies to the Company's employees. It does not represent an undue financial burden on the Company. The estimated amount of the annuity under the supplementary pension scheme paid to Luc Themelin would amount to €132,000, before tax and social security contributions.

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

## 6. 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 Europe, the United States, Canada and Australia. The methods used to calculate incentives vary by company and

country. They include both financial criteria (operating income and EBIT) and, in some cases, technical criteria, such as safety improvements, customer service and scrap rates, etc.

(in € thousands)	2018	2017	2016	2015	2014
Amounts allocated to employees	3,209	3,609	2,701	3,433	3,656
Number of beneficiaries	1,977	1,720	1,827	1,919	2,159

## 7. Employee profit-sharing

Employee profit-sharing agreements are in place at various Group subsidiaries.

(in € thousands)	2018	2017	2016	2015	2014
Amounts allocated to employees	1,715	1,840	2,367	1,496	1,031
Number of beneficiaries	1,094	1,170	1,237	1,259	778



## 8. 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.

At the General Meeting on May 17, 2018, shareholders delegated authority to the Chief Executive Officer, subject to the prior approval of the Board of Directors, to issue shares or equity-related securities to employees of Mersen group companies whose headquarters are based i) in France and ii) outside France, and who are not members of a company savings plan. These increases in capital entail the waiver of shareholders' preferential

subscription rights. This delegation is valid for 26 months for issues made in France and 18 months for issues made outside France.

The nominal amount of capital increases that may be made pursuant to this delegation may not exceed €400,000, i.e., approximately 1% of the Company's share capital. It cancels and supersedes the previous delegations of authority granted by the General Meetings of May 11, 2016 and May 18, 2017.

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

## 9. Stock subscription options (2009-2014)

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

All stock subscription plans are subject to performance conditions.

The total number of stock subscription options still outstanding stands at 144,976, i.e., 0.8% of the share capital. Members of the management body have no options to purchase or to subscribe for shares in subsidiaries of the Group.

### 9.1. Stock subscription options: previous grants

	2009 plan Tranche 12	2014 plan Tranche 13	Total
Date of Board of Directors'/Management Board meeting	Jan. 22, 2009	May 21, 2014	
Total number of shares available for subscription	366,582	150,000	516,582
- o/w corporate officers:			
<i>Luc Themelin (not a corporate officer until May 19, 2009)</i>	32,345	30,000	62,345
- o/w corporate officers at the allotment date, who have since left the Company	53,908	18,000	71,908
- including corporate officers at the allotment date <i>who were no longer corporate officers on the date of publication</i>	35,580	54,000	89,580
- o/w top 10 allottees	140,163	150,000	290,163
Subscription price	17.53	22.69	
Start of option exercise period	Feb. 2013	May 2016	
Expiration date	Feb. 2019	May 2021	
Total number of shares subscribed at Dec. 31, 2018	301,746	26,669	328,415
Options canceled at Dec. 31, 2018	5,391	37,800	43,191
- o/w canceled in 2018	0	0	0
<b>OPTIONS THAT MAY STILL BE EXERCISED</b>	<b>59,445</b>	<b>85,531</b>	<b>144,976</b>

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

### 9.2.1. Principles underlying the performance conditions for the 2009 and 2014 plans

The Board of Directors and then the Supervisory Board decided on the following principles for setting the performance conditions for the 2009 and 2014 stock option plans:

- The performance condition is based on earnings per share ("EPS"), adjusted for certain non-recurring items of expense or income (net of tax) with a very significant impact on the Group's results. The Board decided to eliminate these non-recurring items in order to measure the Company's intrinsic performance.
- The target EPS for obtaining 100% is demanding, in keeping with the internal objectives of the Group's strategic plans in a stable or improving economic environment.

- Given the Group's dependence on the economic environment, an alternative EPS criterion has been put in place. The principle is to reward beneficiaries if the Group has not achieved its internal EPS targets due to a deterioration in the economic environment but if the Group has outperformed or comfortably outperformed a panel of French industrial companies. This relative performance is measured by reference to the change in EPS over the relevant period.
- The calculations are based on the Group's financial statements. However, in the event of abnormal positive or negative 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 or Board of Directors at which the stock option plans were granted, the Group's results may be adjusted after analysis by the Governance and Remuneration Committee and with the agreement of the Board of Directors (previously the Supervisory Board). In the same spirit, the Governance and Remuneration Committee may withdraw from the panel any companies that have recorded manifestly wild or abnormal fluctuations in EPS over the period.

### 9.2.2. Performance conditions for the 2009 plan

#### Target: EPS growth from 2007 to 2011

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

Achievement	100%	75% to 100%**	35% to 75%	0%
CRITERION 1	If 2011 EPS > or = 2x its 2007 value*	If 2011 EPS > or = 1.5x and < 2x its 2007 value*	If 2011 EPS < 1.5x and > or = 1x its 2007 value*	If 2011 EPS < 1x its 2007 value*
Achievement	100%	50% to 100%**	0%	
CRITERION 2	If Mersen's EPS growth is equal to or more than 20 pts higher than the panel's average EPS growth (period 2007-2011)	If Mersen's EPS growth is equal to or more than the panel's average EPS growth but less than 20 pts higher	If Mersen's EPS growth is lower than the average EPS growth of the SBF 120	

\* Adjusted for the impairment in EMC (business sold in May 2009). Based on comparable IFRSs.

\*\* Smoothed based on EPS obtained.

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.

#### Result

		2007	2011	% grant in respect of criterion 1	% grant in respect of criterion 2
CRITERION 1	EPS*	2.34	2.97	56.3%	
CRITERION 2	Mersen's EPS* growth over the period		27%		100%
	Panel's average EPS* growth over the same period		-2.6%		

\* The 2007 reference EPS has been adjusted (upwards by €18 million) for the impairment of EMC net of tax (automotive brushes division). 2011 EPS has been adjusted upwards for the impairment of intangibles related to the acquisition of Calcarb in 2009 (impact of 0.04 pts on EPS). Furthermore, the impact of the stock dividend paid during the period was eliminated by adjusting the number of shares and adding the financial expenses that would have been incurred had the dividends been paid in cash.

Based on the performance recorded, 100% of the stock options were granted.

### 9.2.3 Holding conditions for the 2009 plan

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.

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

Achievement	100%	30% to 100%	30%	0%
CRITERION 1	If average adjusted 2014/2015 EPS is more than or equal to 1.75	Calculated by linear interpolation if average adjusted 2014/2015 EPS is between 1.27 and 1.75	If average adjusted 2014/2015 EPS is equal to 1.27	If average adjusted 2014/2015 EPS is less than 1.27
Achievement	100%	50% to 100%	50%	0%
CRITERION 2	If Mersen's EPS growth (between adjusted 2013 EPS and average adjusted 2014/2015 EPS) is more than 15 pts higher than the panel's average EPS growth	Percentage achievement calculated by linear interpolation if Mersen's EPS growth (between adjusted 2013 EPS and average adjusted 2014/2015 EPS) is less than 15 pts higher than the panel's average EPS growth	If Mersen's EPS growth (between adjusted 2013 EPS and average adjusted 2014/2015 EPS) is equal to the panel's average EPS growth	If Mersen's EPS growth (between adjusted 2013 EPS and average adjusted 2014/2015 EPS) is less than the panel's average EPS growth

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. This includes the following companies listed on

### 9.2.4. Performance conditions for the 2014 plan

#### Target

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").

Euronext Paris: 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.

## Results

			% grant in respect of criterion 1	% grant in respect of criterion 2
CRITERION 1	Average adjusted 2014/2015 EPS	1.38	46%	
CRITERION 2	Growth in (a) average 2014/2015 EPS relative to (b) adjusted 2013 EPS (1.27)	8.7%		85%
	Panel's average EPS growth over the same period*	-1.8%		

\* Three companies were not included in the panel as they had not published their EPS at the time of the calculation (Alstom, Lafarge and Soitec). In addition, three companies in the panel were excluded (after validation by the Governance and Remuneration Committee) due to an excessive change (positive and/or negative) in their EPS over the period (ST Micro, Manitou and Areva).

Excluding those changes, the achievement rate would have been 100%.

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

### 9.2.5. Holding conditions for the 2014 plan

Two years, i.e., until May 21, 2016.

Pursuant to Article L. 225-185 of the French Commercial Code, the Supervisory Board also decided that each member of the

Management Board must hold the equivalent of 30% of the shares acquired upon the exercise of stock subscription options after the immediate sale of the shares necessary to finance the acquisition of the shares and the payment of taxes, social security contributions and payroll charges in respect of this resale of securities. This obligation has been restricted to the Chief Executive Officer since May 11, 2016.

### 9.3. Stock subscription options: executive corporate officers

Options granted in 2018 to each executive corporate officer:

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

Options exercised in 2018 by each executive corporate officer:

	Number of options exercised	No. and date of the plan	Exercise price
Chairman of the Board: Olivier Legrain	N/A		
Chief Executive Officer: Luc Themelin	32,345	2009 SO plan	€17.53

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.

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

	Number of options granted/exercised	Weighted average exercise price
Options granted in 2018 to the 10 employees who received the largest number	0	
Options exercised in 2018 by the 10 employees who received the largest number	63,762	€18.05

## 10. Bonus shares (non-executive program)

At the General Meeting of May 17, 2018, the shareholders authorized the Board of Directors to allot existing or new shares at no cost to employees, or to certain categories of employees, of the Company and those of affiliated companies.

The total number of shares that may be thus allotted may not exceed 67,200, representing around 0.3% 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 18, 2017. This authorization is valid for 38 months.

At its meeting of May 17, 2018, 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 67,050 bonus shares to 156 employees and managers of the Mersen group. The performance conditions for each plan are described below.

Neither the Chief Executive Officer nor any member of the Executive Committee was a beneficiary of this plan.

## 10.1. Bonus share allotments: previous grants

	2016 plan Tranche 10 (with performance conditions)	2017 plan Tranche 11 (with performance conditions)	2018 plan Tranche 12 (with performance conditions)	Total
Date of allotment decision	May 11, 2016	May 18, 2017	May 17, 2018	
Total number of shares allotted	84,000	84,000	67,050	235,050
- o/w corporate officers:				
<i>Luc Themelin</i>	0	0	0	0
- o/w top 10 allottees	11,000	10,100	9,300	30,400
Share price at allotment date (€)	12.12	23.69	37.20	
Definitive allotment date (end of the vesting period)	May 11, 2018	May 18, 2019	May 17, 2021	
End of lock-up period	May 12, 2018	May 19, 2019	May 18, 2021	
Allotments canceled at Dec. 31, 2018	24,975	800	0	25,775
<i>o/w canceled in 2018</i>	23,775	800	0	24,575
Number of shares vested definitively, and transferable	59,025	0	0	59,025
<b>BALANCE AT DECEMBER 31, 2018</b>	<b>0</b>	<b>83,200</b>	<b>67,050</b>	<b>150,250</b>

*N.B.: The number of shares allotted in 2018 is lower than in previous years due to the significant increase in the share price.*

## 10.2 Principles for setting the performance conditions

The Board of Directors decided on the following principles to set the performance conditions for the 2016, 2017 and 2018 performance share plans:

The performance condition is based on the Group's EBITDA margin for the 2016 and 2017 plans. The 2018 plan also has an additional criterion based on growth in like-for-like revenue.

The target EBITDA margin and, for the 2018 plan, the target revenue for obtaining 100% are demanding and in keeping with the internal objectives of the Group's strategic plans in a stable or improving economic environment.

Given the Group's dependence on the economic environment, an alternative criterion has been put in place. The principle is to reward beneficiaries if the Group has not achieved its internal targets due to a deterioration in the economic environment but

has outperformed or comfortably outperformed a panel of French industrial companies. This relative performance is measured by reference to the change in average EBITDA margin over the relevant period.

The calculations are based on the Group's financial statements. However, in the event of abnormal positive or negative variations during the period or of significant exceptional transactions (specifically, change of scope by acquisitions or disposals) occurring after the meeting of the relevant body at which the bonus share plans are allotted, the Group's results or the panel may be adjusted after analysis by the Governance and Remuneration Committee and with the agreement of the Board of Directors (or the Supervisory Board). In the same spirit, the Governance and Remuneration Committee may withdraw from the panel any companies that have recorded manifestly wild or abnormal fluctuations in EBITDA margin over the period.

### 10.3. 2016 plan

#### 10.3.1. 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.

Achievement	100%	30% to 100%	30%	0%
CRITERION 1	If the 2017 EBITDA <sup>(1)</sup> margin is more than or equal to 15.5%	Allotment percentage calculated on a straight-line basis	If the 2017 EBITDA <sup>(1)</sup> margin is equal to 13.5%	If the 2017 EBITDA <sup>(1)</sup> margin is less than 13.5%
Achievement	100%	35% to 100%	35%	0%
CRITERION 2	If the change in EBITDA <sup>(1)</sup> margin between 2015 and 2017 is more than 10 pts higher than the change in the panel's average EBITDA <sup>(1)</sup> margin	Allotment percentage calculated on a straight-line basis	If the change in EBITDA <sup>(1)</sup> margin between 2015 and 2017 is equal to the change in the panel's average EBITDA <sup>(1)</sup> margin	If the change in EBITDA <sup>(1)</sup> margin between 2015 and 2017 is less than the change in the panel's average EBITDA <sup>(1)</sup> margin

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, Saint-Gobain, Tarkett, Lisi, Somfy and Legrand.

#### 10.3.2. Results

		2017	% allotment in respect of criterion 1	% allotment in respect of criterion 2
CRITERION 1	EBITDA margin*	14.3%	59%	
CRITERION 2	Growth in Mersen's EBITDA margin* between 2015 and 2016	13%		75%
	Growth in the panel's average EBITDA margin between 2015 and 2016	6.8%		

\* The Group's published 2017 EBITDA margin (14.1%) was adjusted for the disposal of the Gorcy and Saint Loup de Naud sites and for various expense items, after analysis and validation by the Governance and Remuneration Committee.

\*\* Saft and Zodiac were withdrawn from the panel following their acquisition by other companies.

Based on the performance recorded, 75% of the shares were allotted.

### 10.4. 2017 plan

#### 10.4.1. 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.

Achievement	100%	30% to 100%	30%	0%
CRITERION 1	If the 2018 EBITDA <sup>(1)</sup> margin is more than or equal to 14.5%	Allotment percentage calculated on a straight-line basis	If the 2018 EBITDA <sup>(1)</sup> margin is equal to 13%	If the 2018 EBITDA <sup>(1)</sup> margin is less than 13%
Achievement	100%	35% to 100%	35%	0%
CRITERION 2	If the change in EBITDA <sup>(1)</sup> margin between 2016 and 2018 is more than 10 pts higher than the change in the panel's average EBITDA <sup>(1)</sup> margin	Allotment percentage calculated on a straight-line basis	If the change in EBITDA <sup>(1)</sup> margin between 2016 and 2018 is equal to the change in the panel's average EBITDA <sup>(1)</sup> margin	If the change in EBITDA <sup>(1)</sup> margin between 2016 and 2018 is less than the change in the panel's average EBITDA <sup>(1)</sup> margin

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

The panel of comparable companies comprises the following companies: Arkema, SA des ciments Vicat, STMicroelectronics NV, SEB SA, Manitou BF, Nexans SA, Rexel SA, Ingenico, Essilor International, Air Liquide SA, Imerys SA, Schneider Electric SA, ArcelorMittal, Saint-Gobain, Tarkett, Lisi, Somfy and Legrand. The panel was unchanged from the previous plan except for Zodiac Aerospace and Saft, which were withdrawn following their acquisition by other companies.

## 10.5. 2018 plan

### 10.5.1. 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.

Achievement	100%	30% to 100%	30%	0%
CRITERION 1-A 50%	If the average 2018-2020 EBITDA <sup>(1)</sup> margin is more than or equal to 15%	Allotment percentage calculated on a straight-line basis	If the average 2018-2020 EBITDA <sup>(1)</sup> margin is more than or equal to 14%	If the average 2018-2020 EBITDA <sup>(1)</sup> margin is less than 14%
CRITERION 1-B 50%	Change in like-for-like revenue (average over the 3 years from 2018 to 2020) is more than or equal to 4%	Allotment percentage calculated on a straight-line basis	Change in like-for-like revenue (average over the 3 years from 2018 to 2020) is more than or equal to 2%	Change in like-for-like revenue (average over the 3 years from 2018 to 2020) is less than 2%.
Achievement	100%	35% to 100%	35%	0%
CRITERION 2	If the change in EBITDA <sup>(1)</sup> margin between 2017 and the 2018-2020 average is more than 5 pts higher than the change in the panel's average EBITDA <sup>(1)</sup> margin	Allotment percentage calculated on a straight-line basis	If the change in EBITDA <sup>(1)</sup> margin between 2017 and the 2018-2020 average is equal to the change in the panel's average EBITDA <sup>(1)</sup> margin	If the change in EBITDA <sup>(1)</sup> margin between 2017 and the 2018-2020 average is less than the change in the panel's average EBITDA <sup>(1)</sup> margin

### 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) or a change in the accounting standards having an impact on EBITDA or revenue occurring after May 17, 2018, the Board of Directors may, after obtaining the opinion of the Governance and Remuneration Committee, adjust the financial statements for these 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 17, 2018, on the recommendation of the Governance and Remuneration Committee.

### 10.4.2. Results

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

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, bearing in mind that criteria 1-A and 1-B are independent and that each accounts for 50% of the achievement rate.

The panel of comparable companies remains unchanged compared with the 2017 plan and comprises the following companies: Arkema, SA des ciments Vicat, STMicroelectronics NV, SEB, Manitou BF, Nexans, Rexel, Ingenico, Essilor International, Air Liquide, Imerys, Schneider Electric, ArcelorMittal, Saint-Gobain, Tarkett, Lisi, Somfy and Legrand.

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

### 10.5.2. Results

The results will not be known until 2021.

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

## 11. Bonus preference shares (2015-2018)

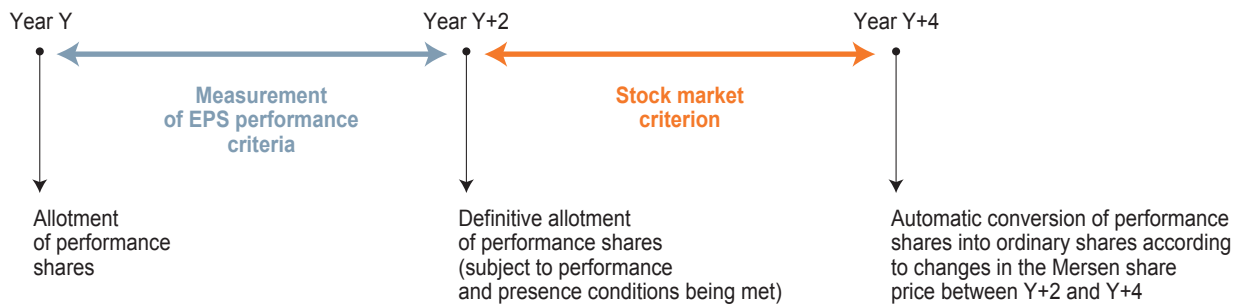
Preference shares are shares of a specific category, allotted freely subject to performance conditions. They can be converted into a number of ordinary shares, said number depending on the increase in the share price (on average, over a predetermined period) in relation to the share price expected at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

Four plans were set up between 2015 and 2018 leading to the creation of four classes of shares (B to E). The Board of Directors has decided not to renew these preference share plans as they are too complex and lack clarity for certain investors.

### The main characteristics of the bonus share allotment plans

- Beneficiaries: Executive Committee and the Vice Presidents of the five business lines
- Shares of a specific class (respectively B,C,D and E), convertible into ordinary shares four years after their allotment
- Subject to performance conditions based on:
  - (i) a target two-year EPS or (ii) two-year EPS growth relative to a panel of French industrial groups
  - improvement in average share price over two years relative to an initial share price (except for a proportion of 10%)
  - continued service within the company at the end of the vesting period

### Timetable for preference shares



The number of ordinary shares ultimately obtained depends on growth in the average share price over two years ("Final Share Price") relative to the initial share price ("Initial Share Price" = average of the last twenty quoted prices at the time of allotment), if and only if the performance conditions are achieved, based on the following formula:

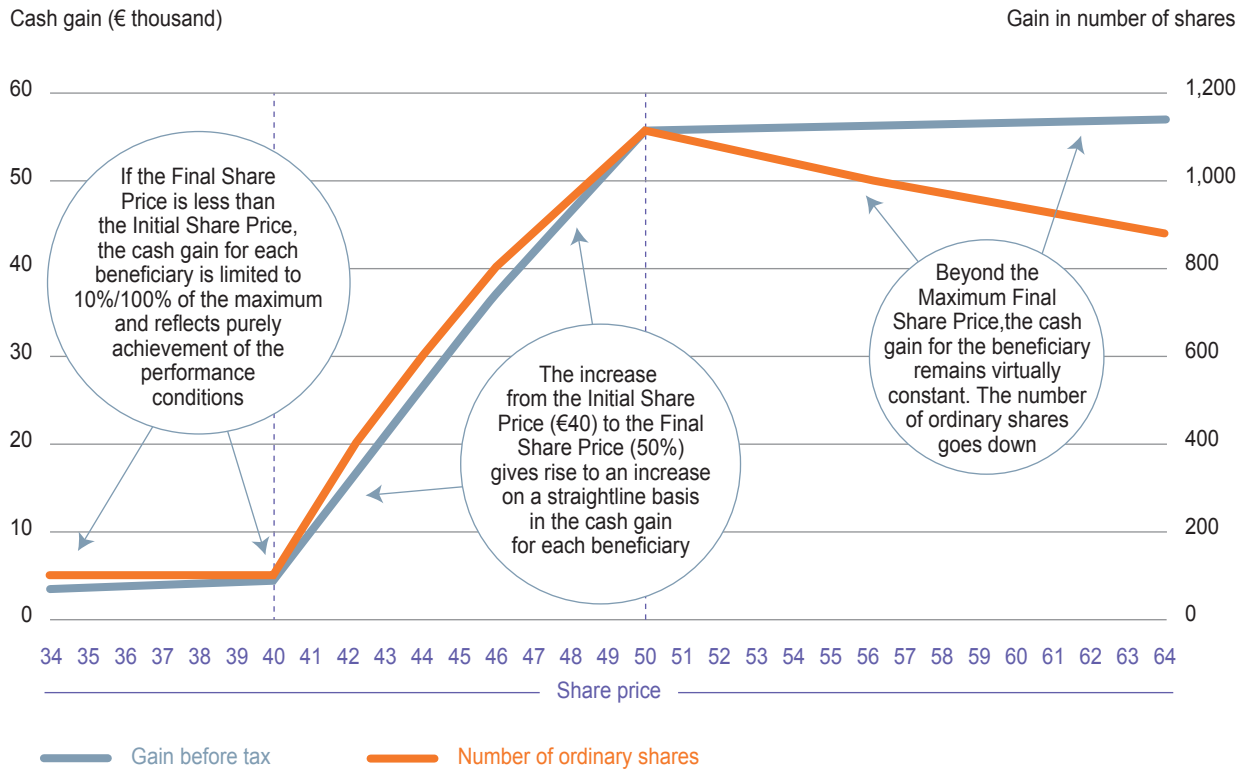
- If the Final Share Price is less than the Initial Share Price, the number of ordinary shares obtained is equal to 10/110% of the maximum number of shares.

- If the Final Share Price is more than the Initial Share Price, beneficiaries will receive a number of ordinary shares which, if sold, would give them a cash gain increasing on a straight-line basis with the Final Share Price, up to a maximum price ("Maximum Final Share Price"), beyond which the cash gain remains virtually constant.



## Example

The graphic below summarizes the potential gains (in euros and in shares) for a beneficiary receiving 10 preference shares at a initial share price of €40.



## Performance conditions (principles)

The Board of Directors decided on the following principles to set the performance conditions for the 2015 to 2018 preference share plans:

- The performance condition is based on earnings per share (EPS), adjusted for certain non-recurring expense or income (net of tax) with a significant impact on the Group's results. The Board decided to eliminate these non-recurring items in order to measure the Company's intrinsic performance.
- The target EPS for obtaining 100% is demanding, in keeping with the internal objectives of the Group's strategic plans in a stable or improving economic environment.
- Given the Group's dependence on the economic environment, an alternative EPS criterion has been put in place. The principle is to reward beneficiaries if the Group has not achieved its internal EPS targets due to a deterioration in the economic environment but has outperformed or comfortably outperformed a sample of French industrial companies. This relative performance is measured by reference to the change in EPS over the relevant period.

- The calculations are based on the Group's financial statements. However, in the event of abnormal positive or negative 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 or Board of Directors at which the bonus shares are allotted, the Group's results may be adjusted after analysis by the Governance and Remuneration Committee and with the agreement of the Board of Directors (or the Supervisory Board). In the same spirit, the Governance and Remuneration Committee may withdraw from the sample any companies that have recorded manifestly wild or abnormal fluctuations in EPS over the period.

## Holding requirements

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

The Board of Directors has decided that the Chief Executive Officer will be required to retain 30% of the ordinary shares obtained upon conversion.

## No hedging

In accordance with the AFEP-MEDEF Code, the Chief Executive Officer has formally undertaken not to hedge his stock options or performance shares.

### Other characteristics of the bonus share allotment plans

- Preference shares confer the same rights as ordinary shares, except that they pay a lower dividend.
- At the end of the holding period for B, C, D and E shares (the "Holding Period"), as set forth in the various bonus share plans determining their allotment, each B, C, D and E shareholder may convert some or all of the B, C, D or E shares held into ordinary shares, under the terms and conditions set forth in Section II, paragraphs 4 to 5 of Article 15 of the Articles of Association. If conversion takes place at the end of the periods set forth in Section II, paragraphs 4 to 5 of Article 15 of the Articles of Association, the B, C, D and E shares will be converted automatically into ordinary shares.
- At the end of the Holding Period, the B, C, D and E shares will be transferable without restriction by the respective B, C, D and E shareholders. B, C, D and E shares may be converted into ordinary 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 ordinary shares for the last 20 trading days prior to the

allotment date. By exception to this principle, the Initial Share Price set in 2016 was €17, significantly above the volume-weighted average in order to avoid a windfall effect caused by an abnormally low share price.

- The Final Share Price is equal to the average opening prices of the ordinary shares between the second anniversary of the allotment date (included) and the beginning of the conversion period during which the B, C, D and E shareholders requested the conversion to ordinary shares.
- The Maximum Final Share Price is set such that the cash gain that would be made by the beneficiaries by selling the ordinary shares obtained upon conversion of the B, C, D and E shares would be more or less constant. This Maximum Final Share Price has been set at 150% of the Initial Share Price for the B, C and D shares. Given the very strong growth in the share price from May 2016 to May 2018 (+229%), the Board of Directors considered that the Maximum Final Share Price should be limited to 120% of the Initial Share Price for the 2018 plan (E shares).
- 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, D and E shares at the end of the acquisition period.

## 11.1. 2015 plan

### 11.1.1. Summary

	2015 plan			
	Preference shares	Minimum equivalent ordinary shares <sup>(1)</sup>	Maximum additional equivalent ordinary shares	Maximum total equivalent ordinary shares
Date of allotment decision	Jul. 9, 15			
Total number of shares available for subscription	902	9,020	90,200	99,220
- <i>o/w corporate officer:</i>				
<i>Luc Themelin</i>	183	1,830	18,300	20,130
- <i>o/w top 10 allottees</i>	902	9,020	90,200	99,220
Initial Share Price (in €)	22.09			
Maximum Final Share Price (in €)	33.13			
Value of preference shares <sup>(1)</sup> on the allotment date (€)	17.73 (French tax residents) <sup>(2)</sup>	4.92 (French tax residents) <sup>(3)</sup>		
Definitive allotment date (end of the vesting period)	July 9, 2017 (French tax residents) <sup>(4)</sup>			
Date of transferability (automatic conversion of preference shares into ordinary shares)	Jul. 9, 15			
Allotments canceled at Dec. 31, 2018	585	5,850	58,500	64,350
- <i>o/w canceled in 2018</i>	0x	0	0	0
Number of shares vested definitively, non-transferable	0			
<b>BALANCE AT DECEMBER 31, 2018</b>	<b>317</b>	<b>3,170</b>	<b>31,700</b>	<b>34,870</b>

(1) 10% of preference shares are not linked to share price trends and are thus automatically convertible into ordinary shares, subject to the achievement of performance criteria regarding change in earnings per share.

(2) For beneficiaries who are non-French tax residents, the value is €18.53.

(3) For beneficiaries who are non-French tax residents, the value is €5.14.

(4) For non-French tax residents, there is an additional period of two additional years.

### 11.1.2. Description

At the General Meeting of May 19, 2015, the shareholders authorized the Management Board to allot bonus preference shares (B shares) convertible into a maximum of 129,872 ordinary shares (i.e., 0.6% of the share capital). At its meeting of July 9, 2015, the Management Board decided, after obtaining the approval of the Supervisory Board, to make use of this authorization to allot 902 bonus preference shares to Group corporate officers and senior managers, based on performance criteria related to growth in earnings per share between 2014 and 2016. This number corresponds to **a maximum total of 99,220 ordinary shares** after conversion, or 0.5% of the Company's share capital.

### 11.1.3. Performance conditions (targets)

The performance conditions were validated by the Supervisory Board after review by the Governance and Remuneration Committee in compliance with the principles underlying those conditions (see Performance conditions (principles) in the introduction to section 11). The percentage of B shares that will vest depends on the two criteria defined below, whichever is the more favorable.

Achievement	100%	30% to 100%	30%	0%
CRITERION 1	If average adjusted 2015/2016 EPS is more than or equal to 1.80		If average adjusted 2015/2016 EPS is equal to 1.30	If average adjusted 2015/2016 EPS is less than 1.30
Achievement	100%	50% to 100%	50%	0%
CRITERION 2	If Mersen's EPS growth (between 2014 EPS and average 2015/2016 EPS) is more than 15 pts higher than the panel's average EPS growth	Percentage achievement calculated by linear interpolation if Mersen's EPS growth (between 2014 EPS and average 2015/2016 EPS) is less than 15 pts higher than the panel's average EPS growth	If Mersen's EPS growth (between 2014 EPS and average 2015/2016 EPS) is equal to the panel's average EPS growth	If Mersen's EPS growth (between the 2014 EPS and average 2015/2016 EPS) is less than the panel's average EPS growth

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

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

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

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

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 19, 2015, the Board of Directors may, after obtaining the opinion of the Governance and Remuneration Committee, 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 Supervisory Board on May 19, 2015, based on the recommendation of the Governance and Remuneration Committee. It comprises the following industrial companies listed on Euronext Paris: Air Liquide, Faiveley, ArcelorMittal, Arkema, Essilor, Imerys, Ingenico, Legrand, LISI, Manitou, Nexans, Rexel, Saint-Gobain, SEB, Schneider, Somfy, ST Micro, Tarkett, Vicat and Zodiac. For the purpose of calculating the allotment percentage, the Governance and Remuneration Committee may withdraw from the sample companies that have recorded manifestly wild or abnormal fluctuations in EPS over the period. The companies withdrawn from the panel above may be replaced, where necessary, by other companies chosen by the Governance and Remuneration Committee.

### 11.1.4. Performance conditions (results)

			% allotment in respect of criterion 1	% allotment in respect of criterion 2
CRITERION 1	Average adjusted 2015/2016 EPS	1.37	39%	
CRITERION 2	Growth in (a) average 2015/2016 EPS relative to (b) 2014 EPS (1.44)	-5.2%		0%
	Panel's average EPS growth over the same period*	15.3%		

\* Three companies were excluded from the panel (Saft, Lafarge and Faiveley) following their acquisition by other companies.

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

### 11.1.5. Conversion terms

The Initial Share Price is equal to the volume-weighted average of the opening prices of the A shares for the last 20 trading days prior to the allotment date.

The Final Share Price is equal to the average opening prices of the A shares between the second anniversary of the allotment date (included) and the beginning of the conversion period during which the B shareholders requested the conversion to A shares (excluded).

The conversion parity will be equal to:

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

Where:

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

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

The preference shares will be converted into ordinary shares in July 2019.

## 11.2. 2016 plan

### 11.2.1. Summary

	2016 plan			
	Preference shares	Minimum equivalent ordinary shares <sup>(1)</sup>	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 officer:				
<i>Luc Themelin</i>	188	1,880	18,800	20,680
- o/w top 10 allottees	936	9,360	93,600	102,960
Initial Share Price (in €)	17.00			
Maximum Final Share Price (in €)	25.50			
Value of preference shares <sup>(1)</sup> on the allotment date (in €)	10.92 (French tax residents) <sup>(2)</sup>		1.52 (French tax residents) <sup>(3)</sup>	
Definitive allotment date (end of the vesting period)	May 11, 2018 (French tax residents) <sup>(4)</sup>			
Date of transferability (automatic conversion of preference shares into ordinary shares)	May 11, 2020			
Allotments canceled at Dec. 31, 2018	0			
- o/w canceled in 2018	0			
Number of shares vested definitively, non-transferable	0			
<b>BALANCE AT DECEMBER 31, 2018</b>	<b>1,172</b>	<b>11,720</b>	<b>117,200</b>	<b>128,920</b>

(1) 10% of preference shares are not linked to share price trends and are thus automatically convertible into ordinary shares, subject to the achievement of performance criteria regarding change in earnings per share.

(2) For beneficiaries who are non-French tax residents, the value is €11.41.

(3) For beneficiaries who are non-French tax residents, the value is €1.59.

(4) For non-French tax residents, there is an additional period of two years.

### 11.2.2. Description

At the General Meeting of May 11, 2016, the shareholders authorized the Board of Directors to allot bonus preference shares (C shares) convertible into a maximum of 128,920 ordinary shares (i.e., 0.6% of the share capital). At its meeting of May 11, 2016, the Board of Directors made use of this authorization and allotted 1,172 bonus preference shares to members of the Executive Committee and senior managers of the Group. This number corresponds to a maximum number of **128,920 ordinary shares** after conversion.

### 11.2.3. Performance conditions (targets)

The performance conditions were validated by the Board of Directors after review by the Governance and Remuneration Committee in compliance with the principles underlying those conditions (see Performance conditions (principles) in the introduction to section 11). The percentage of C shares that will vest depends on the two criteria defined below, whichever is the more favorable.

Achievement	100%	30% to 100%	30%	0%
CRITERION 1	If average 2016/2017 EPS is more than or equal to 1.50	Percentage achievement calculated by linear interpolation if average 2016/2017 EPS is between 1.32 and 1.50	If average 2016/2017 EPS is equal to 1.32	If average 2016/2017 EPS is less than 1.32
Achievement	100%	50% to 100%	50%	0%
CRITERION 2	If growth in Mersen's EPS (between 2015 EPS and average 2016/2017 EPS) is more than 15 pts higher than the panel's average EPS growth	Percentage achievement calculated by linear interpolation if growth in Mersen's EPS (between 2015 EPS and average 2016/2017 EPS) is less than 15 pts higher than the panel's average EPS growth	If Mersen's EPS growth (between 2015 EPS and average 2016/2017 EPS) is equal to the panel's average EPS growth	If Mersen's EPS growth (between 2015 EPS and average 2016/2017 EPS) is less than the panel's average EPS growth

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).

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, 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.

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, Saint-Gobain, Tarkett, Lisi, Somfy, Legrand, Faiveley. Among those companies, STMicroelectronics, Nexans, Faiveley and Saft were added in order to increase the number of groups in the panel.

For the purpose of calculating the allotment percentage, the Governance and Remuneration Committee may withdraw from the sample companies that have recorded manifestly wild or abnormal fluctuations in EPS over the period. The companies withdrawn from the panel above may be replaced, where necessary, by other companies chosen by the Governance and Remuneration Committee.

### 11.2.4. Performance conditions (results)

			% allotment in respect of criterion 1	% allotment in respect of criterion 2
CRITERION 1	Average adjusted 2016/2017 EPS achieved	1.65	100%	
CRITERION 2	Growth in (a) average 2016/2017 EPS relative to (b) 2015 EPS (1.32)	24.6%		
	Panel's average EPS growth over the same period	109.9%		0%

2016 EPS (1.41) was adjusted for the competitiveness plan net of tax.

2017 EPS (1.88) was adjusted for the competitiveness plan net of tax, discontinued operations, impacts of the US tax reform and impairment of deferred tax assets.

Growth in the panel's EPS was not representative due to the very significant increase (sometimes in excess of 300%) in the EPS of certain groups that had recorded high non-recurring charges in 2015. In addition, three companies were excluded from the panel: Zodiac, Saft (following their acquisition by other companies) and Somfy (financial statements not published on the date the calculations were validated).

Based on the performance recorded, 100% of the shares were granted.

### 11.2.5. Conversion terms

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 ordinary shares over a period preceding the allotment date by twenty (20) trading days.

The Final Share Price is equal to the average opening prices of the ordinary shares between the second anniversary of the allotment date (included) and the beginning of the conversion period during which the C shareholders requested the conversion to ordinary shares.

The conversion parity will be equal to:

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

Where:

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

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

The preference shares will be converted into ordinary shares in May 2020.

## 11.3. 2017 plan

### 11.3.1. Summary

	2017 plan			
	Preference shares	Maximum equivalent ordinary shares <sup>(1)</sup>	Maximum additional equivalent ordinary shares	Maximum total equivalent ordinary shares
Date of allotment decision	May 18, 2017			
Total number of shares available for subscription	1,172	11,720	117,200	128,920
- o/w corporate officer:				
Luc Themelin	189	1,890	18,900	20,790
- o/w top 10 allottees	936	9,360	93,600	102,960
Initial Share Price (in €)		26.06		
Maximum Final Share Price (in €)		39.09		
Value of preference shares <sup>(1)</sup> on the allotment date (in €)		21.35 (French tax residents) <sup>(2)</sup>	6.44 (French tax residents) <sup>(3)</sup>	
Definitive allotment date (end of the vesting period)	May 18, 2019 (French tax residents) <sup>(4)</sup>			
Date of transferability (automatic conversion of preference shares into ordinary shares)	May 19, 2021			
Allotments canceled at Dec. 31, 2018	0			
Number of shares vested definitively, non-transferable	0			
<b>BALANCE AT DECEMBER 31, 2018</b>	<b>1,172</b>	<b>11,720</b>	<b>117,200</b>	<b>128,920</b>

(1) 10% of preference shares are not linked to share price trends and are thus automatically convertible into ordinary shares, subject to the achievement of performance criteria regarding change in earnings per share.

(2) For beneficiaries who are non-French tax residents, the value is €22.31.

(3) For beneficiaries who are non-French tax residents, the value is €6.73.

(4) Non-French tax residents are subject to an additional period of two years.

### 11.3.2. Description

At the General Meeting of May 18, 2017, the shareholders authorized the Board of Directors to allot bonus preference shares (D shares) convertible into a maximum of 128,920 ordinary shares (i.e., 0.6% of the share capital). At its meeting of May 18, 2017, the Board of Directors made use of this authorization and allotted 1,172 bonus preference shares to members of the Executive Committee and senior managers of the Group. This number corresponds to a maximum number of 128,920 ordinary shares after conversion.

Achievement	100%	30% to 100%	30%	0%
CRITERION 1	If average 2017/2018 EPS is more than or equal to 1.8	Percentage achievement calculated by linear interpolation if average 2017/2018 EPS is between 1.4 and 1.8	If average 2017/2018 EPS is equal to 1.4	If average 2017/2018 EPS is less than 1.4
Achievement	100%	50% to 100%	50%	0%
CRITERION 2	If Mersen's EPS growth (between 2016 EPS and average 2017/2018 EPS) is more than 15 pts higher than the panel's average EPS growth	Percentage achievement calculated by linear interpolation if Mersen's EPS growth (between 2016 EPS and average 2017/2018 EPS) is less than 15 pts higher than the panel's average EPS growth	If Mersen's EPS growth (between 2016 EPS and average 2017/2018 EPS) is equal to the panel's average EPS growth	If Mersen's EPS growth (between 2016 EPS and average 2017/2018 EPS) is less than the panel's average EPS growth

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

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

The panel of comparable companies used to calculate criterion 2 was approved by the Board of Directors on May 18, 2017, on the recommendation of the Governance and Remuneration Committee. It comprises international industrial groups listed in France and its composition has not changed since the previous plan (with the exception of companies acquired or delisted). The panel comprises the following companies: Arkema, SA des Ciments Vicat, STMicroelectronics NV, SEB SA, Manitou BF, Nexans SA, Rexel SA, Ingenico, Essilor International, Air Liquide SA, Imerys SA, Schneider Electric SA, ArcelorMittal, Saint-Gobain, Tarkett, Lisi, Somfy and Legrand.

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

### 11.3.4. Performance conditions

As at the date of publication of the Registration Document, the full results of the performance criteria are not available and have therefore not yet been presented to the Board of Directors for validation.

### 11.3.3. Performance conditions

The performance conditions were validated by the Board of Directors after review by the Governance and Remuneration Committee in compliance with the principles underlying those conditions (see Performance conditions (principles) in the introduction to section 11). The percentage of D shares that will vest depends on the two criteria defined below, whichever is the more favorable.

### 11.3.5. Conversion terms

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 D shareholders requested the conversion to A shares (excluded).

The conversion parity will be equal to:

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

Where:

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

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

The preference shares will be converted into ordinary shares in May 2021.

## 11.4. 2018 plan

In keeping with previous plans (see Principles described in section 11), at its meeting of May 17, 2018, the Board of Directors decided to set up a preference share plan for members of the Executive Committee (including the Chief Executive Officer) and the Vice Presidents of the five business lines. The principles for this plan differ from previous plans, in particular to take account of the very significant improvement in share price between 2016 and 2018:

- Given the very favorable trend in share price from May 18, 2017 to May 17, 2018 (+57%), the maximum number of ordinary shares was reduced by about 22% compared to the authorization given by the shareholders and compared to the 2017 plan.

- The Board of Directors reduced the Maximum Final Share Price to 120% of the Initial Share Price (compared with 150% for the 2016 and 2017 plans). The reason behind this decision was to take into account the very favorable trend in share price (+229% between May 17, 2016 and May 17, 2018), while maintaining an incentivizing target for the beneficiaries and in the interest of investors. Conversely, for the 2016 plan, the Board had set an initial share price of €17, well above the average of the 20 preceding trading days in order to avoid a windfall effect for the beneficiaries.
- Furthermore, at his request, the Chief Executive Officer was allotted the same maximum equivalent number of preference shares as the Executive Committee members, i.e., 77.

### 11.4.1. Summary

	2018 plan			
	Preference shares	Maximum equivalent ordinary shares <sup>(1)</sup>	Maximum additional equivalent ordinary shares	Maximum total equivalent ordinary shares
Date of allotment decision	May 17, 2018			
Total number of shares available for subscription	940	9,400	94,000	103,400
- o/w corporate officer:				
<i>Luc Themelin</i>	77	770	7,700	8,470
- o/w top 10 allottees	736	7,360	73,600	80,960
Initial Share Price (in €)		39.27		
Maximum Final Share Price (in €)		47.12		
Value of preference shares <sup>(1)</sup> on the allotment date (in €)		33.53 (French tax residents) <sup>(2)</sup>	12.41 (French tax residents) <sup>(3)</sup>	
Definitive allotment date (end of the vesting period)	May 17, 2020 (French tax residents) <sup>(4)</sup>			
Date of transferability (automatic conversion of preference shares into ordinary shares)	May 17, 2022			
Allotments canceled at Dec. 31, 2018	0			
Number of shares vested definitively, non-transferable	0			
<b>BALANCE AT DECEMBER 31, 2018</b>	<b>940</b>	<b>9,400</b>	<b>94,000</b>	<b>103,400</b>

(1) 10% of preference shares are not linked to share price trends and are thus automatically convertible into ordinary shares, subject to the achievement of performance criteria regarding change in earnings per share.

(2) For beneficiaries who are non-French tax residents, the value is €12.41.

(3) For beneficiaries who are non-French tax residents, the value is €12.97.

(4) Non-French tax residents are subject to an additional period of two years.



### 11.4.2. Description

At the General Meeting of May 17, 2018, the shareholders authorized the Board of Directors to allot bonus preference shares (E shares) convertible into a maximum of 103,400 ordinary shares (i.e., 0.5% of the share capital). At its meeting of May 17, 2018, the Board of Directors made use of this authorization and allotted 940 bonus preference shares to members of the Executive Committee (including the Chief Executive Officer) and senior managers of the Group. This number corresponds to a maximum number of 103,400 ordinary shares after conversion.

### 11.4.3. Performance conditions (targets)

The performance conditions were validated by the Board of Directors after review by the Governance and Remuneration Committee in compliance with the principles underlying those conditions (see Principles described in section 11). The percentage of E shares that will vest depends on the two criteria defined below, whichever is the more favorable.

Achievement	100%	30% to 100%	30%	0%
CRITERION 1	If average 2018/2019 EPS is more than or equal to 2.2	Percentage achievement calculated by linear interpolation if average 2018/2019 EPS is between 1.88 and 2.2	If average 2018/2019 EPS is equal to 1.88	If average 2018/2019 EPS is less than 1.88
Achievement	100%	50% to 100%	50%	0%
CRITERION 2	If Mersen's EPS growth (between 2017 EPS and average 2018/2019 EPS) is more than 15 pts higher than the panel's average EPS growth	Percentage achievement calculated by linear interpolation if Mersen's EPS growth (between 2017 EPS and average 2018/2019 EPS) is less than 15 pts higher than the panel's average EPS growth	If Mersen's EPS growth (between 2017 EPS and average 2018/2019 EPS) is equal to the panel's average EPS growth	If Mersen's EPS growth (between 2017 EPS and average 2018/2019 EPS) is less than the panel's average EPS growth

The adjusted 2017 EPS is the EPS published by the Group, adjusted for exceptional charges, or 1.88.

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

The panel of comparable companies used to calculate criterion 2 was approved by the Board of Directors on May 18, 2017, on the recommendation of the Governance and Remuneration Committee. It comprises international industrial groups listed in France and its composition has not changed since the previous plan. The panel comprises the following companies: Arkema, SA des Ciments Vicat, STMicroelectronics, SEB SA, Manitou BF, Nexans SA, Rexel SA, Ingenico, Essilor International, Air Liquide SA, Imerys SA, Schneider Electric SA, ArcelorMittal, Saint-Gobain, Tarkett, Lisi, Somfy, Legrand.

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

### 11.4.4. Performance conditions (results)

The performance achievement rate will be known in 2020.

### 11.4.5. Conversion terms

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 E shareholders requested the conversion to A shares (excluded).

The conversion parity will be equal to:

- If the Final Share Price is less than 120% of the Initial Share Price (the Maximum Final Share Price):  $N = 10 + 600 (CF - CI) / CF$

Where:

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

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

The preference shares will be converted into ordinary shares in May 2022.

## 11.5. Bonus preference shares granted to executive corporate officers

### Bonus shares granted in 2018 to each executive corporate officer

Beneficiary	No. and date of plan	Number of shares granted during the fiscal year	Valuation of shares according to the method used in the consolidated financial statements	Definitive vesting date	Availability date	Performance conditions
Luc Themelin Chief Executive Officer	2018 preference share plan	77 (bonus preference shares) equivalent to at least 770 ordinary shares and at most 8,470 ordinary shares	€121,375	May 17, 2020	May 18, 2022	See section 12.4.3

### Bonus shares granted that vested in 2018 for each executive corporate officer

Beneficiary	No. and date of plan	Number of shares that vested during the fiscal year	Vesting conditions
Luc Themelin Chief Executive Officer		None	

## 12. Components of compensation paid or granted to Luc Themelin (Chief Executive Officer) in respect of the fiscal year ended December 31, 2018 submitted to vote by the General Meeting of May 17, 2019

With regards to the 8<sup>th</sup> resolution submitted to the General Meeting of May 17, 2019, we invite you to vote on the following fixed, variable and exceptional components making up the total compensation and benefits of any kind paid or granted to Luc Themelin, Chief Executive Officer, in respect of the past fiscal year:

	Amounts or accounting valuation	Observations
Fixed compensation	€ 440,000 (amount paid)	Luc Themelin's 2018 fixed compensation is the same as in 2017.
Annual variable compensation (amount payable in respect of 2018, to be paid in 2019- after the approval of the General Meeting of May 17, 2019)	€ 466,189	<p>The variable portion is between 0% and 100% of the fixed compensation. The maximum threshold of 100% may be increased to 112% in the event that the Group's operating margin outperforms the maximum target approved by the Board.</p> <p>The variable portion is composed of financial objectives for 70% (35% based on the Group's ROCE, calculated on the basis of recurring operating income after taxes, and 35% on operational cash flow) and individual objectives for 30%.</p> <p>The 2018 financial objectives were based on the Group's annual budget.</p> <p>The individual and financial objectives are reviewed every year by the Governance and Remuneration Committee, based on the Group's strategic priorities.</p> <p>The individual objectives have been determined as follows:</p> <ul style="list-style-type: none"> <li>• A culture of health and safety within the Group (CSR criteria): improve safety indicators (FR1, FR2 and SR)</li> <li>• New market growth prospects: oversee the Group's entry into the electric vehicle market</li> <li>• Capture growth: define a development strategy and plan for graphite production</li> <li>• External growth policy: identify precise target acquisitions operating in the Group's developing business lines</li> <li>• Business profitability: prepare a competitive plan for a range of products in Europe</li> <li>• General objective: executive officers' succession plan.</li> </ul> <p>The variable salary for 2018 represents 106% of the fixed salary and is broken down as follows: the portion linked to financial objectives is 100% based on the Group's operational cash flow and 100% based on the Group's ROCE; the portion linked to individual objectives represents 82%.</p> <p>The breakdown in terms of the fulfillment of the individual objectives is as follows:</p> <ul style="list-style-type: none"> <li>• Culture of health and safety within the Group (CSR criteria): improve safety indicators (FR1, FR2 and SR) 80% completion</li> <li>• New market growth prospects: oversee the Group's entry into the electric vehicle market 100% completion</li> <li>• Capture growth: define a development strategy and plan for graphite production 100% completion</li> <li>• External growth measures: identify precise target acquisitions operating in the Group's developing business lines 100% achievement rate</li> <li>• Business profitability: prepare a competitive plan for a range of products in Europe 50% completion</li> <li>• General objective: executive officers' succession plan. 50% completion</li> </ul> <p>The outperformance clause relating to the Group's operating margin before non-recurring items is 140%, corresponding to a 12% increase in variable compensation</p>

	Amounts or accounting valuation	Observations
Deferred variable compensation	N/A	There is no deferred variable compensation mechanism.
Multi-annual variable compensation	N/A	There is no multi-annual variable compensation mechanism.
Exceptional compensation	N/A	No exceptional compensation was granted for 2018.
Incentives	€ 20,262	
Share options, performance shares or any other longterm element of compensation	Share grants (2018 Plan): 77 preference shares, which may correspond to a maximum of 8,470 ordinary shares  unting valuation: €121,375	On May 17, 2018, the Combined General Meeting of Mersen shareholders authorized the Board of Directors to set up bonus preference share grant plans for certain employees and corporate officers of the Company and of affiliated companies.  Pursuant to this resolution, at its meeting on May 17, 2018, the Board of Directors set the conditions for the bonus share grants and designated the beneficiaries. Luc Themelin received 77 preference shares subject to performance conditions. These preference shares may be converted into ordinary shares at the end of four years, according to a conversion ratio based on share price trends. The terms and performance criteria required are described in detail in Chapter 2 of the reference document.
Attendance fees	N/A	Luc Themelin does not receive attendance fees.
Benefits of any kind	€ 17,908	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 paid	No amount is due in respect of 2018. By a decision dated March 7, 2017, the Board of Directors decided that the benefits to which Luc Themelin is entitled will be maintained should his term as Chief Executive Officer end.
Non-compete payment	€0 received	No amount is due in respect of 2018. At its May 11, 2016 meeting, the Board of Directors decided that Luc Themelin shall be entitled to the same non-compete payment as the one granted to him during his prior term of office.
Supplementary pension scheme	€0 received	No amount is due in respect of 2018. 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 French state 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 past three years' employment leading up to retirement, plus 50% of the maximum bonus amount. His pension shall not exceed 20% of the sum of these two items. The percentage is capped, given Luc Themelin's length of service (30 years).  The theoretical calculation of the annuity paid to Luc Themelin would amount to €132,000, before tax and social charges.
Compensation, indemnities or benefits for taking up office	N/A	
Components of compensation and benefits of any kind in respect of the term as Chairman of the Board pursuant to agreements entered into with the Company, any company controlled by the Company, any company that controls the Company or any other company under the same control as the Company	N/A	
Other components of compensation granted in respect of the term as Chairman of the Board	N/A	

### 13. Components of compensation paid or granted to Olivier Legrain (Chairman of the Board) in respect of the fiscal year ended December 31, 2018 submitted to vote by the General Meeting of May 17, 2019

With regards to the 7<sup>th</sup> resolution submitted to the General Meeting of May 17, 2019, we invite you to vote on the following fixed, variable and exceptional components making up the total compensation and benefits of any kind paid or granted to Olivier Legrain, Chairman of the Board since May 18, 2017, in respect of the past fiscal year:

	Amounts or accounting valuation	Observations
Fixed compensation	€80,000	Unchanged vs 2017 on a full-year basis
Annual variable compensation	N/A	
Deferred variable compensation	N/A	
Multi-annual variable compensation	N/A	
Exceptional compensation	N/A	
Incentives	N/A	
Share options, performance shares or any other long-term element of compensation	N/A	
Attendance fees	€26,719	Amount to be paid in 2019 in respect of 2018
Benefits of any kind	0	
Severance payment	N/A	
Non-compete payment	N/A	
Supplementary pension scheme	N/A	
Compensation, indemnities or benefits for taking up office	N/A	
Components of compensation and benefits of any kind in respect of the term as Chairman of the Board pursuant to agreements entered into with the Company, any company controlled by the Company, any company that controls the Company or any other company under the same control as the Company	N/A	
Other components of compensation granted in respect of the term as Chairman of the Board	N/A	

## OTHER DISCLOSURES

### 1. Summary of delegations regarding increases to share capital at December 31, 2018

Type of delegation/ authorization	Date of the General Meeting	Duration	Initial limit	Use in FY 2017	Use in FY 2018
Delegation to increase share capital through the capitalization of reserves, profits and/or premiums with preferential subscription rights for shareholders	5/17/2018 <i>Fourteenth resolution</i>	26 months	Maximum nominal amount of capital increases: €15m Maximum nominal amount of debt securities: €300m	N/A	None
Delegation to increase share capital to pay contributions in kind	5/17/2018 <i>Nineteenth resolution</i>	26 months	Limited to 10% of the share capital applied to the above-mentioned ceilings for the delegation with preferential subscription rights	N/A	None
Delegation to increase share capital for the benefit of employees participating in the Company Investment Plan	5/17/2018 <i>Twenty first resolution</i>	26 months	€400,000	N/A	None
Delegation to increase share capital for the benefit of Group employees outside of France who are not members of a Company Investment Plan	5/17/2018 <i>Twenty second resolution</i>	26 months	€400,000 Applied to the Company Investment Plan, 2018 GM	N/A	None
Authorization to allot bonus shares to employees	5/17/2018 <i>Twenty third resolution</i>	38 months	67,200 shares	N/A	Allocation of 67,050 shares
Authorization to allot bonus preference shares to employees and corporate officers	5/17/2018 <i>Twenty fourth resolution</i>	38 months	129,000 ordinary shares	N/A	940 bonus preference shares that may confer the right to a maximum of 103,400 ordinary shares
Delegation to grant stock subscription warrants to shareholders at no cost in the event of a public offer	5/17/2018 <i>Twentieth resolution</i>	18 months	25% of the share capital at date of issuance	N/A	None

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

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

- the capital structure as well as any direct or indirect shareholdings of which the Company is aware and all related information are described in chapter 5 of this document;
- the Articles of Association do not provide for any restrictions to the exercise of voting rights, except for the request to strip shares of voting rights that may be made by one or more shareholders holding at least 1% of the share capital or voting rights if a shareholder fails to declare having crossed the statutory threshold of 1% (Article 11 *ter* of the Articles of Association) (see chapter 5, section 10);
- in regards to special control rights that may be attached to shares, it is specified that:
  - double voting rights are attached to fully paid-up shares that have been held in registered form for at least two years (see chapter 5, section 12);
  - specific rights are attached to preference shares, as described in particular in Article 15 of the Articles of Association as well as the paragraph on compensation in section 11 of this corporate governance report.

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

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

  - are fully transferable between shareholders with the same category of preference shares;
  - may be converted into ordinary shares during certain set conversion periods and according to a fixed conversion parity. If the shares are not converted during these periods, they will be converted automatically at the end of the second conversion period.
- the Articles of Association do not provide for any restrictions to the transfer of shares, except for the above-mentioned preference shares, which may only be transferred between shareholders with the same category of preference shares (Article 15 of the Articles of Association);
- as far as the Company is aware, no agreements or other commitments have been signed between shareholders;
- voting rights attached to Mersen shares held by employees via the Mersen FCPE (corporate mutual fund) shall be exercised by a representative appointed by the FCPE's supervisory board to represent the employees at the General Meeting;
- the rules for appointing and removing members of the Board of Directors shall be those provided for by the law and by the Articles of Association. The Director representing employees shall be appointed by the Group Committee (Article 17 of the Articles of Association);
- as regards the powers of the Board of Directors, current delegations are described in chapter 5 of this document relating to the share buyback program and in the table summarizing delegations regarding increases to share capital in the section above, it being understood that authorization to buy back shares and the various financial authorizations and delegations are suspended during a public offer for the Company's shares. Powers are delegated to the Board to issue stock subscription warrants to shareholders at no cost in the event of a public offer, it being understood that the total nominal amount of the capital increase resulting from the exercise of these subscription warrants may not exceed 25% of the nominal amount of the share capital at date of issuance;
- amendments to the Company's Articles of Association shall be made in accordance with legal and regulatory provisions, it being understood that any amendment relating to the rights attached to preference shares must also be submitted for approval by the Special Meeting of shareholders with the category or categories of preference shares affected by the amendment (Article L. 225-99 of the French Commercial Code and Article 26 of the Articles of Association);
- financial contracts entered into by the Company may be amended or terminated in the event of a change of control of the Company. Certain business contracts may also be affected;
- certain Group activities are subject to export controls governing dual-use items and technologies as well as to the US International Traffic in Arms Regulations (ITAR);
- certain Group activities are subject to controls governing sensitive technologies in France (Security and Defense);
- agreements providing for compensation to be paid to members of the Board of Directors in the event of termination of their duties are described in paragraph 5 of the section relating to compensation, above; there are no agreements in particular providing for compensation for employees in the event of their resignation or dismissal without fair cause or if their term of employment is ended due to a public tender or exchange offer.

### 3. Trading in the Company's shares by senior managers as defined in Article L. 621-18-2 of the French Monetary and Financial Code (*Code monétaire et financier*)

Name	Transaction type	Transaction date	Average price (€)
Didier Muller	Sale of 7,650 shares	01/24/2018	40.00
Didier Muller	Acquisition of 80 preference shares	05/11/2018	N/A
Eric Guajioty	Acquisition of 80 preference shares	05/11/2018	N/A
Estelle Legrand	Acquisition of 80 preference shares	05/11/2018	N/A
Gilles Boisseau	Acquisition of 80 preference shares	05/11/2018	N/A
Jean-Philippe Fournier	Acquisition of 80 preference shares	05/11/2018	N/A
Luc Themelin	Acquisition of 188 preference shares	05/11/2018	N/A
Thomas Baumgartner	Acquisition of 129 preference shares	05/11/2018	N/A
Thomas Farkas	Acquisition of 80 preference shares	05/11/2018	N/A
Thomas Baumgartner	Sale of 1,169 shares	07/31/2018	36.20
Luc Themelin	Exercise of 32,345 stock options	08/01/2018	17.53
Luc Themelin	Sale of 32,345 shares	08/01/2018	35.15
Olivier Legrain	Purchase of 200 shares	10/25/2018	26.90
Olivier Legrain	Purchase of 300 shares	12/12/2018	23.50

### 4. Terms of shareholder participation in General Meetings

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

The right to participate in General Meetings is therefore subject to the shares having been registered by book entry in the shareholder's name or in the name of the intermediary appointed on his or her behalf at least two banking days prior to the General Meeting by midnight, Paris time. The entry must have been made either in the registered share accounts held by the Company or in the bearer share accounts held by the authorized intermediary.

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

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

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

N/A



# STATUTORY AUDITORS' SPECIAL REPORT

## ON RELATED-PARTY AGREEMENTS

### AND COMMITMENTS

#### ANNUAL GENERAL MEETING CALLED TO APPROVE THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

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

To the Shareholders of Mersen SA,

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

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

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

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

### Agreements and commitments approved closing of the accounts

We were informed of the following agreement authorized since the end of the preceding financial year for which prior authorization has been given by the Board of Directors during its meeting on February 14, 2019.

#### With Luc Themelin- Chief Executive Officer

Change in the rules for calculating the revocation payment of Luc Themelin, Chief Executive Officer.

#### Type and motive:

Should the Mersen group terminate, in any manner and for whatever reason (barring gross or willful misconduct, retirement, enforced retirement, resignation or change of function within the Group), Luc Themelin's mandate as Chief Executive Officer (notably by dismissal, non-renewal of mandate for whatever reason or elimination of office 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 and a Management Board), a lump sum payment will be made to Luc Themelin, calculated as stated below in the applicable performance conditions (the "Severance Payment"), when his departure is forced. The Severance Payment will exclude the payment of any other indemnity of any kind, including damages, except for the non-compete and non-solicitation indemnity.

Should the responsibilities and/or compensation 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 Payment.

Specific arrangements:

The amount of the Severance Payment is calculated as follows:  
 $I = 0.5 \times R \times PE$

where

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

Payment of the Severance Pay will be subject to the attainment of performance condition under the following conditions:

- Performance measurement (P):

P is the average percentage of the bonus achieved by Luc Themelin in the four calendar years preceding his departure (as Chief Executive Officer).

The percentage achievement of the annual bonus may vary from 0% to 112% of his basic salary. The average performance rate P will be observed by the Board of Directors.

- Performance conditions (PE):
  - If  $P \geq 100\%$ , PE is equal to 100%
  - If  $P \geq 90\%$  and  $< 100\%$ , PE is equal to 90%
  - If  $P \geq 80\%$  and  $< 90\%$ , PE is equal to 80%
  - If  $P \geq 60\%$  and  $< 80\%$ , PE is equal to 60%
  - If  $P \geq 50\%$  and  $< 60\%$ , PE is equal to 50%
  - If  $P < 50\%$ , no payment will be made

The amount of any Severance Payment that may be due upon termination of his mandate may not exceed 18 months of total gross compensation (fixed and annual variable). In addition to this Severance Payment, a non-compete indemnity may also be due and may not exceed six months of total gross compensation (fixed and annual variable), making a total of 24 months of total gross compensation (fixed and annual variable) for both payments.

***Reasons in favor of the agreement for the Company***

Your Board of Directors justified this agreement as follows: the purpose of this changes occurred in February 2019 is to clarify the revocation payment cap in the Company's interest.

## Agreements and commitments submitted for the approval of the general meeting

### Agreements and commitments authorized during the year

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

## Agreements and commitments already approved by the general meeting

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

In accordance with Article R. 225-30 of the French Commercial Code, we were informed that the following agreements and commitments, approved by the General Meeting in previous years, remained in force during the year ended December 31, 2018.

#### With Luc Themelin, Chief Executive Officer

##### **A. Non-compete and non-solicitation clause**

###### Type and motive:

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

###### Specific arrangements:

The amount of the indemnity to be paid to Luc Themelin in return for the non-compete and nonsolicitation undertaking will be equal to 50% of the gross fixed monthly compensation that he received immediately prior to termination of his term of office.

No payment will be made once the Chief Executive Officer has claimed his pension benefits. In any event, no payment will be made after he reaches the age of 65.

**B. Termination of his term of office**Type and motive:

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

Should the responsibilities and/or remuneration of Luc Themelin be modified substantially following a take-over of the Company, and if as a result, he decides to leave the Company, he would be entitled to the same Severance Pay.

The Severance Pay is moreover subject to performance conditions.

Specific arrangements:

The amount of the Severance Pay is calculated as follows:

$$S = 0.5 \times R \text{ (Remuneration)} \times P \text{ (Performance)}$$

where

- S is the amount of the Severance Pay;
- R is total gross remuneration (basic remuneration and bonus, excluding benefits in kind and profit-sharing) which will have been paid to Luc Themelin in respect of the thirty-six months preceding the termination (including the variable component of remuneration paid in respect of the current fiscal year at the time of termination) and provided that this remuneration has been paid in respect of his duties as Chief Executive Officer or in his capacity as employee; and
- P is Luc Themelin's performance as measured in line with the criteria defined below.

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

- Performance measurement (P):

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

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

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

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

- Performance conditions:

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

**C. Stock subscription options – Performance shares**Type and motive:

The Board decided that, should Luc Themelin's term of office as Chief Executive Officer be terminated in any manner and for any reason whatsoever (barring termination following the acquisition of control of the Company, retirement or enforced retirement), he will automatically lose his entitlement to all the stock options granted to him prior to the end date of his term of office, where the conditions of grant (condition related to continued presence and performance conditions) have not been satisfied by the end date of his term of office. He will also automatically lose his entitlement to all the shares granted to him, irrespective of whether they are subject to a performance condition, in accordance with the provisions of Articles L. 225-197-1 to L. 2251975 of the French Commercial Code, prior to the end date of his term of office, where the grant of these shares had not been made definitive by the end date of his term of office.

However, the Board of Directors reserves the right to decide, where appropriate, to maintain the benefit of the stock options and bonus shares, reduced on a pro rata basis, and subject to achievement of the corresponding performance conditions. The Board is required to give reasons for its decision. The benefit of the stock options and bonus shares referred to above will be maintained, after reduction on a pro rata basis, should Luc Themelin's responsibilities and/or compensation be modified substantially following a change of control of the Company or should he decide to leave the Company as a result of such change, or should his mandate be terminated following a change of control of the Company or should he retire whether voluntarily or at the Company's initiative.

#### D. Pension plan for Luc Themelin

##### Type and motive:

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

##### Specific arrangements:

Under this scheme, Luc Themelin receives a supplementary pension corresponding to 20% of the amount of his average fixed compensation for the past three years and 50% of his maximum variable compensation, given his length of service with the Group.

To date, Luc Themelin has 30 years of seniority with Mersen, of which 24 as an employee. The potential future pension rights of Luc Themelin have therefore been capped for the last ten years and can no longer be increased.

#### E. Commitments related to the corporate officers' unemployment benefit payable to Luc Themelin

##### Type and motive:

Since October 2011, Luc Themelin is eligible for a basic corporate officers' unemployment benefit (Garantie Sociale des Chefs d'Entreprises – GSC) for up to 24 months. The annual cost of this benefit depends on the net taxable income of the party concerned and the length of the period in which the benefit is paid.

##### Specific arrangements:

The Company pays 40% of the contribution and Luc Themelin pays 60%.

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

Paris La Défense, March 12, 2019

KPMG Audit

Department of KPMG SA

Philippe Cherqui

Partner

Paris La Défense, March 12, 2019

Deloitte & Associés

Laurent Odobez

Partner

# 3 MANAGEMENT REPORT

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*For the definitions, please refer to the glossaries*

# INTRODUCTION

2018 was a particularly dynamic year for Mersen, with like-for-like sales growth of nearly 10% and a significant improvement in operating margin before non-recurring items. The Group also completed several acquisitions to strengthen its innovation capabilities and product offering.

Operating in a favorable market environment, the Group exceeded all the objectives it set for itself at the start of the year.

Sales amounted to €879 million, with all geographical areas and all activities enjoying growth and benefiting from the Group's position in buoyant markets including solar power, semiconductors and power electronics.

The ambitious measures taken by the Group over the last few years to improve competitiveness, coupled with the positive impact of growth in volumes, resulted in an operating margin before non-recurring items of 10.4% for the year, a 120 basis point improvement on 2017.

The year was also marked by a significant reduction in non-recurring expenses due to the end of the competitiveness plan, resulting in significant growth in net income to nearly €60 million.

Net debt amounted to €216 million at year-end, an increase on the prior year as a result of the acquisitions completed during the year. The Group's financial structure nevertheless remains sound, with the net debt/EBITDA ratio stable compared with 2017 at 1.6.

# CONSOLIDATED RESULTS

## 1. Sales

Mersen generated consolidated sales of €879 million in 2018, representing strong like-for-like growth of nearly 10% year on year. Including the consolidation of Idealec and FTCAP (+2.1%) and a negative currency effect (-3%), sales grew by 8.6%.

<i>In millions of euros</i>	2018	2017	Like-for-like growth	Scope effect	Currency effect	Reported growth
Advanced Materials	487.1	446.6	12.4%	0.2%	-3.1%	9.1%
Electrical Power	391.4	362.6	6.8%	4.6%	-2.9%	7.9%
Europe	297.1	263.1	8.2%	5.9%	-1.1%	12.9%
Asia-Pacific	250.3	228.7	12.6%	0.4%	-2.9%	9.5%
North America	293.2	282.4	8.4%	0.3%	-4.3%	3.8%
Rest of the world	37.9	35.0	17.4%	0.4%	-8.1%	8.3%
<b>GROUP</b>	<b>878.5</b>	<b>809.2</b>	<b>9.9%</b>	<b>2.1%</b>	<b>-3.0%</b>	<b>8.6%</b>

Advanced Materials sales totaled €487 million in 2018, representing like-for-like growth of more than 12% over the year. All markets contributed to growth, particularly solar and electronics in particular silicon carbide (SiC) based.

Electrical Power sales came to €391 million in 2018, an organic increase by nearly 7 % like-for-like. Activity was driven by strong business in the green mobility, rail and electric vehicle markets, with the segment also benefiting from the contributions of recently acquired companies, Idealec and FTCAP.

By geographic area, the year saw good performances in all regions. In Europe, the Group performed very well in both business segments, with robust growth in France, Germany, Italy and Spain, thanks to the renewable energies and rail and air transportation markets. Asia recorded another significant increase of nearly 13% in sales. Growth in China was led by the solar, rail and chemicals markets, whereas the slowdown in the photovoltaic installations market and a high basis of comparison caused sales in Japan to contract. North America also saw significant growth in both business segments, with sales increasing in the electrical distribution market as well as in electronics. Lastly, Brazil and Morocco boosted Rest of the World growth.

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

(In millions of euros)	2018	2017
<b>Operating income before non-recurring items</b>	<b>91.6</b>	<b>74.6</b>
as a % of sales	10.4%	9.2%
Depreciation and amortization	38.7	39.4
<b>EBITDA</b>	<b>130.3</b>	<b>114.1</b>
as a % of sales	14.8%	14.1%

EBITDA<sup>(1)</sup> came in at €130.3 million, an increase of more than 14% compared with the prior year and accounting for 14.8% of sales.

Operating income before non-recurring items<sup>(2)</sup> came to €91.6 million in 2018, resulting in an operating margin before non-recurring items of 10.4% which was 120 basis points higher than 2017.

The Electrical Power segment's operating margin stands at 10% of sales, versus 11% in 2017. Although the volume/mix effect is positive, the increase in prices is not sufficient to offset wage and raw material inflation. The Group has set aside additional resources to support development in energy storage and power electronics, exchange rates and the FTCAP and Idealec acquisitions also having a temporary dilutive effect.

The operating margin before non-recurring items of the Advanced Materials segment grew strongly again, gaining 300 basis points compared with 2017 (14.1% versus 11.1%). This improvement results from very favorable volume and price effects, which more than offset the negative impact of raw materials costs. Gains from the competitiveness plan also more than made up for inflation.

The competitiveness plan was announced in 2016. Non-recurring costs amounted to €32 million between 2016 and 2018, with cost savings of approximately €46 million. In 2018, non-recurring costs amounted to €1 million and cost savings to €14 million.

(In millions of euros)	2018	2017	Change
Consolidated sales	878.5	809.2	+9%
Gross income	285.1	256.0	+11%
as a % of sales	32.5%	31.6%	
Selling, marketing and other expenses	(82.1)	(79.6)	+3%
Administrative and research expenses	(110.2)	(100.6)	+10%
Amortization of revalued intangible assets	(1.2)	(1.2)	+0%
<b>Operating income before non-recurring items</b>	<b>91.6</b>	<b>74.6</b>	<b>+23%</b>
as a % of sales	10.4%	9.2%	

Gross margin was a significant 90 basis points higher than in 2017, mainly due to leverage from volumes in the Advanced Materials segment.

The payroll was up 5% overall on a like-for-like basis.

Sales and other expenses, and administrative and R&D expenses increased to support growth.

On a like-for-like basis, the Group's operating margin before non-recurring items for 2018 would be 10.5% of sales.

(1) Operating income before non-recurring items + amortization.

(2) As defined in Recommendation 2009.R.03 of the French national accounting board (CNC).

### 3. Net income

Net income for 2018 amounted to €59.2 million, compared with €40 million in 2017, an increase of nearly 48%.

<i>(In millions of euros)</i>	2018	2017	Change
<b>Operating income before non-recurring items</b>	<b>91.6</b>	<b>74.6</b>	<b>+23%</b>
Non-recurring income and expenses	(3.8)	(10.3)	-63%
<b>Operating income</b>	<b>87.8</b>	<b>64.3</b>	<b>+37%</b>
Net finance expense	(10.3)	(10.0)	+3%
Current and deferred income tax	(18.3)	(15.1)	+21%
<b>Net income from continuing operations</b>	<b>59.2</b>	<b>39.2</b>	<b>+51%</b>
Net income/(loss) from operations held for sale	0.0	0.8	
<b>Net income for the period</b>	<b>59.2</b>	<b>40.0</b>	<b>+48%</b>
<b>Owners of the parent</b>	<b>56.5</b>	<b>37.6</b>	
Non-controlling interests	(2.7)	(2.4)	

Non-recurring income and expenses amounted to a negative €3.8 million and essentially includes:

- €1.6 million in acquisition-related expenses, in particular for FTCAP and Idealec,
- €2.2 million in miscellaneous charges, litigation expenses and costs related to the competitiveness plan.

In 2017, non-recurring charges stood at €10.3 million and were mainly related to the competitiveness plan.

Mersen's net financial expense was €10.3 million in 2018. Average debt over the year was €203 million, compared with €193 million in 2017, an increase of €10 million resulting from the acquisitions made by the Group (see introduction) and its major investments plan.

Net income tax expense was €18.3 million, representing an effective tax rate of 24%, a considerable reduction compared with last year (32%), with the Group benefiting from US tax reform and using tax loss carry-forwards in certain regions. Excluding carry-forwards, the normative rate is 26%.

Income from operations held for sale was €0.8 million in 2017, due to the capital gains on the sale of the high-voltage switches and contactor business.

Income from non-controlling interests mainly relates to Yantai (China), in which Mersen holds a 60% stake. In 2017, this item also included non-controlling interests in Cirprotec, which Mersen bought out in April 2018.

### 4. Dividend

The Board of Directors proposed to the General Meeting of Shareholders to pay a dividend of €0.95 per share, an increase of 27% on last year. This would result in a total distribution of around €20 million, corresponding to 35% of net income attributable to shareholders in line with Group policy.



# CASH AND DEBT

## 1. Condensed statement of cash flows

<i>(In millions of euros)</i>	2018	2017
Cash generated by operating activities before change in working capital requirement	123.2	94.3
Change in working capital requirement	(21.5)	(14.5)
Income tax paid	(10.0)	(15.4)
<b>Cash generated by continuing operating activities</b>	<b>91.7</b>	<b>64.4</b>
Cash used in discontinued operating activities	(0.4)	(0.2)
Net cash generated by operating activities	91.3	64.2
Capital expenditure	(58.0)	(36.7)
<b>Cash generated by operating activities after capital expenditure</b>	<b>33.3</b>	<b>27.5</b>
Change in scope (acquisitions)	(30.8)	0.0
Disposals of non-current assets and other	(1.8)	(1.2)
Cash generated/(used) by investing activities from discontinued operations	0.0	6.2
<b>Cash generated by operating and investing activities</b>	<b>0.7</b>	<b>32.5</b>
Interest paid	(8.1)	(8.0)
Dividends paid	(15.8)	(12.3)
Capital increase and other	(6.3)	3.3
<b>Net cash flow before changes in debt</b>	<b>(29.5)</b>	<b>15.5</b>

Operating activities generated close to €92 million in net cash flow in 2018, versus €64 million in 2017. This figure includes €7 million in restructuring (competitiveness plan) and litigations flows and a working capital requirement of more than €21 million linked to business growth. WCR represented 21% of sales (20% at the end of 2017).

Capital expenditure amounted to €58 million, of which €5 million relating to the competitiveness plan. Of that amount, 84% was devoted to international markets and mainly concerned the Advanced Materials segment, with capacity investments in graphite in China, in the solar and electronics market in the United States, in carbon fiber flexible felts for the electronics market in Scotland and in silicon carbide for the manufacture of laser mirrors in France. Mersen's investment policy is presented in this chapter.

Acquisition-related flows reflect the year's acquisitions: FTCAP, Idealec and LGI, and the buyout of non-controlling interests in Cirprotec.

Investment flows from discontinued operations in 2017 came from the sale of the high voltage switches business.

The Group also bought back 200,000 shares in an accelerated book building led by Ardian and Sofina on March 15, 2018, and 45,200 shares on the market in December 2018 for approximately €8 million, with a view to covering employee share plans.

For 2018, net cash flow before change in debt was a negative €29.5 million, compared with a positive €15.5 million in 2017.

## 2. Balance sheet

Net debt<sup>(1)</sup> at year-end 2018 stood at €215.5 million, up €37.4 million on the €178.1 million reported at December 31, 2017.

Operating cash flow in 2018 amounted to €91 million with the Group investing €58 million in capital expenditure and €38 million in acquisitions, including anticipated earn-outs not yet paid. Other investments included share repurchases and dividend payments.

The Group maintains a solid financial base with key ratios<sup>(2)</sup> close to last year: leverage (debt/EBITDA) was 1.59 and gearing (debt/equity) amounted to 39%. The Group is in compliance with all its banking covenants.

	Dec. 31, 2018	Dec. 31, 2017
Total net debt (in millions of euros)	215.5	178.1
Net debt/equity	0.39	0.37
Net debt/Ebitda	1.59	1.58

## SUBSEQUENT EVENTS

There is no subsequent event which would require the modification of the value of the assets and liabilities or additional information.

## OUTLOOK

Mersen looks forward to positive medium-term trends in its growth markets, especially:

- Renewable energies market should remain upbeat in the medium term. However, in early 2019, Mersen will need to deal with a high basis of comparison in the solar market.
- Growth in Electronics market should be driven by the silicon carbide (SiC) semiconductor market.
- In the energy storage market, Mersen is continuing to develop its battery protection systems for which a significant growth may be expected from 2021-2022.
- The chemicals market should see moderate growth, while process industries will continue to be driven by major economies trend, likely less buoyant than in 2018.

In the current macroeconomic climate, the Group will draw on its strong foundations to continue developing in its leading markets and achieve new growth in 2019.

Mersen consolidated sales should increase between 2% and 5% on a like-for-like basis, and another 2% following the acquisitions made in 2018. The Group is targeting an operating margin before non-recurring items of between 10.5% and 10.7% for the year<sup>(3)</sup>.

The Group is expected to spend between €60 million and €70 million in 2019 on maintaining its capex program to tackle the post-2019 demand. More than 40% will be set aside for growth, in particular in the SiC semiconductor, electric vehicle, solar and laser mirror markets.

(1) Gross debt +/- cash and cash equivalents +/- current financial assets.

(2) Ratio calculated using the method required by the covenants contained in Mersen's confirmed loans.

(3) Excluding the impact of IFRS 16.

## 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 2018, around 84% of the Group's capital expenditure was devoted to international markets and was assigned to the replacement and modernization of industrial equipment and investment in new capacity.

In 2018, 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 €745 million, up 10.6% on 2017 on a like-for-like basis.

Sales in North America accounted for 33% of the Group's consolidated sales. Europe contributed 34% of the total. Lastly, Asia Pacific and the rest of the world (South America, Africa and the Middle East) respectively accounted for 28% and 4% of the Group's consolidated sales.

## RESEARCH AND DEVELOPMENT POLICY

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

Most of this expenditure is financed internally.

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

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

The main results and progress made in 2018 include the following:

- Broadening of our range of electrical protection equipment in line with the latest technical developments seen in today's renewable energies markets: increase in operating voltages

of solar farms, and increase in voltages and current intensity in battery systems designed to store large amounts of energy. These applications work with direct current, unlike the conventional electrical industry, which relies entirely on alternating current. The difference requires the development of entirely new solutions essential for the proper functioning and safety of DC devices. In 2018, Mersen began marketing a full range of fuses and surge protectors for the 1500 V DC range. The Group also introduced its first hybrid contactors, remarkable for their compactness and reliability, designed to close/open DC circuits with high currents.

- Development of current collector solutions in line with new urban transport solutions, in particular for the supply of electric buses and trams at stops along their route. These solutions help avoid the use of fixed infrastructure, such as catenaries or buried rails, or excessively heavy and bulky on-board batteries.
- Development of laminated busbars able to work with voltages of 5000 V and at operating temperatures of up to 130°C. These new products are essential for the development of increasingly compact and fast power semiconductors that are able to work at high voltages and allow for energy savings and compact equipment.
- Industrial scale development of a thermal insulation material whose exceptional performance will result in significant energy savings in industrial processes using temperatures above 1,000°C. The new material is of particular value for producers of silicon or monocrystalline silicon carbide, essential for the semiconductor component industry.

## INVESTMENT POLICY

Mersen group's capital expenditure (continuing operations) amounted to €58 million in 2018. The Group invested further in silicon carbide production capacity in France, and strengthened its position in single crystal SiC solutions (electronics), which are part of the Graphite Specialties CGU.

Financial investments of €1 million correspond to an equity investment of 49% in CALY Technologies, a Lyon-based start-up company specializing in silicon carbide (SiC) semiconductor devices and with proven experience in protection functions. Thanks to this investment, Mersen expands its portfolio of over-current, surge protection and current limiting products, while developing its expertise in semiconductor technologies.

Acquisitions expenditure totaled €30.8 million in 2018 and included:

- acquisition of FTCAP in Germany and its subsidiary in Switzerland (see Note 6 to the consolidated financial statements),
- acquisition of LGI assets in the United States (see Note 6 to the consolidated financial statements), and
- buyout of non-controlling interests in Spanish company Cirprotec.

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

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

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.

<i>(In millions of euros)</i>	Continuing operations	
	2018	2017
Investment in property, plant and equipment	(55.2)	(34.9)
Change in fixed asset suppliers	(2.8)	(1.8)
<b>CAPITAL EXPENDITURE</b>	<b>(58.0)</b>	<b>(36.7)</b>
Investment in intangible assets	(3.4)	(3.2)
Investment in financial assets	(1.0)	0.0
Other changes in investment flows (excl. fixed asset suppliers)	2.6	(0.3)
<b>SUB-TOTAL</b>	<b>(59.8)</b>	<b>(40.2)</b>
Investments linked to acquisitions	(30.8)	0.0
Investments linked to disposals	0.0	2.3
<b>TOTAL</b>	<b>(90.6)</b>	<b>(37.9)</b>

## FINANCING POLICY

Mersen group has defined a financing policy, which is coordinated by the Finance and Administration Department.

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

In 2016, the Group finalized a private placement of €60 million ("Schuldschein") maturing in 2023 in order to extend the maturity of its debt. The Group also renegotiated its syndicated loan in China, due to mature in September 2018, replacing it with a syndicated five-year loan and bilateral loans. Lastly, in March 2016 the Group put in place a commercial paper issuance program for up to €200 million in order to diversify its funding sources.

In 2017, the Group renegotiated its syndicated loan due to expire in July 2019, improving the financial terms and extending its maturity to July 2023.

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 91 consolidated and unconsolidated companies in 34 countries. The Group's largest manufacturing facilities are located in France, the United States, China and Mexico.

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

# PARENT COMPANY RESULTS

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

The parent company, Mersen SA, had sales and other income of €16.7 million in 2018. These revenues are derived from Mersen SA's activities as a holding company, namely the management of investments in subsidiaries and affiliates, Group financing and invoicing for various services, plus fees for the use of the trademark and other associated intangibles.

The parent company's net operating result, which corresponds to the holding company's operating costs and trademark fee, was a loss of €3.2 million.

Net financial income was €17.9 million, vs. €15.8 million in 2017. Dividends received from subsidiaries in 2018 and provisions on securities were lower than in 2017.

Net income before tax and non-recurring items was €14.7 million. Net non-recurring income was a loss of €0.8 million, versus a profit of €0.7 million in 2017. This is attributable chiefly to the cost of buying back our own shares as part of the liquidity agreement.

The tax gain of €2.8 million reflects the tax savings achieved through profit-making French subsidiaries that are part of the tax consolidation.

After taking these items into account, net income was €16.7 million, versus €18.1 million in 2017.

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

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

(in € thousands)	Trade payables: invoices received not settled and overdue at the balance sheet date						Trade receivables: invoices issued not settled and overdue at the balance sheet date					
	At due date	1 - 30 days	31 - 60 days	61 - 90 days	91 days+	Total 1 day or more	At due date	1 - 30 days	31 - 60 days	61 - 90 days	91 days+	Total 1 day or more
<b>(A) Late payment tranches</b>												
Number of invoices	9	7	5		10	22	138		2	6	23	33
Total amount of invoices concerned incl. VAT	311	(7)*	2		(1)*	(6)*	1,102		18	297	325	641
% of total amount of purchases for the year, incl. VAT	8.79%	N/S	N/S		N/S	N/S						
as a % of sales for the year, incl. VAT							5.36 %		N/S	1.45%	1.58%	3.12%
<b>(B) Invoices excluded from (A) in respect of disputed or unrecognized debts and/or receivables</b>												
Number of invoices excluded												
Total amount of invoices excluded, including VAT												
<b>(C) Reference payment terms used (contractual or legal - Article L. 441-6 or Article L.443-1 of the French Commercial Code)</b>												
Terms of payment used to calculate late payment	Legal terms: 45 days end of month, unless contractual terms are shorter						Contractual terms: 30 days end of month for French and other European customers, 60 days end of month for the rest of the world					

\* Credit notes

# PRINCIPAL INTERNAL CONTROL PROCEDURES FOR THE GROUP

## 1. Definition of internal control

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

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

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

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

## 2. General principles of internal control

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

### 2.1. Internal control organization

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

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

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

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

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

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

### 2.2. Risk management

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

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

A review of the action plans is presented every year to the Audit and Accounts Committee, and every six months to the Group's Executive Committee. In 2018, all of the action plans presented complied with the agenda noted at the start of the year. In 2016, the Risk and Internal Audit Department updated its tool for the follow-up of action plans, in order to take risk management criteria into account more effectively and to assess the relevance of the plans already in place in relation to the criteria set. Based on the progress on implementing these plans and any shortcomings in comparison to the management criteria, the mapping survey was updated and validated by the Audit and Accounts Committee. The aim of the plans thus defined is to reduce the impact and/or occurrence of each risk. They are also intended to ensure that the measures currently in place are effective in helping to mitigate potential risk and are in line with risk management criteria. In 2018, we further strengthened the control of action plans implemented, notably in response to site audits. Each risk has been assigned a sponsor on the Executive Committee. This organization illustrates the Committee's close involvement in risk management.

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

### 2.3. Control activity

Mersen has circulated an internal control handbook to all of 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 tool describes;
- a list of all the fundamental internal controls to be implemented to ensure the efficient operation of the main business processes:
  - sales/customers,
  - purchases/suppliers,
  - logistics,
  - human resources management,
  - investments/fixed assets,
  - information systems.

- the fundamental internal controls to be implemented to ensure the reliability of the accounting and reporting systems and financial statements with regard to the following objectives:

- safeguarding assets,
- compiling an exhaustive record of accounting transactions,
- making sure transactions correspond to reality,
- complying with the dates on which transactions are recorded,
- correctly valuing assets and liabilities,
- confidentiality.

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

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

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

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

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

### 2.4. Internal control oversight

#### Internal Audit Department

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



The department performed 21 assignments in 2018. These assignments were designed to:

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

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

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

### Information systems security

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

- ensuring the security of the IT systems and protecting data confidentiality;
- ensuring the security of IT infrastructure and applications to ensure the continuity of operations.

An Information Systems Security Manager reports to the Risk, Audit and Compliance Department. Their role is to:

- verify that the information systems security policy is implemented properly;
- lead the information systems' network of correspondents on all aspects of security;
- propose analysis and improvement tools for optimum control of the existing systems;
- develop an information systems security culture.

He conducted 42 site audits in 2018, 13 of which on site and 29 remotely.

Information systems security risk mapping was also updated in 2018 to focus more closely on business line processes. The Information Systems Security manager reported on the action plans carried out in 2018 concerning cyber risk, and presented this report to the Executive Committee and the Audit and Accounts Committee.

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

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

### Management control and strategic planning

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

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

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

Forecasts for the Group's activity and its main financial aggregates for the current year are defined every quarter. This process allows adjustments to be made for trend reversals and helps to speed up the decision-making process for any remedial measures required.

### Human resources procedures

Internal control of human resources management is structured around the following aspects:

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

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

### Sustainable development

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

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

At the same time, by joining the United Nations’ Global Compact, the Group has committed to supporting a precautionary approach to environmental challenges (Principle 7), to promoting greater environmental responsibility (Principle 8), and to encouraging the development and diffusion of environmentally friendly technologies (Principle 9).

The Group has also received a non-financial rating from the GAIA Index, which assesses publicly traded mid-cap companies’ ESG<sup>(1)</sup> performance.

### Operational excellence procedures

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

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

## 3. Accounting and financial internal control

### 3.1. General organization

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

### 3.2. Preparation of accounting and financial information

The Finance and Administration Department has 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 for closing the accounts. It also contains the timetable for the various accounting closes, as well as a list of the information to be reported as part of the consolidation procedure. It lays down the rules that need to be followed by the consolidated sub-groups. This document is available on Mersen’s Intranet site.

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

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

- ensure the Group’s standards are correctly applied;
- ensure that intra-Group transactions are correctly validated and eliminated;
- ensure that consolidation adjustments are made.

### 3.3. Treasury and financing

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

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

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

(1) Environmental, Social and Governance.

## 4. Approach adopted in 2018 and 2019 action plan for internal control

The following specific initiatives were initiated in 2018 to reinforce internal control:

- implementation at several of the Group's units of automated tests as part of the Continuous Monitoring project;
- implementation of the Group's new approval rules through a new tool designed to simplify their deployment;
- implementation of a specific action plan on the management of the Group's fixed assets;
- satisfaction survey focused on the cross-audit component.

In 2018, the Internal Audit Department also conducted audits following a plan approved by the Audit and Accounts Committee. Twenty-one site audits were performed, including two control audits.

The conclusions of the in-depth risk mapping review were presented to the Executive Committee and then to the Audit and Accounts Committee, along with a follow-up on the action plan approved in 2017. The Audit and Accounts Committee was also informed of the organization of the internal control tasks, in line with the recommendations of the 8th European Directive.

The various audits and controls conducted during 2018 did not reveal any significant internal control shortfalls or deficiencies. In 2019 there will be three control audits carried out on previously evaluated units whose internal control procedures were found to have some shortcomings.

As part of the evaluation of accounting and financial internal control with respect to the AMF's framework, the Group continued to implement initiatives to raise awareness among Group managers and financial managers of the risks of fraud (including financial scams and forgery, etc.). The Internal Audit Department publishes a monthly press review on fraud. This press review is sent to the managers at all of the Group's sites. The Group experienced several fraud attempts in 2018, which were unsuccessful, thanks in particular to these awareness-raising efforts.

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

The Risk, Internal Audit and Compliance Department will work on the following projects in 2019:

- ongoing implementation of Continuous Monitoring, with the inclusion of new European subsidiaries and the development of new controls;
- greater emphasis on compliance and risk management in the audits;
- tightening of accounting controls in accordance with France's Sapin II law.

# RISK MANAGEMENT

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

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

However, there can be no assurance that other risks liable to have a material adverse impact on the Group, unknown or not yet taken into account as of the date of this Registration Document, may not arise.

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

### 1.1. Industrial risks

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

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

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

### 1.2. Risks relating 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 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 returning, as quickly as possible, to the level of production sought.

Group sites deemed critical in terms of their impact on business (roughly a dozen) have already started drafting or have already implemented a business continuity plan.

### 1.3. Environmental risks

Like any industry player, the Group must comply with 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 sold). To minimize these risks, the Group takes actions related primarily to:

- the monitoring of the use of coal tar pitch in our carbon products. This product is governed by the European Union's REACH regulations. Mersen works with European organizations that regroup graphite companies, actively participates in discussions, and contributes to studies on this issue. To date, the Group uses the pitch as an intermediate product, as it does not remain in the end product. This means that it is not required to apply for authorization from the relevant European body;
- the continuous improvement of protection and equipment for personnel exposed to CMR (carcinogenic, mutagenic and reprotoxic) substances and training measures. A working group of HSE managers 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;
- the close monitoring of regulatory developments through participation in working groups composed of the leading players in carbon and graphite in Europe;
- the monitoring of pollution risks within the Group and introduction of action plans to reduce these risks;
- the systematic implementation of environmental due diligence procedures when it acquires an industrial site.

New regulations governing the best available technologies for graphite manufacturing have now been published and the implementation date set for 2021. Mersen has launched a study to precisely measure the potential impact of these regulations and to evaluate the investments needed. 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 accordance with the provisions of the law.

The Group may have to increase the amount of its investments to comply with this regulation or any new local or regional regulation.

The Group's environmental policy is described in Chapter 4 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.

Mersen also monitors the various French and European regulations in order to anticipate the entry into force of directives liable to impact its activity, such as the Industrial Emissions Directive (IED) aimed at reducing air, water and soil pollution caused by industrial installations, or bans of certain products, for which a substitute would need to be found. The Group is making the necessary investments to ensure that it is fully compliant with these regulations. The Group nevertheless remains exposed to risks and new regulations. Other actions undertaken by the Group are also described in Chapter 4 of this document.

#### 1.5. Risks relating to capital-intensive operations and business mix

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

Some of the Group's product lines are more profitable than others. Mersen may therefore be subject to negative mix effects. However, it has not identified a long-term negative trend.

#### 1.6. Risks relating to the economic environment

Mersen 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 contraction in activity over several half-year periods. From 2013 to 2016, the Group faced a significant decline in the chemicals market. In 2016 it was also 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 and 2017, it deployed an operational excellence plan intended in particular to be more flexible at sites manufacturing for the chemicals industry. Mersen is nevertheless exposed to the economic environment, particularly through its process industries, which account for approximately one-third of its sales.

#### 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 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. While this competition is currently limited to specific applications on the Chinese market, the Group cannot rule out the possibility that some of these companies may come to compete with it on more high-tech products in the future. That being said, 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.

Several measures were undertaken in 2018 in addition to those already in place, including the updating of risk mapping, particularly on computerized industrial systems. Worldwide phishing awareness campaigns and adaptation measures were carried out when the General Data Protection Regulation came into effect, notably through the circulation of an information systems user charter.

The Group also conducts remote and on-site audits.

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

Mersen group regularly reviews risks relating to raw materials, including carbon materials used in the formulation of graphite and non-ferrous metals used in the manufacture of electrical protection and power electronics equipment and brushes. On some of these raw materials, the Group can only source from a limited number of suppliers due to product property and quality issues.

Risk analysis gives rise to Purchasing and R&D programs aimed at qualifying and developing alternative sources of supply, in order to allow Mersen to ensure the continuity of its Supply Chain and the service to its customers, as well as the management of market developments, notably new market growth.

Tight raw materials markets mean the Group works continuously on new measures, aimed particularly at:

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

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

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

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

The Group must comply with European and US regulations on the export of dual-use (civilian and military) goods and technologies. These regulations apply to the export of certain kinds of graphite-based goods produced in France and the United States. Unfavorable changes in these regulations intended specifically to restrain or prohibit certain exports could have a material impact on Mersen. The Group cannot rule out human error resulting in involuntary non-compliance with these regulations.

### 1.11. Risks relating 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, training and inspection program to prevent any risks of this type. A new staff training and awareness plan initially planned for 2018 will be deployed in 2019.

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

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

In addition, the Group must comply with 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. However, it cannot rule out human error resulting in occasional or limited non-compliance with these regulations.

## 1.12. Risks relating 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 2018, no single customer represented more than 3% 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 at a local level.

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

<i>(In millions of euros)</i>	2018		2017	
	Sales	as a % of total sales	Sales	as a % of total sales
With the Group's leading customer	26.1	3%	25.2	3.1%
With the Group's top 5 customers	102.4	11.6%	89.3	11.0%
With the Group's top 10 customers	161.3	18.3%	150.7	18.6%

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

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

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

Mersen 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 involves a risk of the 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 exhaustive 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 was €276 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 greater for the Anticorrosion Equipment CGU, whose principal outlet is the chemicals market, which has been suffering from weak demand since 2013, despite an improvement since 2016. The unit value of orders in that CGU is significantly greater than in the Group's other CGUs. Fluctuating order levels may therefore trigger significant variations in cash flow. The asset impairment tests are presented in Note 7 of the notes to the consolidated financial statements.

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

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

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

The Group will therefore be investing in new equipment or tying up capital in R&D that may eventually be partly or entirely unused if the development plan does not go ahead, or if certain customers abandon their own development plans. However, the Group has very little equipment dedicated to only one application or customer (except for the electric vehicle – see section 1.19. of this chapter "Risks relating to the electric vehicle market"), and the sums capitalized in an R&D project never exceed 0.5% of consolidated 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 2018, sales outside Europe, North America, Japan and South Korea represented 20% of consolidated sales, of which 13% are derived from China. The Group is thus exposed to certain risks that could affect its profitability in certain geographic areas.

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

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

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

### 1.16. Human and social risks

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

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

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

### 1.17. Risks 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 sensitivity to internal control and risk management that differs from one entity to another. In this context, the Group cannot dismiss the possibility of internal control failings, fraud or the failure to comply with local regulations, which may have significant impacts on the Group's financial position and/or harm its image.

To limit this risk, Mersen regularly reviews its internal control procedures, carries out activities to increase awareness, and performs audits of subsidiaries. To heighten employee awareness of fraud-related threats and improve risk management culture within the Group, the Internal Audit and Risk Department publishes a monthly press review on the topic. This review includes Group-specific messages and discusses any fraud attempts experienced by Mersen. In 2018, around a dozen attempts were recorded. None of these resulted in financial loss.

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

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

Mersen has an active policy for developing new markets whose legal, contractual, quality and other risks are beyond its control, since such risks cannot be evaluated at present as the markets and players in question are still developing.

The Group is positioned in high value-added markets with cutting edge technology. It could be exposed to threats in some of its traditional market segments if its technologies were superseded, or if some competitors developed solutions that were considerably more competitive.

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

### 1.19. Risks relating to the electric vehicle market

The Group is expanding into the electric vehicle market with the development of new products. It is exposed to risks related to the automotive market, e.g., risks of non-compliance, price reductions, penalties, product recall, etc. In 2018 (and potentially in 2019), it may also be required to tie up capital in resources allocated to developing these new products until said products are brought to market. If product development is postponed or brought to a halt, the Group may then have to partially or fully impair the amounts capitalized (approximately €3 million in 2018).



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

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

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

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

### 1.22. Risks relating to deferred tax assets

The Group has recognized deferred tax assets, believing that it will be possible to use certain tax losses over a maximum period of 8 years. The amount of deferred tax assets on the French tax consolidation stood at €15 million at the end of 2018. The Group regularly assesses the recoverability of its tax assets in light of business plans. However, it cannot assume that actual results will be in line with those of the business plans, meaning that it may in the future be forced to impair deferred tax assets.

### 1.23. Risks relating to rental property

The Group's general policy is to own industrial sites with the heaviest equipment. It may be required to lease other industrial sites, as well as offices and warehouses. The Group can adapt this policy to fit the specific nature of certain countries. To ensure better risk management, Mersen has implemented centralized monitoring of leased and owned property assets since 2016. At the end of December 2018, the Group leased 52% of its industrial sites, and may face a risk in the form of an increase in rent or the non-renewal of the lease on those sites. Since 2016, tensions have been observed on the Chinese property market. Major sites including St Mary's, Chongqing, Gennevilliers, Amiens, Pagny, Holytown, Bazet, Bay City, St Bonnet and Bommasandra AM are owned by the Group.

### 1.24. Risks relating to business combinations

The Group may be impacted by mergers of competitors, customers or suppliers that could undermine its profitability on certain product lines or reduce its competitive advantage.

However, the significant diversity of customers, suppliers and activities should limit the impact of that risk.

## 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.

The Group recognizes certain payment instruments of good quality issued in China – namely bank drafts – as current financial assets. Those of low quality are recorded in other operating receivables.

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. Equity risks

The presence of shareholders with a large stake in the Group limits the stock's liquidity.

The Company has entrusted Exane BNP Paribas with implementing a liquidity agreement in accordance with the AMAFI's charter of ethics, as approved by French law.

The Group has not subscribed any shares in listed companies.

## 3. Tax and customs risks

The Group regularly undergoes tax and customs audits carried out by the tax/customs authorities in the countries in which it operates. In the past, the reassessments issued after tax/customs audits have been for non-material amounts. The most material risks relate to:

Mersen do Brasil received notice in June 2013 of a customs audit covering the period from January 2008 through December 2012. The customs authorities issued a reassessment notice for an initial amount (principal and interest) of BRL 7.5 million, increased each year by applying the interest rate issued by the Central Bank of Brazil. At December 31, 2018, the amount of the revised adjustment was BRL 11.7 million, or approximately €2.6 million at the December 31, 2018 exchange rate. This amount is not covered by a provision in the accounts of Mersen do Brasil, as the risk of losing the dispute is deemed very weak. A first instance ruling was handed down in favor of the Group on February 8, 2018. However, it was the subject of an ex officio appeal to a second instance court by the Brazilian authorities. It is not possible to estimate when the second instance ruling will be delivered.

On September 22, 2017, Mersen France SB SAS was issued an accounting audit notice for the period from 2014 through 2016 (and subsequently extended to July 31, 2017) concerning sales taxes and also covering the amount declared for the research tax credit for expenses incurred in 2013 through 2016. The increase notified on July 11, 2018, in a total amount of €151,719, in respect of the CVAE, VAT and research tax credit, was fully paid in 2018.

At the time of this report, no changes have been made to these procedures.

## 4. Legal risks

### 4.1. Dependence of the Company

The Mersen group is not dependent on any patent, license or supply contract that may have a material adverse effect on its business activities or profitability.

### 4.2. Disputes

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

None of the legal proceedings referred to below led to provisions being set aside, as the Group is not at this stage in a position to assess the financial risk.

### 4.2.1. Civil proceedings in Canada

The lawsuit launched during 2004 in Canada by certain customers against the main Canadian manufacturers of graphite brushes, including Mersen Toronto (a Canadian subsidiary of Mersen) is still in progress and there have been no new developments since 2007. This action was instigated following the CAD 1 million fine that Morgan Crucible Ltd was ordered to pay in July 2004 for anti-trust practices in the graphite brushes sector from 1995 through 1998. In February 2007, the Canadian judge ruled that only Canadian urban transportation companies could join the proceedings in progress. The risk related to these proceedings for Mersen Toronto remains non-material.

To date, the procedure remains unchanged, as does the risk assessment.

### 4.2.2. Administrative proceedings in France

In 2013, SNCF launched two procedures against Morgan, SGL, Schunk and Mersen, in the Paris Administrative Court and the Paris Commercial Court respectively. SNCF is attempting to secure redress for losses that it allegedly suffered following practices that were sanctioned in December 2003 by the European Commission in connection with brushes for electric motors and products for mechanical applications. In 2014, the Paris Administrative Court rejected all of the claims lodged by SNCF, which appealed the decision. The Paris Commercial Court has not yet issued its ruling. Mersen disputes all of the allegations and claims submitted by the SNCF and both cases are still undergoing.

To date, the procedure remains unchanged, as does the risk assessment.

### 4.2.3. Legal proceedings in France

Criminal proceedings that were initiated after the tragic accident on April 7, 2010 at Mersen's site in Gennevilliers (France) are still in progress, with no significant developments in 2018.

To date, the procedure remains unchanged, as does the risk assessment.

The Group is not aware of any other governmental, judicial or arbitration proceedings, including any pending or potential proceedings, that could have or have had in the last 12 months, a material adverse effect on its business activities, financial position or results of operations.

## 5. Insurance

Mersen Group has negotiated international insurance programs in the insurance market to cover its main risks. To protect the Group's future, the levels of coverage are set based on the Group's loss record and an assessment of the risks incurred by each Group subsidiary. In a context in which claim levels have remained under control for several years, the Group's insurance programs remained stable in 2018 and the ongoing risk prevention policy has meant that coverage and premium levels are unchanged.

The Group's global insurance programs (implemented in certain countries by local policies) have been put in place with leading insurance companies to cover the main risks of operational Damage/Loss, Professional Third Party Liability, Environment, and Aviation and Transportation Professional Third Party Liability risks. These worldwide programs provide all the Group's subsidiaries with cover and restrictions tailored to their needs. No captive policies have been arranged.

As part of the Professional Third Party Liability insurance program (operations, pre- and post-delivery), Environmental and Professional risks are covered in particular, subject to the usual excesses, exclusions to and limits on coverage, as are bodily harm, physical and economic loss, disassembly/reassembly costs, collection costs, damage to goods in third party storage and decontamination costs. The international program comprises

a master policy in France and local policies in certain countries. The total amount of premiums paid by Mersen Group for fiscal 2018 in connection with the Third-Party Liability/Environmental and Professional Third Party Liability/Aviation Third Party Liability program was €766,000 (excluding tax).

The Group's property/business interruption insurance program notably covers bodily injury and physical damage, as well as losses caused by the interruption of business at the Group's main plants as a result of any sudden and accidental events (such as fire, storm, explosion, electrical damage, theft, etc.), subject to the usual deductibles, exclusions and restrictions. The program comprises a master policy and local policies in certain countries. It provides a contractual restriction per event (property/business interruption combined) of €135 million with sub-restrictions for certain events, such as storms, natural disasters or certain specific guarantees, such as machine failures and IT and electrical risks. The total amount of premiums paid by Mersen Group for fiscal 2018 in connection with this program was €838,907 (excluding tax and premiums for GAREAT, natural disasters and compulsory local coverage).

Under the Group's transportation insurance program, Mersen and its subsidiaries are protected by a worldwide policy that provides a guarantee of up to €5 million per shipment for all the Group's goods shipments, irrespective of the means of transportation used. The premium paid by Mersen Group for fiscal 2018 was €81,500 (excluding tax).



# 4 SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

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# RESPONSIBLE GROWTH AND DEVELOPMENT

## 1. An ambitious CSR approach

As a major player operating around the world in multiple industrial sectors, Mersen has chosen to conduct its business according to an ambitious responsible development approach. Cognizant that continually improving its **social and environmental footprint requires permanent measurement, assessment and analysis**, the Group has established a cross-business CSR policy for all its employees and adapted to all levels of the organization.

The Group's CSR culture is rooted in its values and is the result of decades of Mersen's commitment to ethical and responsible development – at a time when questions of CSR were neither regulated nor prized by companies. The Group has always placed its human capital at the heart of its business, demonstrating a clear desire **for each employee make the most of their expertise and reach their full potential** and for each country where the Group is active to grow its business while still respecting the local culture by drawing on the strength of the Group's fundamentals in human resources, health and safety and ethics.

Mersen is also committed to **reducing its environmental footprint**. It has for almost 15 years run a number of initiatives to

this end, despite the relatively low impact of its business compared to other industries. The Group demonstrates its commitment through its **active involvement in leading sustainable markets** such as wind and solar energy, clean mass transit, by inculcating **best practice across its facilities**, and by working hard to reduce waste by enhancing the **performance, quality and efficiency of its products**.

Mersen is always raising the bar by **setting quantifiable goals that are often more ambitious than legal requirements, but nevertheless achievable**. The Group has made CSR part of its identity by always seeking to improve its performance across all aspects of CSR and engaging employees and business stakeholders alike. Although the Executive Committee is the driving force behind CSR initiatives, individual sites and local teams are given the latitude to implement policies as effectively, collectively and pertinently as possible. Our collaborative CSR approach forms the very foundation of an openly responsible and sustainable business.

## 2. The fundamentals of Mersen's CSR policy

Building on Mersen's fundamentals, and in particular its human capital, to develop and showcase its approach as a **socially responsible Group**.

Strengthening best practices already rolled out across the sites in order to continue to **reduce our environmental footprint**.

Expanding its activity in **sustainable development** markets and focusing development on **highperformance, innovative products**.

Transmit a shared **CSR culture** throughout the Group and give sites and teams the autonomy they need to implement this policy and effectively and appropriately adapt it to the field.

### 3. Organization

The Board of Directors is dedicated to promoting the company's long-term value creation by including social and environmental factors in its activities. It regularly reviews its exposure to social and environmental risks as part of Group strategy and, more specifically, ensures that measures to prevent and detect corruption and influence peddling are implemented.

In 2018, the Group decided to formalize its CSR organization. Thus, the General Management is proposing the Group CSR strategy for implementation with the assistance of the following specialized committees:

- **The EHS Committee**, comprising the Chief Executive Officer, the Human Resources Department, the Operational Excellence Department and the heads of both the Group's business segments. The Committee oversees all environmental and,

health and safety actions and indicators at Mersen, and meets on a monthly basis.

- **The Compliance Committee**, comprising the Chief Executive Officer, the Human Resources Department, the Compliance Officer and the Finance Department, meets on a monthly basis.

**A CSR Committee**, comprising the Chief Executive Officer, the Human Resources Department, the Finance Department, the Operational Excellence Department, the Compliance Officer and the Financial Communications Department, was officially formed in early 2019 and will meet at least quarterly.

Lastly, numerous cross-business committees and themes were established to monitor the progress of specific matters including diversity, Market Abuse Regulation (MAR) and Open Experts.

## METHODOLOGY

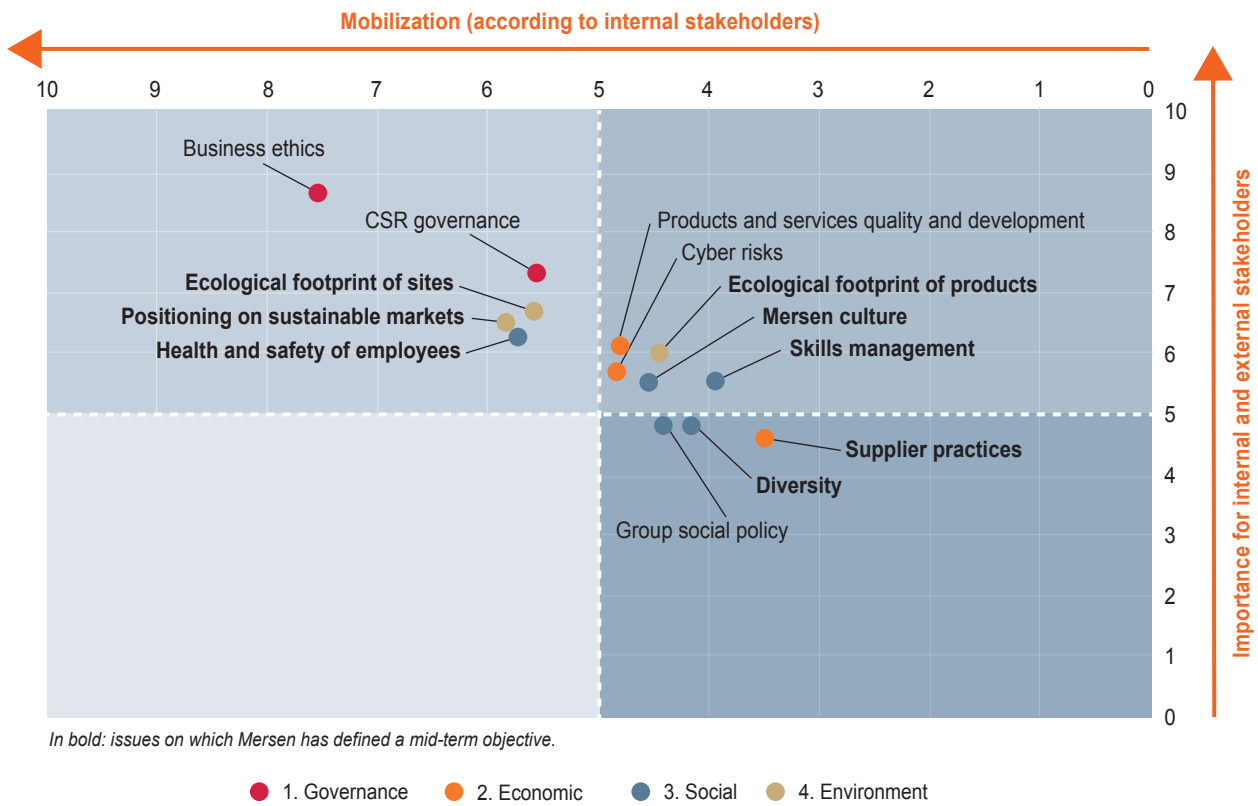
### 1. Materiality matrix: methodology

In 2018, Mersen developed its first corporate and social responsibility materiality matrix to **identify the main extra-financial risks and opportunities** to which the Group may be exposed in light of its businesses, the development of its markets and its organization. The matrix complements the risk map monitored by the Group (see the "Risk Management" section of the Management Report) and was performed with the assistance of an outside consulting firm.

The matrix is based on a series of interviews with the Group's main governance bodies. The main extra-financial risks and opportunities identified were then mapped in the form of a materiality matrix based on a questionnaire that was sent to some one hundred people representing the various internal and external stakeholders around the world.

Mersen collected just over 50% of these questionnaires, which mostly came from internal stakeholders (members of the Board of Directors and the Executive Committee, site managers, EHS managers and site HR managers).

## 2. Materiality matrix: 2018 results



Issues identified	Description	pages
Group social responsibility policy	Develop a social responsibility policy in line with international best practices and, if possible, above and beyond local requirements.	114
Mersen's culture	Build on and promote Mersen Group culture which draws on local leadership, trust, empowerment and collaboration.	112
Skills management	Have a forward-looking vision regarding jobs and skills, attract and manage talent, ensure the digital shift and support continuing professional development.	118
Diversity	Promote hiring women in all Group business lines, ensure equal treatment in the hiring process and professional development.	113
Employee health and safety	Ensure the safety of employees and develop health-related preventative measures across all Group facilities.	115
Positioning on sustainable markets	Develop a proactive environmental policy for the Group, ensure the compliance of its operations with the environmental regulations in force.	104
Ecological footprint of facilities	Manage operations-related pollution (emissions into the air, water and soil), consumption of materials (including energy) and prevent risks to which the local communities of all the Group's facilities may be exposed.	107
Ecological footprint of products	Optimize the ecological footprint of Mersen products by consuming fewer raw materials and producing less waste.	105
Supplier practices	Pay attention to the social and environmental practices of a targeted scope of suppliers.	103
Business ethics	Promote the Group's rules on ethics and ensure they are adopted by the Group's partners (including rules regarding corruption, fraud, competition, etc.)	121
Quality and development of products and services	Adapt to customer requirements and expectations, be at the cutting edge of technology and preempt technological disruption.	110
Cyber risks	Protect the Group from attacks on its information systems seeking to damage their operation, or manipulate, block or steal data.	110



### 3. CSR roadmap

Once the priority issues were clearly identified using the materiality matrix, a CSR roadmap was drafted around five commitments based on which General Management defined three-year action plans.

Priority commitments	Ambition	Objective
Ecological footprint of our products	Develop innovative products that contribute to the ecological transition.	<ul style="list-style-type: none"> <li>• 55% of sales linked to sustainable development by 2021</li> </ul>
Ecological footprint of our facilities	Reduce the environmental impact of our industrial sites by recycling and recovering waste.	<ul style="list-style-type: none"> <li>• Improve by +15 points the part of waste recovered by 2021</li> </ul>
CSR footprint of suppliers	Improve and secure the social and environmental performance of our supplier base.	<ul style="list-style-type: none"> <li>• Evaluate our strategic suppliers by 2021</li> </ul>
Health and safety of our employees	Develop and consolidate a culture of health and safety within the Group.	<ul style="list-style-type: none"> <li>• Improve by 15% the number of safety visits by 2021</li> <li>• FR1 ≤ 1.4 in 2021; SR ≤ 60 in 2021</li> </ul>
Our human capital	Develop and retain our expertise through an organization that promotes collective intelligence.	<ul style="list-style-type: none"> <li>• Human potential success rate +3 point by 2021</li> <li>• 25% to 30% female managers &amp; professionals by 2022</li> <li>• 100% of managers having completed the Open Manager programs</li> </ul>

## DEVELOPING INNOVATIVE AND SUSTAINABLE PRODUCTS

### 1. Managing our suppliers

#### Our strategy and our commitments

As a global expert in electrical power and advanced materials, Mersen undertakes to be **mindful of the social and environmental practices associated with the development of its products**. This applies not only to our own internal practices, but also to those of our regular suppliers.

Because we are present in 35 countries, we are often required to factor in a variety of different legislation and widely varying local realities. This is why we make every effort to make sure our policy in this area is comprehensive. To this end, our supplier charter – currently being revised – will formalize our supplier relations and set the standard for virtuous collaboration.

#### In summary:

- Greater attention given to the practices of our suppliers.
- Determination to improve and secure their social and environmental performance.
- A charter to formalize our supplier relations (being revised).

#### Our initiatives

Other than technical specifications, a number of other criteria are considered when selecting Group suppliers. The Group is particularly attentive to those supplying material used for the manufacture of our products. This involves:

- **The application of environmental criteria in our purchasing process:** collaboration with local suppliers in order to reduce transportation costs and greenhouse gas emissions (use of recyclable materials, the widespread use of more eco-friendly packaging, etc.).
- **The adoption of pragmatic initiatives to reduce our environmental footprint:** efforts to reduce packaging weight and purchase of eco-friendly vehicles.

#### A locally-oriented policy

*All Mersen sites contribute to their integration into the local communities through our purchasing policy. By working with local suppliers, in accordance with the Group's purchasing policy recommendations, they contribute to the economic and social development of the regions where they operate, while meeting economic and environmental objectives (reduced costs and greenhouse gas emissions by limiting transportation).*

Mersen formalized its approach with its **supplier relations charter**, which sets out its own requirements and encourages the implementation of best practices – including social and environmental practices. While not mandatory, the charter works as an incentive. It will be reviewed in 2019 to **better factor in CSR and Compliance**, two areas in which the Group made significant progress in 2018.

In addition, by 2021 the Group's key suppliers will be sent a **CSR questionnaire with a detailed evaluation scale**. The aim is to assess their social and environmental performance and risks with greater accuracy, and identify suppliers that require closer monitoring. The targeted suppliers are those that make up 80% of our materials purchases.

### Our goals

- By 2021, evaluate strategic suppliers, i.e. those making up at least 80% of the value of material purchased by using a CSR questionnaire.
- Update the supplier relations charter over the course of 2019.

## 2. Developing innovative products that contribute to sustainable development

### Our strategy and our commitments

Mersen operates in highly innovative sectors, including renewable energies, energy efficiency and clean mass transit, and as such, **invests in finding ways to help the green industry bloom**.

Our solutions contribute to the progress made in photovoltaic solar energy, and to the manufacture of wind turbine generators. We also work with hydro generator manufacturers, and help to **improve the performance and reliability of the equipment and infrastructure** of new forms of urban mass transit and electric vehicles. Mersen intends to maintain its business on these high-potential markets to generate organic growth.

#### In summary:

- R&D and innovation focused on supporting the green industry and in fine the fight against global warming.
- A recognized player on high-potential markets.
- Approximately 50% of Mersen's sales in 2018 were associated with sustainable development.

### Our initiatives

For each of the sectors in which we operate, our Group endeavors to develop innovative products to help make development more sustainable. This drive is reflected in our R&D investments and in our overall focus on product performance, the lifespan of consumables and production costs.

#### Renewable energies

For many years, Mersen has been working alongside the leading manufacturers in the renewable energy sector. In addition to providing high-performance and sustainable solutions, we help get the energy produced to the customers.

**Solar:** Mersen supports the entire solar cell production process, from polysilicon manufacturing to silicon ingot pulling, and provides electrical protection for the panels. Our solutions optimize performance in terms of photovoltaic yield and energy efficiency.

**Wind power:** Mersen is the leading supplier of the wind energy sector, both in generator power distribution systems and yaw motors.

**Hydroelectric:** Mersen is the preferred partner for customers across the hydroelectric industry, from turbine manufacturers to power plant operators.

**Energy storage:** Mersen offers electrical component solutions for the design of industrial lithium-ion batteries, used in solar and wind energy.

#### Electronics

Mersen offers electronic manufacturers comprehensive solutions to cover their insulation, heat recovery and power conversion needs.

**Semiconductors:** Mersen develops products that are at once increasingly compact and efficient thanks to its premium, ultra-pure graphite offering. The quality and high-precision machining of our materials and coatings actively optimize manufacturing processes.

**Power electronics:** Mersen's solutions help manufacturers better adapt energy generation to needs, and therefore optimize the energy efficiency of their facilities.

#### Energy efficiency and saving on raw materials

Mersen is positioned on markets whose growth is linked to energy efficiency and the energy transition. Our solutions address both production costs, energy consumption of certain processes, and the final performance of products.

**Manufacturing processes:** Mersen provides optimized solutions for the entire high temperature process industry. We offer a range of high-performance insulation products providing significant energy savings. Other components are also used for speed drives to optimize the output of industrial equipment. For certain process, such as in mining and chemistry, Mersen's offering includes energy-saving and water consumption reducing units thanks to heat-recovery systems.

**LED:** Mersen provides graphite-based solutions and high-performance materials that are critical in the manufacture of LEDs. The increasing use of these particularly long-lasting bulbs has a considerable impact on electricity consumption.

### Clean transportation

Mersen actively supports the development of clean transportation through its solutions that improve the performance and reliability of equipment and infrastructure.

**Rail and urban mass transit:** Mersen provides equipment for rolling stock and infrastructure electrical systems to enhance the reliability and performance these popular systems for transporting both people and goods.

**Hybrid industrial vehicles and light electric vehicles:** Mersen helps car manufacturers meet the challenges of this booming market. Thanks to our expertise in managing direct current in batteries, we are able to offer solutions to ensure the safety of the electrical circuit in the high-power electric cars of the future.

### Our goals

- 55% of sales on sustainable development markets by 2021 (50% in 2018).

## 3. Developing products with a reduced environmental footprint, from design to recycling

### Our strategy and our commitments

In addition to the performance of its products and their contribution in terms of sustainable development, Mersen endeavors to limit the ecological footprint of its products at every stage of their life cycle – from reducing raw materials consumption to reducing waste production. It is an approach that draws inspiration from the virtuous circular economy model.

#### In summary:

- Teams trained in eco-design.
- Every step of a product's life cycle is taken into account.
- Eco-sustainable redesign to cost.

### Our initiatives

Mersen's approach draws on numerous strategies and initiatives that have been applied to every step of the life cycle of its products including, eco-design, reducing energy and raw materials consumption, optimizing the manufacturing process and lifespan of products and recycling.

#### Eco-design

In order to provide products with a reduced environmental impact, Mersen boasts **the best available techniques** to design its new manufacturing lines and products. From the initial design phase, this approach, called eco-design, factors in a product's environmental impact throughout its life cycle.

**Requirements and specifications:** Trained in eco-design, the R&D teams at Mersen integrate environmental impact reduction targets into the specifications of new products.

**Monitoring and measuring impacts:** Mersen uses a suite of tools to monitor and measure the impact of its products in real conditions. The Electrical Power segment uses EIME (Environmental Improvement Made Easy) software for **analyzing products' environmental impact** (water and air pollution, depletion of national resources, etc.) **at each stage of their life cycle**. When it comes to choice of raw materials, packaging weight, assembly steps, waste volumes and recycling, the software ensures the traceability of existing lines while providing a basis for comparison when developing future product lines.

**Eco-sustainable redesign to cost:** For several years, the Group has been developing this approach based on the functional analysis of a product. It 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. This approach will be systematically applied to new products.

#### Product recycling

**Recycling of used products:** Mersen has participated actively for several years in efforts to recycle fuse waste by reusing large amounts of the metal content of used fuses. Similar initiatives are underway for industrial brushes through a recovery program introduced to collect used brushes from customers to recycle the reusable metal content.

## 4. Promoting environmentally-sound practices at all facilities

### Our strategy and our commitments

Mersen is committed to reducing the environmental impact of its activities.

We have a proactive environmental policy that allows us to **achieve maximum control over the impact of all our industrial operations** including, regulatory compliance, monitoring our facilities, using resources responsibly, managing emissions and pollution.

#### In summary:

- Compliance of all facilities with local environmental regulations.
- Management of the ecological footprint of products and use of best practices across the Group's sites.
- Risk prevention and reducing potential pollution.

### Our initiatives

Mersen's environmental approach in the field translates into a quest to identify best practices and an extremely high level of constant vigilance. We **have entered a virtuous circle** that allows us to meet environmental requirements and keep ahead of changes in certain regulations.

#### Organization: a dedicated management system

In 2018, Mersen decided to implement an **environmental management system** for 2019. This commitment by the Executive Committee takes the form of a dedicated management system and regular reviews associated with internal objectives covering a number of themes, including:

- Compliance with regulations in force for products and facilities;
- Monitoring of facilities;
- Using resources responsibly (materials and components, water and energy);
- Greenhouse gas emissions, pollution of air and water, and waste from our facilities.

The system will draw on other systems that have been in place for several years.

**Mersen's Health & Safety, Environment and Industrial Risks function** has been part of the Operational Excellence Department since February 2017. It coordinates environmental actions and works closely with production sites.

**Site managers:** In accordance with the rules defined at Group level, each site manager is responsible for implementing an environmental management system that is effective, compliant with regulations and adapted to the local activity. Site managers may appoint an environmental manager to oversee these actions who reports functionally to the Health & Safety, Environment and Industrial Risks function.

**Environmental correspondents:** Since 2016, Mersen's environment correspondents in charge of monitoring regulatory developments in the company's principal operating regions (Europe, North America and China) report their findings to the Executive Committee twice a year.

**ISO 14001 certification:** At the end of 2018, 50% of the sites included in the scope were ISO 14001-certified, the recognized global standard for environmental management systems, vs 48% in 2017.

### Environmentally-aware employees

*Employees at production sites are trained in and made aware of environmental issues, recycling and energy efficiency through poster campaigns and information meetings. In 2018, training in environmental protection increased by 39% from 2017, mainly due to a one-off campaign at the Juarez site in Mexico.*

Environmental training hours	2018	2017
Hours	3,634	2,663

### Compliance with environmental regulations

Mersen is compliant with the regulations in force in the regions where it operates and works proactively to anticipate any regulatory changes. This approach is applied from Group headquarters down to each one of our sites in order to **limit the impact of future regulatory changes on our operations** (product bans, reporting, etc.). All the teams have been made aware of these issues and are prepared for any environmental challenges.

**Regulatory watch:** Mersen follows French and European regulatory shifts closely to get ahead of the entry into force of directives that could affect its business; for example, the Industrial Emissions Directive (IED), intended to prevent and reduce air, water and soil pollution from industrial facilities. The Group is also a member of the European Carbon and Graphite Association (ECGA), which contributes to dialog with European institutions on matters affecting the graphite industry.

**Regulatory compliance:** Every site is required to obtain operating authorization or an operating license from the relevant authorities and, if required, is subject to monitoring of its emissions into the air, water and soil. All of the Group's French manufacturing sites (Amiens, Angers, Bazet, Gennevilliers, La Mure, PagnysurMoselle, Pontarlier and Saint-Bonnet de Mure) are subject to regulations governing facilities classified for environmental protection (*Installations Classées pour la Protection de l'Environnement – ICPE*). Outside France, the Group's facilities are subject to similar regulations.

**REACH compliance:** The European REACH regulation (Registration, Evaluation, Authorization, and Restriction of CHemicals) is closely monitored by Mersen. The regulation makes manufacturers responsible for assessing and managing the risks associated with the chemicals they use. Since 2010, the Group has registered several products that make up graphite (primarily resins) and felt. At the May 31, 2018 REACH deadline to register chemicals making up an annual quantity of between 1 and 100 tons, the Group did not report any chemicals meeting this criterion. Coal tar pitch, considered as an intermediary product in manufacturing processes, is excluded from the REACH registration as it is untraceable in the end product.

**Industrial Emissions Directive (IED):** Four Mersen sites (Amiens, Gennevilliers, Pagny-Sur-Moselle and Holytown) are potentially concerned by the IED. Adopted in 2010, it aims to prevent and reduce air, water and soil pollution caused by industrial facilities by relying on the Best Available Techniques (BAT). In 2018, these sites were contacted by their respective regulatory authorities and at end-December 2018 their reports were still under review.

**Seveso:** None of the Group's sites are subject to the Seveso Directive.

### Specific investments

Some of the investments made by Mersen were in areas related to the environment, such as:

- Compliance with environmental regulation;
- Reduction of water and energy consumption;
- Improvement in the rate of waste recycling and recovery;
- Renewal of operating licenses.

**In 2018, the Group's environment-related investments totaled nearly €6 million.**

In addition, every industrial project is subject to a preliminary potential environmental impact assessment. For example, when Mersen invested in purification furnaces for the Holytown site in the United Kingdom, HAZID (Hazard Identification) and HAZOP (Hazard and Operability) analyses were performed with the help of specialist consultants.

### Investments to limit our urban environmental impact

*In 2017 and 2018, investments were made to modernize production equipment at the Gennevilliers site in France in order to reduce the risk of the potential impacts of its activities on surrounding areas and the environment. Built in 1913, the plant is now located in a dense urban environment in a residential and retail area. Security systems were installed on some production equipment while other equipment, susceptible to the risk of failure, were replaced with the cooperation of administrative authorities.*

In 2018, the Group's provisions for environmental risks totaled €0.9 million and are linked to minor decontamination subject in France.

in €m	2018	2017
Provisions for environmental risks	0.9	1.3

### Noise pollution

Mersen has installed an extremely accurate environmental monitoring system at every one of its sites. While our industrial operations **generally do not generate noise pollution in excess of standards**, checks may be performed pursuant to applicable local regulatory requirements.

### Responsible energy use

Every Mersen production site defines its targets and action plans to optimize its power consumption. While the Group strongly encourages the use of renewable energies, sites may use renewables sources at their own initiative. While the majority of sites are phasing in LED lighting, others are also introducing **heat-recovery systems that capture heat generated in industrial operations** to be re-injected into the heating network or reused as a source of energy.

Energy sources such as electricity, natural gas, LPG, fuel oil, propane and butane are used for heating workshops and offices, as well as in manufacturing processes. In the latter use, the Advanced Materials segment consumes the most energy for the operation of furnaces, industrial ovens and machining tools.

### Energy consumption by category in 2018 (environmental scope)

in GWh	Renewable	Non renewable	Total
Electricity purchased	30.2	174.4	204.6
Electricity produced	0	0	0
Natural gas	0	184.6	184.6
Liquefied petroleum gas (LPG)	0	3.2	3.2
Fuel oil, propane, butane	0	1.3	1.3
<b>TOTAL</b>	<b>30.2</b>	<b>363.5</b>	<b>393.7</b>
% of energy consumption	7.6%	92.3%	

### Energy consumption: share of renewables and sales ratio

		2018	2017	Difference
Energy consumption	GWh	393.7	341.0	+15%
% of renewable energy	%	7.6%	N/D	
Ratio to total sales	GWh/€m	0.45	0.42	+7%

In 2018, due to the increase in the Group's activity, its energy consumption grew by 15% to 394 GWh compared to 2017. The increase in the energy consumption to total sales ratio is due to a rise in the production of semi-finished carbon products in 2018 more energy-intensive than other Group's product lines.

To calculate the share of energy consumed from renewable sources, the Group used market-based data provided by the electricity providers, when available, and information on the national energy mixes, known as location-based data. These data were unavailable in 2017.

### Dedicated solutions for the most energy-intensive sites

Mersen implements specific initiatives for its most energy-intensive sites. At the Holytown site in the United Kingdom, power distribution equipment, such as transformers and substations, are continuously adapted to regulate power and lower voltage supplied to equipment; this is expected to reduce consumption by between 10% and 12%. In Chongqing (China), furnaces were inspected and modified to reduce gas consumption.

### Water consumption

Water is mainly used to cool equipment used in heating processes (firing, graphitization and impregnation of graphite) and as such does not constitute a major issue for the Group at any of its facilities.

Water consumption		2018	2017	Difference
Water	m <sup>3</sup>	613,092	512,702	+20%
Ratio to total sales	m <sup>3</sup> /€m	698	629	+11%

The increase in the water consumption to total sales ratio is due to a rise in the production of semi-finished carbon products in 2018 more water-intensive than other Group's product lines.

### Raw materials consumption

**Graphite:** The main raw materials used to manufacture graphite blocks, plates and tubes are coal tar pitch, coke and artificial graphite.

Some of the manufacturing residue from Mersen's production activities can be reused in the production processes of other Group products or sold to third parties to be used in other production processes.

### Consumption of raw materials used to manufacture graphite

In tons	2018	2017	Difference
Pitch	7,276	6,216	+17%
Coke	7,654	7,088	+8%
Artificial graphite	3,500	2,966	+18%
Other	570	730	-22%
<b>TOTAL</b>	<b>19,000</b>	<b>17,000</b>	<b>+12%</b>

The numbers above correspond to material necessary to manufacture artificial graphite (excluding material for the process) on an annual basis and is estimated based on the Group's recipe.

The increase reflects the surge in the production of semi-finished carbon products in 2018.

**Copper:** Copper is an important material used for the manufacture of brushes, fuses and other switches.

Copper consumption		2018	2017	Difference
Copper	Tons	2,241	2,245	-
Ratio to total sales	Tons/€m	2.5	2.8	-8%

Figure excluding one plant in France and one in China in 2018.

### Packaging and logistics

**Timber and cardboard** are used for outbound logistics to Mersen subsidiaries (transport between entities) and customers. The consumption of these resources is also monitored by the Group.

In tons	2018	2017	Difference
Timber	1,900	1,861	+2%
Cardboard	991	1,116	-11%
<b>Total timber and cardboard</b>	<b>2,891</b>	<b>2,977</b>	<b>+3%</b>
Ratio to total sales	3.3	3.6	-10%

### Climate change: managing emissions and identifying risks

In order to better monitor and reduce both direct and indirect emissions, in 2018, Mersen adopted the **standards for quantifying greenhouse gases** as per the principles of the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI) GHG Protocol.

The selected emissions sources are as follows:

#### SCOPE 1: direct GHG emissions

- Emissions resulting from the combustion of natural gas, LPG, oil fuel, propane and butane multiplied by their respective emission factors.
- Emissions resulting from graphite production processes, namely the baking and graphitization of blocks, plates and tubes at the St. Marys, Chongqing, Amiens, Pagny-surMoselle and Bangalore sites.

- Emissions from other manufacturing processes were considered minor.
- Emissions resulting from sources of combustion associated with the transportation of employees, components and products on-site were considered negligible.

#### SCOPE 2: indirect GHG emissions

- Emissions resulting from the consumption of purchased electricity multiplied by their respective emission factors.

#### Table of GHG emissions in tons of CO<sub>2</sub>

In tons	2018	2017	Difference
Direct emissions from burning gas and oil fuel (scope 1)	38,962	33,643	+16%
Direct industrial process emissions (scope 1)	17,700	15,900	+11%
Indirect emissions (scope 2)	94,295	77,819	+21%
Indirect emissions (scope 3)	N/D	N/D	
<b>Total emissions</b>	<b>150,957</b>	<b>127,362</b>	<b>+19%</b>
<i>Ratio to total sales (tons CO<sub>2</sub>/€m)</i>	<i>171.8</i>	<i>157.6</i>	<i>+9%</i>

The increase reflects the surge in the production of semi-finished carbon products in 2018.

Scope 3 sources were identified in 2018 and will be examined from 2019.

**Kyoto Protocol:** Mersen does not have any fixed facilities in Europe subject to the scheme for greenhouse gas emission allowance trading under Directive 2003/87/EC implemented in the European Union as part of the ratification of the Kyoto Protocol, which entered into force in 2005.

**Identification of risks:** Mersen undertook to identify the main climate change-related factors near its production sites including flooding, heatwaves, freezing temperatures, hurricanes and storms, and disruptions to water supply. The Group has committed to perform a more in-depth assessment of these risks by 2021 and draw up an appropriate response plan as necessary.

#### Emissions and waste

In 2018, Mersen made waste management one of its major ecological and economic priorities. Accordingly, the Group committed to a **15 points increase in its waste recycling or recovery over the next three years**, i.e. from 41% in 2018 to 56% by 2021. Every site is encouraged to monitor each waste family in order to reduce their volumes.

**Air:** Mersen intends to systematically measure the level of atmospheric emissions (gas and particulate) of its facilities and implement the appropriate solutions to limit each type of emission.

Our **gas emissions** are essentially due to pyrolysis of raw materials to obtain graphite. These processes include gas emission processing systems to eliminate toxic products, sulfur dioxide (SO<sub>2</sub>) and volatile organic compounds (VOCs). Such systems capture of an average of minimum of 95% of these pollutants.

#### SCOPE 3: indirect GHG emissions

- Emissions resulting from the production of the main raw materials used to produce graphite (see previous section).
- Emissions associated with the use of stainless steel, copper and ceramic fuses used to produce other products.
- Emissions associated with the transportation of purchases, employees (particularly by aircraft), sales and waste.

Our **particulate emissions** are due primarily to our processes for crushing raw material, silication used in our fuse manufacturing processes and graphite product machining. Each process includes a system to filter and capture particulate.

**Soil:** In agreement with local regulatory authorities, the Group closely monitors the risks associated with soil pollution by its facilities. To this end, certain sites have installed piezometers to monitor groundwater. Since 2017, Mersen has also strengthened its environmental auditing procedure for acquisitions by systematically measuring existing soil pollution.

**Waste and recycling:** Even through the waste generated by the Group's activities are negligible compared to other industries, Mersen has set itself a target to reduce its waste and increase the rate of waste recycling and recovery.

		2018	2017	Difference
Waste	Tons	14,502	12,413	+17%
<i>Ratio to total sales</i>		<i>16.5</i>	<i>15.2</i>	<i>+9%</i>
% of hazardous industrial waste		15%	13%	
% of waste recycled		41%	42%	
% of waste recovered		2%	2%	

The increase in dangerous waste in 2018 is due to the reclassification by the landfill of a type of formerly regular waste produced at the St. Marys site in the United States. Using the former definition, the rate of dangerous waste would have been equal to those in 2018.

### Recycling of graphite dust

*Artificial graphite is an inevitable by-product of graphite processes. It results from the dust that is produced when machining blocks and from the offcuts when machining parts from a large block. Because it is too fine to be used in a finished product, the dust is recovered and reused in the manufacturing process, thus significantly reducing purchases of this material.*

### Our performance

Ambition: Reduce the environmental impact of our industrial facilities.

- Increase recycling and recovery of waste from facilities by 15 points from 41% in 2018 to 56% by 2021.

## 5. Continuous improvement

### Our strategy and our commitments

The operational excellence pillar of Mersen's strategy is the result of a proactive and ambitious approach. Its aim is to engage each employee, team and entity in **creating value for customers and continuously improving our internal performance**. The Group's operational excellence plan is focused on two closely-related drivers: disruptive transformation projects that lead to significant changes in our processes, and continuous improvement in front-line performance.

#### In summary:

- Operational excellence at the heart of our strategy.
- An advanced approach to continuous performance improvement.
- The customer is the focus of our attention and thoughts.

### Our initiatives

#### An approach that is adapted to each site

Operational excellence involves **all the production units and sales offices in all 35 countries** where the Group operates. To this end, the Operational Excellence Department has defined a general framework to empower sites to run their own continuous improvement initiatives. Performance is tracked by the Group, which supports the implementation of employee initiatives and shares best practices with all sites.

**Implementation:** Management works with site continuous improvement managers to implement its strategy. Their role is to actively engage teams in action plans by providing them with proven methods and tools. Given their in-depth knowledge of their jobs and workstations, employees have an important role to play in the process.

**Routine meetings:** Daily meetings on site is an essential part of the Group's continuous improvement process. They are an opportunity to resolve problems as a team and are valued by operators and managers alike for the tangible time-saving results regarding design, production and administrative processes.

## 6. Protecting the Group and its reputation

The Group endeavors to protect its information systems from attacks intended to damage its systems or to manipulate, block or

steal data through simulated cyberattacks and awareness-building campaigns for all its employees.



# THE GROUP'S FOUNDATION: HUMAN CAPITAL

## 1. A collaboration-oriented Group culture

### Our strategy and our commitments

The men and women at Mersen are at the heart of the Group's culture. Whether it's by empowering employees, developing local leadership, promoting equality between men and women in all roles and across the business lines, or making disabled persons welcome at Mersen, we make a point of not only of **staying ahead of regulations but also going above and beyond our legal obligations**. The approach is adapted to each country and with the utmost respect for local specificities and cultures.

#### In summary:

- A proactive approach to diversity and equal opportunities.
- Unifying values shared by all employees.
- A strong Group culture that respects the specificities of local cultures.

### Six major "Human Capital" programs

In early 2019, Mersen presented its six major "Human Capital" programs. Each program is sponsored by one or more members of the Executive Committee and sets out to strengthen the Group's strategy to promote a culture where people are the bedrock of the Group and its business development.

The six major programs are:

- Strengthening our culture and our values
- Consolidating our expertise
- Transforming our management culture
- Developing our project culture
- Improving employee induction
- Promoting diversity and gender balance

### Workforce mapping

Workforce	2018		2017	Difference
Europe	2,361	34%	2,062	+299
Of which France	1,320	19%	1,303	+17
North America (including Mexico)	2,102	30%	2,012	+90
Asia-Pacific	1,782	26%	1,723	+59
Rest of the world	672	10%	587	+85
<b>TOTAL</b>	<b>6,917</b>		<b>6,384</b>	<b>+533</b>

Workforce	2018		2017	Difference
Engineers and managers	1,325	19%	1,183	+142
Technicians and supervisors	1,083	16%	1,004	+79
Employees	556	8%	562	(6)
Operators	3,953	57%	3,635	+318
<b>TOTAL</b>	<b>6,917</b>		<b>6,384</b>	<b>+533</b>

Workforce 2017	6,384
Scope	286
Hires*	2,051
Terminations*	(158)
Other departures	(1,646)
<b>WORKFORCE 2018</b>	<b>6,917</b>

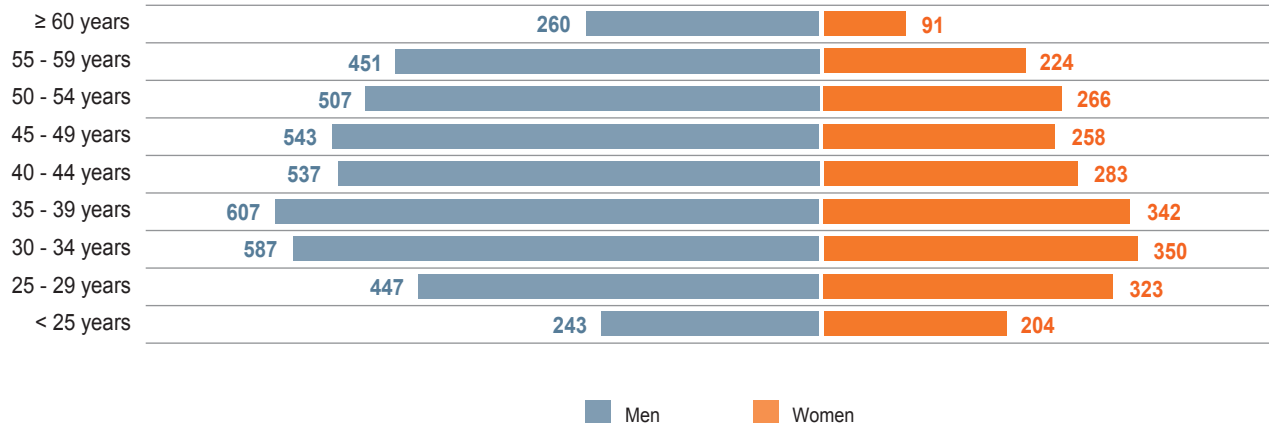
\* HRIS scope

Absenteeism rate reaches 2.8% (Standard perimeter) vs 3.3% in 2017.

Changes in scope are related to the integration of acquisitions made over the year (FTCAP, Idealec) and the joint venture, Galaxy, in China. Recruitment occurs primarily at the sites exposed to strong-growth markets (Holytown, Juarez, etc.) and also includes the replacement of outgoing employees. Dismissals were for the

most part as a result of two major restructuring plans announced on September 13, 2016, and concerned two French sites.

The age pyramid is well balanced with the average age of Group employees being 41. Senior staff over 55 years of age make up 16% of headcount, unchanged from 2017.



## Our initiatives

### Values shared by all

**Excellence, Collaboration, People-conscious, Agility & Entrepreneurial spirit and Partnering with our customers:** these five values defined in 2016 are the result of a joint effort involving managers and the human resources community. They are the cornerstones of a Group culture that is strong, recognized and attractive because of the level of trust and responsibility given to employees.

In 2016, information workshops were held across the Mersen sites to allow employees to take better ownership of these values. A subsequent survey conducted globally made it possible to **compare these values with those encountered by staff on a daily basis**, as well with those they aspire to for Mersen's future. Based on this local and global vision, indicators were defined for each site (human potential success rate, pride of belonging, alignment with values, alignment with duties, rate of commitment, quality of action plans), together with actions plans which were implemented in 2017. The new survey conducted in 2018 confirmed this vision and revealed a rise in the human potential success rate.

#### In summary:

- The human potential success rate was 83% in 2016 and 85% in 2018.
- In 2018, 89% of employees stated that they were proud to be part of the Group.

### New recruit integration program

To allow every new recruit to quickly find their feet and take ownership of the Group culture, Mersen developed the mandatory integration program called "I Become Mersen". It starts on the first day on the job: the new recruit is given a **welcome booklet and kit** containing all information he or she needs to learn about the Group. The program is then adapted to the profile of each new recruit.

While the appointment of a mentor is optional according to the site and position, all new-comers receive **internal training** – classroom and e-learning – covering safety, the Group's Code of Ethics, etc.

Engineers and managers take part in a specific training course that includes project management at Mersen and an overview of the Group's management framework. They also attend a **two-day integration seminar**, the "New Comers Event" during which Group directors present the Group and its activities, and participants visit industrial sites to learn about topics like safety and operational excellence.

Mersen also implemented a specific integration program, "We Become Mersen", for **new employees joining the Group as part of an acquisition**. The adapted program focuses on human, social and cultural aspects.

#### In summary:

- A mandatory integration program, "I Become Mersen".
- Training on safety and the Group Code of Ethics for all.
- A seminar dedicated to engineers and managers, "New Comers Event", organized in 2018 in all the regions in which we operate: America, Europe and Asia.
- Adaptation of the program for acquisitions: "We Become Mersen".

### Diversity: collaboration based on the respect of local cultures

Present in 35 countries and on four continents, for many years Mersen has made the diversity of its teams' origins, training, cultures and ways of thinking **one of its quintessential strengths**. This very diversity is what drives collaboration between our teams and sparks our creativity so that we can better understand the needs of our customers around the world.

To preserve this diversity, our company culture inspires **mutual respect and recognition of the intrinsic value of each individual**, whatever their origin, and **combats all forms of discrimination**. Human Resources strives to ensure equal opportunities at every level, while maintaining and strengthening the multi-disciplinary capabilities of teams.

As a member of the United Nations Global Compact, Mersen is committed to eliminating all forms of discrimination in employment and occupation around the world. We also defend this cause within various organizations and regularly discuss best practices with other companies.

**Success and close relationships through local management:** While Mersen enjoys a strong company culture, it needs adapt to local cultures to be truly effective. This is why virtually all the Group's sites are run by local managers. This balance of respecting our principles and values and recognizing local realities is what lends substance to the Group's human dimension.

Industrial plants	2018	Plants with a workforce of above 125	2017
Europe	22	6	19
Of which France	8	4	7
North America	13	4	13
Asia-Pacific	13	3	13
Africa and South America	5	2	5
<b>TOTAL</b>	<b>53</b>	<b>15</b>	<b>50</b>
Site managers with local nationality	90%		90%

**Local initiatives in step with local realities:** Through its activities, the Group naturally has an impact on local and regional development. Local teams take part in economic and charitable initiatives alike.

- An active role in competitiveness clusters: in France, Mersen actively participates in competitiveness clusters, which bring together groups of companies and institutions in a clearly identified geographic area and to focus on a specific topic.

For example, Mersen Boostec, located in the Midi-Pyrénées region, belongs to the European ceramics cluster (*Pôle Européen De La Céramique*) and Aerospace Valley (aeronautics, space and embedded systems). The Group also works with PRIMES, a local power mechatronics and energy management innovation platform, and is a member of the European center for innovative procedures (*Maison Européenne des Procédés Innovants – MEPI*).

Mersen Angers is a member of S2E2 (Smart Electricity Cluster), a competitiveness cluster specialized in renewable energies, electrical grids and energy efficiency.

- Initiatives supporting projects that reflect Group values: In all the countries where the Group operates, management and staff are involved in charitable work.

In South Africa, the Group supports organizations that help abused women and children and in Australia, employees work with the homeless.

In India, Mersen supports employees' families by providing access to training that could open up the job market. The Xianda site in China supports students in difficulty.

Most of the Group's sites around the world donate to local charitable organizations.

#### In summary:

- Equal opportunities and combating all forms of discrimination are at the heart of our approach.
- Member of the United Nations Global Compact since 2009.
- Site management entrusted to local managers.

### Gender balance: ensuring equality in the workplace at all levels

The Group's primary objective, the **integration of an increasing number of women in all roles**, including roles in production, has over many years led to several initiatives in recruitment, professional development, communication, raising the awareness of managers, compensation, maternity/paternity leave, organizational changes, adaptation of workstations, etc.

	2018	2017
% of women in the Group's workforce	36%	37%
% of women managers	27%	27%
% of women managers and professionals	20%	20%

In 2018, Mersen set the target of employing **25% to 30% female managers & professionals** by 2022. To this end, the Executive Committee is therefore closely monitoring the action plans initiated at Group level and in its two business segments. Special attention is given to bottom-up feedback in order to **better identify any problems encountered by women** that hold them back in their professional development, and to better coordinate among the different countries and business segments.

**Agreement in favor of professional equality:** In 2015, management and all union organizations renewed their commitment to gender equality in the workplace by signing a new three-year agreement. It sets the objectives of promoting more flexibility between professional life and family responsibilities and improving gender balance in representative bodies.

**WiN (Women in Mersen):** Created in 2010, the WiN network brings together male and female Group employees who want to work together to promote cooperation and mutual assistance, encouraging growth through greater diversity. WiN gives employees the opportunity to meet and reflect on these matters outside the managerial structure, and aims to become an international network within the Group that can take part in inter-company events.

### Women in China

*The Shanghai site in China participated in numerous meetings with the Local Federation of Women to discuss themes specific to women, find ways to help women and generally promote women's rights.*

### Integration: a workplace suited to disabled workers

Mersen's disability policy is part of **an overall policy of fostering diversity**. The Group also regularly subcontracts with sheltered work agencies in France (ESAT) and equivalent entities in other countries.

In addition, several specific initiatives were run in a number of countries:

- **France:** a partnership was formed with ARPEJEH, a non-profit organization supporting educational projects for disabled school-age and university students. It provides an opportunity to accommodate disabled people and give them an introduction to the business world. Mersen Amiens works with a sign language institute to facilitate communication with one of its hearing-impaired employees.
- **India:** Mersen works with EnAble India to train its staff on how to accommodate and work with disabled colleagues. The site welcomes employees suffering from serious disabilities into its production unit.

- **Canada:** Mersen Canada prepared a facilities access charter for its disabled employees and customers.
- **Turkey:** The Mersen Gebze site specially re-fitted its work areas to facilitate circulation in the facility, including for people with reduced mobility.

### Labor relations: putting the spirit in team spirit

Labor relations is a core component of Mersen's human resources policy. It forms part of a process of **continually seeking a balance between economic and social imperatives** and is adapted to all levels of the Group and in all its countries of operations – giving the utmost respect not only to Mersen's values and ambitions, but also to the local cultures and history of each site.

- **Europe:** Dialog with employee representative bodies at French and European level takes place at meetings of the Group Committee and the European Works Council respectively. Mersen's situation and its strategic priorities are discussed at these meetings, which complement existing employee representative consultation and discussion bodies within the Group's companies. In France, yearly meetings are held with each union organization.
- **United States:** The St. Marys plant has worked with an external union for many years discussing wages, working and employment conditions, and employee benefits. The unions meet on a regular basis to address issues of common interest in order to ensure alignment with mutual interests. The last contract was signed in 2016 and will be renegotiated in 2019.
- **Canada:** Since its creation in the 1960s, the Mersen Dorion subsidiary has a formal union accreditation by virtue of a contract that is signed every four to five years between Mersen and the union organization, United Food and Commercial Workers (UFCW). The contract covers several areas (wages, profit sharing, working conditions, health and safety, public holidays, etc.) and was recently renegotiated for a further five years, i.e. until 2024.
- **Brazil:** Mersen's staff representative bodies take part in various annual renegotiation discussions (wages, profit sharing, hour bank systems, etc.). Two committees, CIPA (health and safety) and PPR (profit sharing), also regularly oversee the Group's performance. Employees are also convened by General Management four times a year to discuss company strategy, market conditions and the performance of Mersen do Brasil.

### Employment, training, learning: Mersen, partner to schools and universities

Mersen cultivates ties with the schools and universities in all its countries of operation in order to introduce young people to its sectors of activity and operations. As a strong advocate of learning, the Group is actively involved in **training the talents of tomorrow by awarding scholarships and welcoming young people at its various sites** through work-study contracts, internships or orientation visits. Several initiatives have been run locally to encourage the professional reintegration of people without access to employment.

- **France:** The Pagny-sur-Moselle facility collaborates regularly with local schools and universities (including EEIGM, Ensic, ENIM, Université Paul Verlaine, etc.). This partnership involves hours of training given by employees, participating in job forums, symposia and conferences, but also regular apprenticeship opportunities. The Gennevilliers site implemented a personalized training program to suit its production requirements in collaboration with an industrial and technological training center, AFORP. Fourteen people have been hired under professional training contracts through this program since 2015.
- **United States:** The St. Marys plant in Pennsylvania is involved with the local education committee and plays a consulting role for training initiatives. In Greenville, Michigan, Mersen works with teachers at a local school to inform them of jobs and about how they can develop the employability of their students. Strong relationships were also formed with engineering schools and universities; for example, the Newburyport facility in the United States, where the R&D Department is partnered with Northeastern University.
- **China:** Mersen's Xianda Shanghai site maintains a close relationship with local universities, in particular the Institute of Technology. Every year it organizes visits for students, and employees are regularly invited to present Mersen's business to future graduates.
- **South Africa:** Mersen formed a partnership with the SAJ Competency Training Institute to accommodate three trainee fitter and turners and help them gain experience before their final exams. This cooperation is part of the Group's succession and skills transfer program. One of the three young people involved was recruited by Mersen South Africa at the end of the training program.

- **India:** Mersen India runs a number of initiatives in partnership with schools and universities. These include plant tours, helping students with specific projects and career counseling for employees' children. Some 20 apprentices were also integrated into technical roles as part of a contract with local government.
- **Great Britain:** Mersen's industrial sites in Great Britain (Teesside and Holytown) have formed research partnerships with universities. Holytown ran a program with the University of Strathclyde and Innovate UK to help companies improve their competitiveness and productivity by making better use of their skills. Teesside also works with a local university.

### WindLab: an initiative to develop wind power in Picardy, France

*For several years Mersen has been involved in WindLab, a regional wind energy jobs training initiative in the Picardy region (France). This training offers job-seekers an opportunity to obtain a certificate that is essential for working in the booming wind energy sector.*

### Our goals

- Human potential success rate of 88% (+3 points vs 2018) by 2021.
- 25% to 30% female managers and professionals by 2022.

## 2. Health and safety: a constant priority

### Our strategy and our commitments

In light of the Group's resolutely people-oriented culture, Mersen's policy puts health and safety requirements at the forefront of its priorities. This is made very clear and tangible at all the Group's sites where **every effort is made to ensure the safety of employees and develop health-related preventative measures**. Because we believe that all accidents can be avoided and every risk preempted, we have made the quest for health and safety excellence in the workplace a constant priority.

#### In summary:

- People at the heart of our concerns.
- Strict safety measures at all sites.
- Health-related training and preventative measures delivered on a regular basis to all employees.
- As asset for recruitment.

### Our initiatives

#### An organization focused on efficiency

Mersen's Health & Safety, Environment and Industrial Risks function is part of the Operational Excellence Department. Health and safety measures and their results are reviewed each month by the Executive Committee during an EHS Committee meeting to **establish the Group's safety policy and the priority objectives**, particularly the prevention of serious accidents. In 2018, the Executive Committee updated its health and safety commitment and disseminated it to all its sites.

**Health and safety management system:** In accordance with the rules defined at Group level, each site manager is responsible for implementing an occupational health and safety management system that is effective, compliant with regulations and adapted to local activities. Every lost-time accident is immediately reported to the Executive Committee. Every reported accident (with or without lost time) is investigated in order to determine the appropriate technical solutions and training.

**Health and safety correspondents and officers:** The majority of Mersen's plants have a dedicated health and safety officer who is appointed by the site manager and who helps to implement the policy formulated by Group management. A network of correspondents by geographic area was also set up to perform cross-audits in each area, conduct more detailed audits at underperforming units and implement the Group safety policy formulated by the Executive Committee. Correspondents report to Group management on changes in local health and safety regulations.

	2018	2017
% of subsidiaries with a dedicated manager	95%	92%

**Indicators:** Every month, the Health & Safety, Environment and Industrial Risks function circulates a publication dedicated to safety reviewing the latest trends in Mersen's safety indicators and highlighting best practices. It is sent to site managers, safety managers and human resources managers, and is also available on the Group's intranet. Since 2011, the Group has included temporary staff in its reported accidents indicators and monitors this population closely which, by definition, is less familiar with equipment and associated risks than Group employees.

Safety indicators	2018	2017
Frequency rate of lost-time accidents (FR1)	1.5	1.6
Frequency rate of accidents with and without lost time (FR2)	4.1	4.4
Severity rate (SR)	71	64

**Audits:** Every year the Executive Committee decides on an audit campaign for its different sites. The audits are performed by the Group's Health & Safety, Environment and Industrial Risks function.

**Analysis and monitoring:** Shortfalls in the US Occupational Safety and Health Administration (OSHA) were analyzed in 2018. These shortfalls highlighted the need to complete the current management system through involving and making employees and managers aware of the program, annual appraisal and communication with contractors and temping agencies. The management system is scheduled to be updated in 2019.

### The key factors of Mersen's health and safety management system

- Safety steering committees at all levels of the Group, from production sites to Executive Committee.
- A systematic risk assessment and implementation of preventative measures.
- Safety inspections and audits.
- Health and safety training for every employee at every workstation.
- The involvement of all employees to report and eliminate any danger.
- Safety golden rules, and systematic and event rituals.
- The distribution of a monthly publication on health and safety best practices.

### A shared health and safety culture

Mersen's health and safety policy owes its effectiveness to the **involvement and awareness of its workers**, both long-term and temporary. The Group has set up training on these subjects and regularly organizes on-site theme events to highlight the appropriate best practices. Strengths and wins in accident prevention are also shared within the Group.

**Training:** Health and safety training for new and temporary staff comprises three complementary components: a mandatory presentation on health and safety in the Group, also available as an e-learning module and in many languages; a specific presentation at every site on each facility's general health and safety rules and procedures; a specific presentation on the risks and appropriate procedures for the workstation.

	2018	2017
Health and safety training (hours)	39,380	55,378

**Awareness:** A "safety week" is held every year at a number of sites. These awareness-raising events contribute to fostering a safety culture and feature themed workshops and guest speakers (emergency services, ergonomics experts and health professionals). Other than safety in the workplace, food hygiene and the risk of domestic accidents are also addressed.

**Safety Awards:** Mersen introduced an awards program to showcase the efforts and progress made by the Group's sites in the area of safety. The awards are given by the Executive Committee and reward the facilities' performance with regards to numbers of days without a lost-time accident. At the end of 2018, the results were as follows:

- 1 site with more than 4,000 days
- 5 sites with more than 3,000 days and less than 4,000 days
- 8 sites with more than 2,000 days and less than 3,000 days
- 15 sites with more than 1,000 days and less than 2,000 days
- 9 sites with more than 500 days and less than 1,000 days

### Accident prevention and safety: fundamental to industrial sites

Identifying dangers and managing the risks inherent to each workstation is the Group's primary objective, with close attention given to "critical" risks that can lead to a fatal accident.

**Risk assessment:** Every one of Mersen's industrial sites performs an annual assessment of its safety risks in order to account for new potential risks as the result of equipment modifications or changes to local regulations. The assessments are also systematically reviewed after each accident or near miss to check that the cause of the accident had been listed, and as part of corporate safety audits. In 2018, 100% of sites reviewed and updated their risk assessment.

**Safety visits and job hazard analyses:** Fatal risks safety visits and workstation job hazard analyses (JHA) were carried out at all Mersen sites in 2016. At the end of 2018, 88% sites had completed their job hazard analyses and update them regularly, particularly in the event of changes in equipment or the detection of new risks.

Safety visits	2018	2017
Number of safety visits	4,124	3,954
Annual progress (as a %)	+4.3%	+3.9%

**Audits:** Corporate safety audits take place annually and since 2018, the process has been rounded out with cross-audits performed by geographic area. The cross-audits are conducted by specially trained individuals and serve to strengthen the sharing of operational experience and best practices. The program's organization by geographic area also helps to strengthen exchanges among facilities with the same local culture, promoting understanding and implementation of the solutions proposed. This mode of organization has also considerably increased the number of sites audited for health and safety. The target is to audit all the Group's industrial sites.

	2018	2017
Health and safety audits (% sites)	66%	26%

**Reporting potentially dangerous situations and declaring "near misses":** Any potentially serious or dangerous event that has occurred in any of the Group's facilities is systematically reported even if it has not caused an accident. A reporting tool for near misses was also implemented to improve the working environment and avoid potential accidents. In 2018, 1,125 near misses were reported compared with 820 in 2017.

### Health: promoting well-being in the workplace

Mersen embarked on a program to develop well-being in the workplace and **emphasizes prevention while providing remedial measures where necessary**. While the program led to an agreement with all union partners in France, it was also rolled out in other countries where the Group operations with all the same requirements and respect of local legislation in force.

**Prevention of risks and occupational stress:** Multi-disciplinary working groups including operators, managers, technical departments, occupational medicine, safety officers, and the workplace health and safety committee were formed at the Group's sites to identify risks and improve workstation design in production, administrative and technical departments. These processes are intended to reduce inaptitude at work stations, occupational diseases and absenteeism. Mersen's objective is to take action as early as possible for prevention purposes.

**Employee awareness training:** In 2018, the Group pursued its efforts to train and raise the awareness among employees exposed to polycyclic aromatic hydrocarbons (PAHs) at facilities producing graphite products. Measures of prevent musculoskeletal disorders (MSDs) and rules regarding lifting heavy loads were also improved at certain sites with the help of ergonomics experts.

**Occupational illnesses:** The scope is limited to France due to wide variety of definitions for occupational illness across the Group's host countries. Occupational illnesses within the Group mainly concern musculoskeletal disorders.

Employees suffering from an occupational illness	2018	2017
Number of employees	6	8

**Charter for a better work-life balance:** This charter was updated in 2018 to integrate the Group's commitment to the reasoned and balanced use of digital devices. The charter addresses five issues: scheduling of meetings, maternity/paternity leave, flexible working hours and e-working, digital devices and managing rest periods. The charter will be distributed to all the Group entities and will be in line with the minimum rest times required by local legislation.

**E-working:** In France, as in the United States, arrangements for employees to work from home have been established in a structured way for several dozen employees. This intermittent practice is starting to develop throughout the Group in accordance with the demands and preferences of each country.

**The right to disconnect:** In France, an agreement on the right to disconnect was signed with the unions. It formalizes the rules for using digital devices in order respect rest time, and is being introduced through awareness campaigns aimed at managers and employees.

### 3. Encourage skills development

#### Our strategy and our commitments

Mersen operates in extremely complex and highly competitive sectors and owes much of its success to the **expertise of its teams and skills of its employees**. To retain its talent and attract new talent while adapting to the technical and technological developments of its markets, the Group established a human resources policy focused on continuing professional development. This is a forward-looking approach to employment that allows Mersen to make the necessary changes to maintain its reputation as a leader.

#### In summary:

- A proactive policy for continuing professional development.
- Supporting the professional development of employees in order to retain them and help them to continue to grow.
- A deep transformation of the management culture.
- A desire to attract new talent in order to continue to adapt to changes in the market and build on the expertise of the teams to continue to offer high-quality products.

Training (average number of hours per employee)	2018	2017
Group	12.2	13.5
<i>incl. Mersen Academy (e-learning platform)</i>	1.8	1.6
France	13.3	15.7

Scope included in HRIS, excluding the following sites: Portslade, Teesside, Holytown (UK), Moscow (Russia), Taipei (Taiwan).

#### Our goals

- Increase the number of safety inspections by 15% from 2018 levels by 2021.
- Attain a lost-time accident frequency rate (FR1) of less than or equal to 1.4 in 2021.
- Attain a lost-time accident severity rate (SR) of less than or equal to 60 in 2021.

#### Mersen Academy objectives

- Streamline training through e-learning.
- Support staff in their personal development and employability efforts.
- Integrate new hires into the core of Group training processes more easily.
- Systematically offer training programs on essentials, such as safety, quality, ethics and management.
- Reduce training costs.
- Promote interactivity and collaborative work within the Group.

#### Our initiatives

##### Project management and cross-business coordination: a shared method

Be it acquisitions, industrial adjustments or major investments, Mersen carries out major projects throughout the year. The successful execution of these complex projects relies on the use of a **shared management method**, the Global Project Standard (GPS).

In 2015, the methodology was revised by a working group comprising operational employees from the various business lines and project management experts. Group training and deployment methods were also reviewed.



**E-learning:** An e-learning module on the GPS method is used to familiarize employees with the broad guidelines and methods. It has been mandatory for new engineers and managers since 2016 and can be rounded out with in-depth classroom training given by in-house experts. In 2018, this training was complemented by role playing exercises.

**Ambassadors:** Thirteen ambassadors in charge of providing methodological support to the project teams were certified by the business segments and the Company's principal operating regions. They ensure that the GPS culture is applied and respected across the Group, assist and train project managers and their teams, and answer any queries they may have.

### Open Manager: increasing quality of management

Faced with a changing, fast-moving world, Mersen has chosen to adapt its management culture through its Open Manager framework. Open Manager sets out the **management behaviors that are expected** throughout the Group management structure for corporate executives, middle managers and supervisors. It is broken down into five areas: Working with Everyone, Communicating and Making Sense, Motivating and Developing Employees, Building the Future, and Achieving and Raising Standards.

**Identification of skills:** 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 with external hires in key roles such as expertise area executives, business managers and product line managers.

**Training:** As part of the Mersen Academy, Mersen launched its "Management Fundamentals" training course in 2018 aimed at the entire Group management community. The purpose is to revisit the fundamental practices that managers need to apply in order to effectively manage their teams on a daily basis. In 2018, 74 out of the 76 participants were certified.

**Personal development:** Group senior management have access to a personalized development program. It uses 360° and Hogan-type assessments to draw up a development plan with the help of an executive coach. In 2017, these personalized programs were completed with coaching for the management teams throughout the year.

### Career development: opportunities for every profile

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 geographic areas **by prioritizing mobility and the international diversity of managers**. This international mobility policy is underpinned by a desire to develop local talents and recognize skills, wherever they may be. This approach allows Mersen to encourage responsiveness to customers and foster growth and innovation.

**Career committees** provide the opportunity to assess the career outlooks of key managers in each of the businesses and to prepare individual skills development plans on a yearly basis. These reviews are conducted at facility and segment level and help to identify key and/or high-potential employees for review by the Management Committee's Talents Committee. These committees contribute to improving succession planning in the same way as experience interviews.

**Evaluations:** Individual evaluations are held for senior managers or other experienced managers who are expected to be promoted to a key management position in the short term. The aim is to check the suitability of the potential promotion and draw up a personalized development plan, which will also help employees succeed in their new role. Since 2018, evaluations for emerging talent have also been organized.

### Managing human resources for the future

While the Group is preparing its future by identifying the skills it will need to ensure its growth going forward, employees also need to be aware of likely changes in their jobs so that they can **actively improve their own skill set**.

To this end, each business performs an annual forecast of the skills it will need in the medium term, based on strategic workforce planning and in step with its priorities and those of the Group. This analysis is consolidated at the Group level, based on Mersen's benchmark job framework.

**Group Job map:** Updated annually, it identifies and describes, for each of the 11 job fields (sales, marketing, business, R&D, production, production support, sourcing, information systems, human resources/safety/general services, finance and legal affairs, and business process owners), the 95 Group benchmark jobs shared by all divisions. This job map, along with challenges, specificities and associated skills, is used to increase the effectiveness of the Group's HR policies (hiring, mobility, training, etc.) and narrow down the types of skills in demand during the hiring phase.

### Open Expert: Mersen's community of experts

To ensure the Group's development, and in particular to strengthen its technological excellence, Mersen set up **an expertise career path called "Open Expert"**, in parallel with its management path. It includes experts chosen for their key expertise in the Group's strategic business lines, as well as for certain behavioral skills.

Group champions, these specialists are volunteers who in addition to their expertise are especially skilled in **sharing know-how and galvanizing their colleagues to help move the Group forward**. Three levels were defined (experts, senior experts, executive experts) and 17 Open Experts had already been appointed in 2018, forming the foundation of a community dedicated to spreading the Group's culture of expertise.

### Knowledge transfer: preparing for retirement

**Planning ahead for departures linked to demographic trends in the Group's workforce** is instrumental to the Group's human resource planning policy and is closely monitored in all countries. This includes training young people and keeping more senior employees on, often by appointing them as mentors so build bridges between generations and encourage skills transfer.

**Hiring, integration and training young people:** In France, despite the expiry of the *Contrat de Génération* action plan, Mersen has upheld its commitment to hire young people on fixed-term contracts while maintaining positions for senior employees. In 2017, the Group also took on 27 paid interns on degree courses and offered 58 work-study contracts for apprentices or interns. Mentors/subject matter experts are appointed to monitor young recruits and guide them through their arrival at the Company.

**Retirement:** All employees likely to retire within two to five years are eligible for an interview regarding their experience. Known as an "experience interview", the objective is to review the departing employee's knowledge and key skills, and arrange a transfer of these skills. The interview also serves to adapt the final phase of each employee's career to ensure it remains interesting and as useful as possible. Managers are eligible to receive training on how to prepare for these interviews that contribute to improving succession planning.

**Tutoring:** Highly motivated employees with expertise in a key area for the Group may be asked to become expert tutors. This kind of tutoring ensures the proper transmission of professional knowledge, which concerns everyone including experienced managers, engineers, technicians and operators.

### Tools for better supporting and managing teams

Among the management essentials and innovative tools, Mersen offers its managers a **range of tools to help with managing teams and providing personalized support to every employee.**

**Annual evaluation:** The annual evaluation is a key element of the skill development process and is an ideal opportunity for discussion between employees and their direct manager. In addition to measuring individual performance and setting new targets, the evaluation is also an opportunity to assess current and upcoming skills development. If necessary, a mid-year evaluation at the end of the second quarter can be held in addition to the annual evaluation.

To ensure the success of the annual evaluations, Mersen has developed application in its Human Resources Information System (HRIS) that includes online forms. Managers around the world can familiarize themselves with these annual evaluations via training on the Mersen Academy 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.

**Key findings report:** Since 2018, at certain sites every new employee prepares a key findings report after their first three months. This is part of the Group's continuous improvement process and is an opportunity to assess employees' level of integration, and receive any questions and feedback.

**Continuing education:** Mersen rolled out e-learning access to all its employees worldwide in 2013. In addition to general training and customized vocational training, the online training portal, Mersen Academy, helps develop the skills of the Group's employees and support their professional development. The Group also promotes qualifying training programs via joint qualification certificates in its business areas, such as metallurgy and chemistry, as well as training leading to a degree with KEDGE business school. It also gives access to mandatory on compliance, safety and ethics training.

**Exit interviews:** In 2018, Mersen introduced specific interviews for employees who choose to leave the Group in order to better understand their reasons and get an overview of their career with Mersen. These interviews aim to identify any potential issues and implement the appropriate action in order to better retain talent.

### Reminder: SIRH objectives

- Support managers in managing their team.
- Strengthen workforce monitoring with reliable, relevant indicators.
- Manage compensation systems.
- Streamline information processes and flows from the countries where the Group operates.
- Deploy the HR strategy throughout all Group subsidiaries.
- Promote Group culture and develop a strong Group identity.

### Our goals

- Accelerate managerial transformation: 100% of managers trained in Open Manager by 2021.

# BUSINESS ETHICS

## Our strategy and our commitments

Mersen's development is driven by shared and mutual trust with all its stakeholders, be they employees, customers, suppliers, banks or shareholders. This is reflected **through values and ethics that are shared by all its employees** and applied responsibly, on a daily basis as, all levels from site management and human resources relations to financial transparency, anti-corruption and, of course, an ambitious sustainable development policy.

## Our initiatives

### Code of Ethics: collective and individual engagement

The Code of Ethics restates the collective and individual commitment of Mersen and its employees to establish and build on mutual trust both within the Group and with all our stakeholders. It formalizes each individual's commitment to apply the Group's values and **applies both to all Mersen employees, irrespective of their country or position, and to the members of the Board of Directors.**

The Code of Ethics was updated in 2017 and a mandatory online training module was established in 2018 in order to familiarize staff with it.

Mersen's Code of Ethics covers the following areas:

#### ■ Relations within the Group

- Health & safety
- Harassment
- Equal opportunities
- Mutual respect

#### ■ Relations with customers, suppliers and competitors

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

#### ■ Relations with shareholders

- Fair presentation
- Insider trading

#### ■ Asset protection

- Confidentiality
- Use of corporate assets
- Group's reputation

#### ■ Undertakings as a responsible business

- Accuracy of financial statements
- Environment
- Sustainable development
- Donation and patronage

The full Code is available on the Mersen website: <https://www.mersen.com/group/ethics>.

### A dedicated organization

To develop and coordinate its ethics and compliance policy effectively, in 2017 Mersen set up an **Ethics & Compliance function** that reports to General Management. The new function is tasked with (i) identifying and assessing any risks of non-compliance with laws or regulations which would damage the image, culture or financial stability of the Group, (ii) implementing appropriate procedures and processes to minimize such risks, (iii) informing and raising the awareness of Group employees of the main risks; and (iv) managing the "ethics hotline".

**Extended scope:** The scope of the Ethics & Compliance function covers the prevention of corruption (relations with third parties, vendor commissions outside Mersen, gifts, donations and patronage), export and trade restrictions (export restrictions, trade sanctions and embargoes), potential conflicts of interest, protection of sensitive data, and the fostering integrity and an ethical culture. The Ethics & Compliance function also works with the Human Resources Department to prevent illicit work and harassment, protect whistle blowers and ensure compliance with labor laws.

**The Ethics & Compliance Committee** comprising the Chief Executive Officer, the Chief Financial Officer, the Group Vice President for Human Resources and the Vice President for Risk and Compliance, develops the Ethics & Compliance function and facilitates the implementation of its initiatives. It meets at least three times a year and whenever necessary following an alert.

It supports the development of the Group's ethics culture and dedicated tools, and ensures the implementation of decisions. In the event of an ethical and/or compliance related alert, the Committee is called upon to analyze the situation and take action.

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

### Anti-corruption: a major priority

In a bid to combat corruption at all levels and in all countries where the Group operates, since 2017 Mersen has been running a number of initiatives, particularly as part of the application of the French Sapin II Act: **transparency, anti-corruption and the modernization of the economy.**

In addition to mapping corruption risks and establishing an ethics alert system, Mersen implemented **specific training** to complement the existing general Code of Ethics training. In 2018, 500 managers potentially exposed to the risk of corruption attended this training module.

In addition, all third-party sales agent contracts are being amended to include corruption prevention measures.

### A responsible taxpayer

Mersen takes great care to **pay its taxes in all the countries where the Group operates**. The Group maintains good relations with the different local tax authorities and is committed to operating based on trust and transparency.

This fiscal approach is consistent with Mersen's business and strategy, and safeguards the value generated for the Group and its shareholders. The approaches tax risk, management and governance are monitored based on the principles of due diligence and materiality, and guarantees that the Group complies with all regulations in force in all the countries where it operates.

**Tax burden:** Mersen does not and will not engage in transactions of which one of the main reasons is to reduce its tax burden. The Group ensures the compliance of all its companies with their national tax legislation.

**Transparency:** None of the companies of the Mersen Group operates in an offshore financial center or in a jurisdiction that is considered by the OECD tax transparency report to be partially or non-compliant, with the exception of Tunisia (partially compliant). However, this presence is justified due to the purely industrial and commercial nature of operations (manufacturing and sales offices).

### The 2018 projects of the Ethics & Compliance function

#### Sapin II Act:

- *Implementation of continuous monitoring of certain accounting transactions at all the Group's French sites.*
- *Initiation of a third-party monitoring procedure, primarily of customers and suppliers.*
- *Work toward compliance with the Conflict Minerals Regulation.*
- *Documentation and implementation of policies regarding conflicts of interest, gifts and invitations, donations and patronage.*
- *Training on Ethics Code*

#### General Data Protection Regulation (GDPR):

- *Implementation of a verification tool in compliance with the current standard, and verification of processing procedures for all the Group's EU subsidiaries.*
- *Bring all the Group's websites into regulatory compliance.*
- *Bring standard contracts of the information system policy and internal rules of the relevant EU subsidiaries into regulatory compliance.*

#### Other subjects:

- *Review of procedures relative to embargoes and export restrictions.*
- *Verify compliance with US International Traffic in Arms Regulations (ITAR).*

## OTHER CSR INFORMATION

Given the nature of its industrial operations, Mersen does not consider the following themes to be key CSR risks and as such do not justify further development in this report:

- Reduction of food waste.
- The fight against food insecurity, the respect for animal welfare, and responsible, fair and sustainable food.

Regarding biodiversity, Mersen does not consider this subject as a key CSR risk. As part of Reach regulation, tests on graphite were conducted and did not reveal any environmental toxicity. To its knowledge, the other components of its products have little or no impact of biodiversity.

# OUR REPORTING METHODOLOGY

This chapter contains the social, societal and environmental information required under Article R. 225-105-1 of the French Commercial Code, as amended by order no. 2017-1180 and implementing Decree no. 2017-1265, transposing Directive 2014/95/EU of the European Parliament and Council of October 22, 2014, relative to the publication of non-financial information.

## 1. Reporting scope

The CSR reporting scope encompasses the companies included in the financial consolidation scope based on the following principles:

- **Social and societal reporting:** All companies other than companies acquired within the last year.
- **Environmental reporting:** All companies whose on-site industrial production generated sales in excess of €15 million during the previous year, excluding joint ventures and companies acquired within the last year. Companies previously included in the scope of reporting whose production drops below the €15 million threshold remain within the scope of environmental reporting, provided that their sales do not fall below €7.5 million. These thresholds restrict environmental reporting to companies' that are representative of the Group's

business activities. In 2018, a site was excluded from the scope after its activity was relocated to another site already included in the reporting scope. In 2018, the companies included in the scope accounted for close to 76% of total sales.

Possible exclusions from the scope of reporting may be defined for certain indicators, such as where local legislation does not permit the reporting of relevant data or where sufficient arrangements for the collection of certain types of data have not yet been made. The summary table at the end of this section sets out the scope covered by each of the indicators. The "Indicators and specific definitions" section below also provides additional information linked to the definitions and/or the method of calculating certain indicators.

## 2. Organization of the reporting and methodology

### Reporting framework

The Group has had a consolidated, single internal reporting framework since 2011 that formally defines and describes the processes and methods used to gather and report Mersen's CSR data.

### Indicator sheets

Data is reported using the indicators described in technical sheets which notably specify the reporting frequency, the indicator's objectives, its scope of application, the definitions needed to understand the indicator and its scope, the calculation methodology and the consistency checks.

### Reporting year

The data reported cover the period from January 1 to December 31, 2018.

### Reporting process participants and their responsibilities

There are three levels of responsibility:

#### ■ 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 that fall within the scope. To this end, it:

- defines framework indicators;

- deploys 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.

#### ■ Group companies' responsibility

Data reporting is the responsibility of the general manager of each company within the scope. Their role is to:

- organize data collection at company level by defining responsibilities and ensuring that the framework and its indicators are clearly understood;
- safeguard data traceability;
- ensure that the reporting schedule is adhered to;
- check the completeness and consistency of the data provided and implement the requisite checks and verifications by persons not involved in the collection process.

#### ■ External organization

Audit and verification of data were performed in 2018 by an independent third-party organization, in accordance with the implementing Decree of August 9, 2017.

### 3. Notes on methodology

On account of the Group's global presence and some local legislation, indicator data collection methodologies are adapted to certain constraints of the Group.

#### Absenteeism

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

#### Lost-time accident

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 officers and against 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. FR1, FR2 and SR indicators include Mersen employees and temporary staff.

#### Agreement

All arrangements made and accepted by the management of an operating company, division or the Group and one or more employee representatives.

#### Total headcount and breakdown 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.

#### Employees suffering from an occupational illness (operations in France, i.e. 19% of headcount)

As the concept of occupational illness varies significantly from country to country, this information is provided only for France. An illness is recognized as "occupational" if it appears in one of the tables appended to the French Social Security Code (*Code de sécurité sociale*) or French Rural Code (*Code rural*).

Under certain conditions, illnesses that do not appear on the tables may also be included:

- Illnesses designated in a table of occupational illnesses, but for which one or more conditions have not been met (with regard to the time limit on claims, the length of exposure or the limited list of jobs), when it has been established that the victim's regular work is the direct cause of the illness.
- Illnesses not designated in a table of occupational illnesses when it has been established that they are caused, mainly and directly, by the victim's regular work and that they lead to permanent disability at a rate at least equal to 25% or are the cause of a victim's death.

#### Hiring

Total number of people hired during the fiscal year who meet the definition for headcount described above.

#### Training

Training activities recognized as such are those organized and paid for by the Group and that are designed to:

- improve performance and help employees adapt to changes in their jobs;
- develop employees' talents and help them acquire new skills.

Excluded are, required training for the position, information meetings, regulatory training, internships and apprenticeships. The HRIS model used is based on monthly data collection. As training is not provided systematically on a monthly basis, it is subject to manual reprocessing at the end of the fiscal year.

#### 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.

#### Managers

Employees are considered to be managers when they hold a managerial function, including engineer, project manager or technical expert, or a team management position, with the exception of first-level management (supervisors).

#### Local nationality

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

#### Corporate governance bodies

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

#### Policy

A policy is an organized general framework, disseminated and deployed by the Group's top management throughout all the companies or targeted groups of companies. This framework is formalized as an official, signed document.

#### Environmental, health and safety (EHS) manager

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

### Disabled employees

As the Group is present in a large number of countries, it is subject to the various local laws. It is unable to disclose quantitative information on this subject but provides qualitative information for some countries.

### Senior employees

Over 55 years of age.

## 4. Information regarding the collection of social data

Social information is collected through an HR information system (HRIS) used in all the Group's consolidated companies, with the exception of a few entities that recently entered the scope of consolidation and are being incorporated gradually, based on an implementation schedule defined by the Group's senior management. Only the headcount indicator is available for such companies (not included HRIS scope), which represented 94% of the headcount in 2018.

Once collected and prior to final consolidation, the data submitted by the subsidiaries is verified for consistency using various criteria, in particular absenteeism. Any value or change in value

considered suspect is verified with the relevant site, which will be asked to correct or explain the data. If the value cannot be corrected or if the explanation provided is deemed inconclusive, the scope concerned will then be disregarded from the scope of consolidation.

In addition, with a view to continually improving the quality of data transmitted each month by the subsidiaries and encouraging local contributors to improve their knowledge of the Group's HR standards, the HR audit method rolled out in 2017 will be a recurring program under which annual internal audits will be carried out at various Group sites worldwide starting in 2018.

## 5. Overview table of non-financial indicators

	Qualitative or quantitative Information	Scope*	Pages
<b>DEVELOPING INNOVATIVE AND SUSTAINABLE PRODUCTS</b>			
Organization of the company to take environmental concerns into account	Qualitative	Group policy	104 to 107
Managing our supplies	Qualitative	Group	103
Part of Sales geared towards sustainable development markets	Quantitative	Group	104
ISO 14001 certification rate	Quantitative	Environmental	106
Number of hours of environmental protection training	Quantitative	Environmental	106
Investments dedicated to environmental risk prevention	Qualitative	Group	107
Amount of significant provisions for environmental risks	Quantitative	Group	107
<b>Energy</b>			
Electricity consumption	Quantitative	Environnemental	107
Natural gas consumption	Quantitative	Environnemental	107
LPG consumption	Quantitative	Environnemental	107
Fuel oil, propane, butane consumption	Quantitative	Environnemental	107
Part of renewable energy in the energy consumed	Quantitative	Environmental	107
<b>Water</b>			
Water consumption	Quantitative	Environmental	108
<b>Raw material</b>			
Pitch consumption	Quantitative	Environmental	108
Coke consumption	Quantitative	Environmental	108
Artificial graphite consumption	Quantitative	Environmental	108
Copper consumption	Quantitative	Environmental	108
<b>Packaging and logistics</b>			
Wood consumption	Quantitative	Environmental	108
Cardboard consumption	Quantitative	Environmental	108
<b>Greenhouse gases</b>			
Scope 1 emissions	Quantitative	Environmental	109
Scope 2 emissions	Quantitative	Environmental	109
Scope 3 emissions	Quantitative	Environmental	109
<b>Waste</b>			
Hazardous industrial waste	Quantitative	Environmental	109
Waste recycled	Quantitative	Environmental	109
Waste recovered	Quantitative	Environmental	109

\* Standard scope: refer to definitions given in paragraph 1 of the Reporting Methodology



	Qualitative or quantitative Information	Scope*	Pages
<b>HUMAN CAPITAL</b>			
Total workforce broken down by gender	Quantitative	Standard	112
Total workforce broken down by age	Quantitative	Standard	112
Total workforce broken down by geographical area	Quantitative	Standard	111
Headcount broken down by category	Quantitative	Standard	111
Number of new hires	Quantitative	Standard	111
Number of dismissals	Quantitative	Restricted	111
Number of departures	Quantitative	Restricted	111
Human potential success rate	Quantitative	Standard	112
Absenteeism rate	Quantitative	Standard	111
Labor relations	Qualitative	Standard	114
<b>Diversity</b>			
Diversity and equality policy	Qualitative	Standard	113
Disabled employees	Qualitative	Restricted	114
Percentage of women managers	Quantitative	Standard	113
Percentage of women on corporate governance bodies	Quantitative	Standard	113
Percentage of seniors	Quantitative	Standard	112
Percentage of site managers of local nationality	Quantitative	Standard	113
<b>Health &amp; Safety</b>			
Health & Safety policy	Qualitative	Standard	115
Percentage of companies with a dedicated EHS manager	Qualitative	Standard	116
Frequency rate of occupational accidents with lost time (FR1) for employees and temporary workers	Quantitative	Standard	116
Frequency rate of occupational accidents with lost time (FR2) for employees and temporary workers	Quantitative	Standard	116
Severity rate (SR) of occupational accidents for employees and temporary workers	Quantitative	Standard	116
Number of safety visits	Quantitative	Standard	117
Occupational diseases	Qualitative	France	116
Number of hours of safety training	Quantitative	Standard	117
Health & Safety audits	Quantitative	Standard	117
<b>Training</b>			
Training policies implemented	Qualitative	Standard	118
Number of hours of training	Quantitative	Restricted	118
<b>BUSINESS ETHICS</b>			
Ethical policy	Qualitative	Group policy	121
Measures implemented to prevent corruption	Qualitative	Group policy	121
Managers who have attended the anti-corruption training	Quantitative	Standard	121

\* Standard scope: refer to definitions given in paragraph 1 & 4 of the Reporting Methodology

# REPORT VERIFYING THE NON-FINANCIAL INFORMATION STATEMENT

*This is a free translation into English of the 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.*

The Non-Financial Information Statement reviewed covers the year ended December 31, 2018.

## Request, Responsibilities and Independence

At Mersen SA's request and pursuant to the provisions of Article L.225-102-1 of the French Commercial Code, we have verified the Non-Financial Information Statement (hereinafter the "Statement") for the year ended December 31, 2018 included in Mersen SA's registration document, as an independent third party certified by COFRAC under number 3-1341 (whose list of locations and scope are available at [www.cofrac.fr](http://www.cofrac.fr)).

Pursuant to Articles L.225-102-1, R.225-105 and R.225-105-1 of the French Commercial Code, the Management Board is responsible for preparing a compliant Statement which must include a presentation of the business model, a description of the principal non-financial risks, a presentation of the policies implemented in light of those risks and the outcome of said policies, including key performance indicators.

The Statement has been prepared in accordance with the reporting guidelines (hereinafter the "reporting procedures" of the company (hereinafter the "entity")). The Statement will be available on the entity's website along with a summary of the reporting procedures.

It is our responsibility to verify the Statement, which enables us to provide a reasoned opinion as to:

- The Statement's consistency with the provisions of Article R.225-105 of the French Commercial Code.
- The fairness of the information provided in accordance with Article R.225-105 I, 3 and II of the French Commercial Code.

We verified the Statement in an impartial and independent manner in accordance with the professional practices of the independent third party and pursuant to the French Code of Ethics applied by all members of Bureau Veritas.

## Nature and scope of our work

In order to provide a reasoned opinion on the Statement's compliance and the fairness of the information supplied, we carried out our work in accordance with Articles A.225-1 to A.225-4 of the French Commercial Code and our internal methodology for the verification of the Statement, in particular:

- We obtained an understanding of the scope of consolidation to be considered for the preparation of the Statement, as specified in Article L.233-16 of the French Commercial Code. We also verified that the Statement covers all the entities within the scope of consolidation specified in the Statement.
- We obtained an understanding of the entity's activities, the context in which the entity operates, the social and environmental impact of its activities and the impact of these activities on compliance with human rights and anti-corruption and tax evasion legislation.
- We obtained an understanding of the content of the Statement and verified that it included the items listed in Article R.225-105 of the French Commercial Code:
  - Presentation of the entity's business model.
  - Description of the principal risks associated with all the consolidated entities' activities for each category of information set out in Article L.225-102-1 III, including, where relevant and proportionate, the risks associated with their business relationships and products or services, as well as the policies implemented by the entity, where applicable, and the due diligence procedures implemented to prevent, identify and reduce the occurrence of the identified risks.
  - The outcomes of these policies, including key performance indicators.
- We examined the entity's procedures for reviewing the impacts of its activities as listed in Article L.225-102-1 III, identifying and prioritizing the associated risks.
- We identified missing information, as well as information omitted without explanation.

- We verified that the Statement includes a clear and reasoned explanation for the absence of information regarding the principle risks identified.
- We examined the data collection process implemented by the entity to ensure the completeness and consistency of the information referred to in the Statement. We assessed the reporting procedures with respect to their relevance, reliability, understandability, completeness and objectivity, with due consideration of industry best practices, where appropriate.
- We identified the people within the entity who are in charge of all or part of the reporting process and interviewed some of them.
- We asked what internal control and risk management procedures the entity has put in place.
- Through sampling, we assessed the implementation of the reporting procedures, in particular the collection, compilation, processing and verification of the information.
- For the quantitative results (1) that we considered to be the most important, we:
  - performed analytical procedures and, using sampling techniques, verified the calculations and the consolidation of the data at the level of the Group and the verified entities;
  - selected a sample of contributing entities (2) within the scope of consolidation according to their activity, their contribution to the entity's consolidated data, their presence and the outcomes of work performed in earlier years;
  - performed tests of details, using sampling techniques, in order to verify the proper application of the reporting procedures, reconcile the data with the supporting documents and verify the calculations made and the consistency of the outcomes.
  - The selected sample represents 22% of headcount and between 18% and 90% of the values reported for the environmental data tested.
- We referred to documentary sources and conducted interviews with the people responsible for drafting the documents in order to corroborate the qualitative information that we considered to be the most important.
- We assessed the consistency of the information referred to in the Statement.
- Our work was carried out by an auditor between September 3, 2018 and the completion of our report and took a total of about five weeks. We conducted some 20 interviews with the people responsible for reporting at the time of this assignment.

## Comments on the reporting procedures or the content of certain information

- The materiality matrix presented by Mersen SA in its non-financial information statement identifies and prioritizes the issues, thereby enabling the development of a roadmap. However, the non-financial information statement does not explicitly present the principle risks associated with the impacts of Mersen SA's activities, products and business relationships.
- Gradually broadening the involvement of external stakeholders in the construction of the materiality matrix will provide a more representative and balanced presentation of the issues and their positioning.
- The quantitative data in the human capital section of the Statement are not presented on a like-for-like basis and although the changes in consolidation scope are stated, this makes the document more complex to read.
- Compliance with the definitions and verification of quantitative and qualitative human resources data need to be improved throughout the entire data production chain.

(1) **Human resources information:** active headcount at December 31, broken down by gender, age and geographic distribution; share of sites with site managers of local nationality; number of recruitments; number of dismissals; percentage of women in the headcount, percentage of female managers and percentage of women in governing bodies; frequency rate of work accidents with lost days; severity rate of work accidents; number of safety visits, percentage of sites internally audited for health and safety; percentage of employees with a work-related illness; average number of training hours per employee.

**Environmental information:** electricity consumption; gas consumption; total energy consumption; water consumption; raw material consumption: coke and copper; packaging consumption: wood and cardboard; CO2 emissions, scope 1 and scope 2; tonnage of industrial waste and share of hazardous waste; share of waste recycled or thermally recovered.

**Qualitative information:** developing innovative products that contribute to sustainable development: electronics; developing products with a reduced environmental footprint, from their design to their recycling; promoting environmentally friendly practices throughout the sites; organization: a management system; a continuous improvement approach; health and safety: constant priorities; business ethics.

(2) Salem (United States), St Mary's (United States), Juarez (Mexico), La Mure (France), ST Bonnet de Mure (France).

## Opinion on the Statement's compliance with the regulatory requirements

Based on our work, we have not identified any significant misstatement that causes us to call into question the Statement's compliance with the provisions of Article R.225-105 and the fairness of the information provided.

## Reasoned opinion on the fairness of the Information

In conclusion, we have not identified any significant misstatement that causes us to call into question the fairness of the information presented in the non-financial information statement.

Puteaux, March 7, 2019

Bureau Veritas

Jacques Matillon

Vice-Chairman

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# GENERAL INFORMATION ABOUT THE COMPANY

## 1. Corporate name and headquarters

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

## 2. Form, nationality and law

The Company is a limited liability company (*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, namely metallurgical, mechanical, plastic and elastomer products;
- all other products, articles or equipment that may be related to the above products:
  - by using the latter to make the former,
  - by developing research activities, or
  - through manufacturing processes, industrial applications or distribution networks.

Within the scope of the corporate purpose defined above, the Company may carry out all operations 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 work;
- 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 and subscribe to the shares of any company, and purchase or sell any shares, partnership shares or corporate rights.

In general, the Company may carry out any industrial, commercial, financial, securities or real estate operations connected principally or incidentally to these activities.

Furthermore, the Company may acquire any interest, in any form whatsoever, in any French or foreign companies or organizations.

## 5. Trade and Companies Register Code

RCS NANTERRE B 572 060 333 – APE CODE: 7010Z.

## 6. Access to the Company's corporate documents

Corporate documents, particularly the Articles of Association, financial statements and reports to General Meetings by the Board of Directors and the Statutory Auditors, may be consulted at the headquarters by contacting:

Thomas Baumgartner  
Group Vice President, Finance and Administration  
Mersen  
Tour EQHO  
2 avenue Gambetta  
92400 Courbevoie, France  
Tel: + 33 (0)1 46 91 54 19

## 7. Fiscal year

The fiscal year begins on January 1 and ends on December 31 of each year.

## 8. Statutory distribution of income (Article 27 of the Articles of Association)

At the end of each fiscal year, the Board of Directors prepares an inventory and the annual financial statements in accordance with Section II Book 1 of the French Commercial Code (*Code de commerce*).

Net income for the fiscal year, as shown on the income statement, comprises the difference between the income and expenditure for the year, less depreciation, amortization and provisions.

At least one twentieth of net income for the fiscal year, less any prior losses, if any, is allocated to a reserve account known as the statutory reserve.

When the amount in this reserve account reaches one tenth of the share capital, this deduction ceases to be mandatory but if, for any reason, the reserve account were to fall below one tenth of the share capital, the deduction would resume.

Income available for distribution consists of net income for the fiscal year less any prior losses and the amounts to be allocated to reserve accounts as stipulated by law, plus any retained earnings.

An initial dividend of 5% of the paid-up and unredeemed par value of the shares is distributed from income. The shareholders may not demand payment of the dividend out of subsequent years' income, should the income from one year, after the aforementioned deduction, render it impossible to make such a payment. In addition, the General Meeting, on the recommendation of the Board of Directors, has the right to decide to deduct such amounts as it deems suitable, either for retained earnings or for reserves to be used as directed by the Board of Directors.

The balance is then divided among the shareholders without distinction.

The Ordinary General Meeting called to approve the financial statements for the fiscal year has the option of granting each shareholder a choice between receiving all or part of the dividend, or the interim dividend in cash or in shares, based on the provisions of the applicable laws and regulations.

The Ordinary General Meeting may, in addition, resolve to distribute sums drawn from the reserve accounts at its disposal; in this case, the resolution expressly indicates the reserve accounts from which said sums are to be deducted.

However, dividends are drawn in priority from the year's income available for distribution.

## 9. General Meetings of Shareholders (Article 25 of the Articles of Association)

General Meetings are convened under the conditions laid down in law, and their proceedings governed by quorum and majority voting requirements.

Meetings are held at Company headquarters or at any other location specified in the notice of meeting.

All shareholders have the right to participate in General Meetings, to be represented by proxy or to cast postal votes, whatever the number of shares held, provided that the shares are paid up to the extent called and are recorded in the shareholder's name, no later than 12:00 am CET on the second business day preceding the Meeting, either in a registered share account kept by the Company or in a bearer share account kept by an accredited intermediary. Any shareholder may also, if the Board of Directors so decides when the General Meeting is convened, participate and vote at General Meetings by means of videoconferencing or any other telecommunications technology that makes it possible to identify them, as provided for by law.

General Meetings are chaired by the Chairman of the Board of Directors or, in his/her 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 General Meetings are drawn up and the Chairman of the Board of Directors, the Vice Chairman of the Board of Directors, the Secretary of the Board of Directors or a duly authorized person certifies copies of the minutes.

## 10. Disclosure thresholds (Article 11 ter of the Articles of Association)

The Company's Articles of Association stipulate that any person, acting alone or in concert, that 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 they control 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 is required, within five days of the transaction and irrespective of their delivery, to disclose to the Company by recorded delivery letter with acknowledgment of receipt the total number of shares or securities giving access to the share capital or voting rights that they hold. Should their stake drop below the 1% threshold, it must be disclosed in the same manner and within the same deadline. This obligation shall apply whenever the share capital or voting rights held increases or falls by at least 1%.

If a disclosure does not meet the terms and conditions above, the shares in excess of the threshold that should have been disclosed shall be stripped of voting rights at any General Meeting held in the two years following the date on which proper notification is made, at the request, during the Meeting, of one or more shareholders holding at least 1% of the share capital or voting rights.

In addition to the above disclosure obligation, any crossing of share ownership thresholds, as provided by law, must be disclosed.

## 11. Trading by the Company in its own shares

At the Combined General Meeting of May 17, 2018, 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 the secondary market or the liquidity of the Mersen share by engaging an investment service provider under a liquidity agreement that complies with practices approved by French law. For the purposes of the program, the number of shares taken into account to calculate the above-mentioned limit corresponds to the number of shares acquired, less the number of shares re-sold;
- hold the acquired shares in treasury and subsequently remit them as part of an exchange offer or in consideration for any acquisitions;
- cover share option and/or bonus share plans (or similar plans) allotted to Group employees and/or corporate officers, share allotments under company or group investment plans (or similar plans) or company profit-sharing plans and/or any other forms of share allotments to Group employees and/or corporate officers;
- cover securities conferring rights to allotment of shares in the Company, in accordance with applicable regulations;
- cancel the acquired shares, in accordance with the authorization granted or to be granted by the Extraordinary General Meeting.

The maximum purchase price has been set at €65 per share. This price is set subject to adjustments related to any transactions affecting the Company's share capital. Based on the maximum purchase price set above and the number of shares making up the share capital at the date of the authorization, the aggregate maximum amount of the purchases may not exceed €134,140,760.

This authorization replaces the authorization granted by the General Meeting of May 17, 2017. A new authorization concerning stock repurchases will be submitted for shareholders' approval at the Combined General Meeting of May 18, 2019.

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 2018, the Company used this authorization to cover employee bonus share plans:

- on March 15, 2018, under the accelerated bookbuild organized by Ardian and Sofina, the Company repurchased 200,000 shares (representing just under 1% of its share capital) at the placement price of €35 per share;
- in December 2018, the Company repurchased 45,200 shares at a weighted average price of €23.15.

Furthermore, in March 2005, the Company signed a liquidity agreement with Exane BNP Paribas that complies with the charter of ethics drawn up by the AMAFI. This liquidity agreement was renewed each year by tacit approval.

The Company signed a new agreement with Exane on January 24, 2019, in order to comply with the new AMAFI recommendations.

## 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 17, 2018 approved the creation of a fifth category of shares and amended the Articles of Association accordingly. Thus, the new Article 6 of the Articles of Association provides for five categories of shares: category A shares are ordinary shares, and category B, C, D and E 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). Category B, C, D and E shares are transferable under the terms and conditions set forth in Article 15 of the Articles of Association.



### 13.1. Category B shares (2015 bonus preference share plan)

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

Category B shares may be converted into ordinary shares at the end of the period set in the category B bonus share allotment plan, according to a conversion parity based on share price trends. The maximum number of ordinary shares that may be issued upon conversion of category B shares is 34,870; 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 category B shares (the "Holding Period" – the "Holding Period Expiry Date"), as set forth in the category B share bonus allotment plan determining their allotment, each category B shareholder may convert some or all of the category B shares held into category A shares, under the terms and conditions set forth in Section II, paragraphs 4 and 5 of Article 15 of the Articles of Association.

At the end of the Holding Period, category B shares are fully transferable between category B shareholders. Category B shares may be converted into category 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 category 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 category A shares between the second anniversary of the Allotment Date (included) and the beginning of the Conversion Period during which the category B shareholders requested the conversion to category A shares (excluded). The Conversion Parity will be equal to:

- If the Final Share Price is less than 150% of the Initial Share Price (the "Maximum Final Share Price" or "maxFP"):
- $N = 10 + 300 (FP-IP)/FP$
- If the Final Share Price is greater than the Maximum Final Share Price:  $N = 10 + (maxFP \times 100)/FP$
- If the Final Share Price is less than the Initial Share Price:  $N = 10$

Where:

"N" is the number of category A shares to which each category B share is entitled, it being specified that in the case of a fraction, the number of A shares allotted to a category B shareholder will be rounded down to the lower unit; "FP" is the Final Share Price; "IP" is the Initial Share Price; and maxFP is the Maximum Final Share Price.

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

### 13.2. Category C shares (2016 bonus preference share plan)

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

- the "Allotment Date" is defined as the date on which a bonus share allotment plan is adopted by the Board of Directors;
- the Initial Share Price shall indicate the higher amount of either (i) €17 (seventeen) or (ii) the volumeweighted average of the opening prices of the category A shares over a period preceding the Allotment Date by twenty (20) trading days prior to the Allotment Date; the initial share price was eventually set at €17.
- The total maximum number of category A shares that may result from the conversion of the category 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 category C share beneficiaries.

### 13.3. Category D shares (2017 bonus preference share plan)

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

- The Allotment Date is defined as the date on which a bonus share allotment plan is adopted by the Board of Directors;
- The Initial Share Price corresponds to the volume-weighted average of the opening prices of the category A shares over a period preceding the Allotment Date by twenty (20) trading days.
- The total maximum number of category A shares that may result from the conversion of category D shares may not exceed 129,000; this number does not take into account any adjustments made to protect, in accordance with legal and regulatory provisions and, where necessary, contractual stipulations, the rights of category D share beneficiaries.

### 13.4. Category E shares (2018 bonus preference share plan)

Category E shares shall have the same rights and obligations as those set forth in Section II of Article 15 of the Articles of Association relating to the category 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 Conversion Periods, i.e., the periods during which category E shares may be converted into category A shares, cover the thirty (30) day period from (i) the fourth anniversary of the Allotment Date or (ii) the date falling four years and three months after the Allotment Date (the "Conversion Periods") based on a ratio (the "Conversion Ratio") determined based on the percentage difference between the Initial Share Price and the Final Share Price.

Where:

"N" is the Conversion Ratio, i.e., the number of ordinary shares obtained on conversion of each category E share, with rights to fractions of shares being forfeited such that the number of ordinary shares received by an category E shareholder will be rounded down to the nearest whole number of shares;

- If  $FP < IP$ :  $N = 10$
- If  $IP < FP < \text{maxFP}$ :  $N = 10 + 600 \times (FP - IP) / FP$
- If  $FP > \text{maxFP}$ :  $N = 10 + (\text{maxFP} \times 100) / FP$

IP is the Initial Share Price, which is equal to the volume-weighted average of the opening prices quoted for the Company's ordinary shares over the 20 trading days preceding the Allotment Date.

FP is the Final Share Price, which is equal to the average opening prices quoted for the Company's ordinary shares between the second anniversary of the Allotment Date (included) and the beginning of the Conversion Period during which the category E shareholders apply to convert their category E shares into ordinary shares (excluded).

maxFP is the Maximum Final Share Price, which is equal to 120% of the Initial Share Price.

The maximum total number of category A shares resulting from the conversion of category E shares may not exceed 129,000 shares, not including any shares to be issued to protect the rights of category E shareholders in accordance with the law and any contractual adjustment clauses.

# 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, 2018, the Company's share capital was set at €41,536,236 divided into 20,768,118 shares, of which 20,766,629 were category A ordinary shares, 317 were category B preference shares and 1,172 were category C preference shares, each with par value of €2.

Category C, D and E shares, which are preference shares, may be issued in application of Article L. 22811 *et seq.* of the French Commercial Code. These shares are not listed on the stock market.

### 3. Authorizations to carry out a capital increase

#### 3.1. Combined General Meeting of May 11, 2016

##### 3.1.1. Bonus share allotments (resolution 17)

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

*At its meeting of May 11, 2016 the Board of Directors made use of this authorization and empowered the Chief Executive Officer to implement the performance-based bonus share plan and the allotment of said shares. The Chief Executive Officer implemented this authorization by allotting, at no cost, 84,000 Company shares to 121 Mersen Group employees and managerial staff according to the related performance conditions; i.e., a 2016 EBITDA-to-sales ratio criterion, or one based on a change in the EBITDA-to-sales ratio between 2014 and 2016, compared to a panel of comparable French companies (whichever is more favorable).*

*Empowered by the Board of Directors to make use of the authorization granted by shareholders at the General Meeting of May 11, 2016, the Chief Executive Officer noted the fulfillment of the following allotment conditions: (i) performance conditions have been 75% met; (ii) the number of beneficiaries present at the date of this document is 113, of which 51 French tax residents and 62 non-residents, following the departure of certain employees; (iii) the number of shares to be allocated, after application of the percentage to which conditions have been met, is 59,025 shares.*

##### 3.1.2. Bonus preference share allotments (resolution 18)

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

*At its meeting of May 11, 2016 the Board of Directors made use of this authorization and empowered the Chief Executive Officer to implement the bonus preference share plan and the allotment of said shares. The Chief Executive Officer implemented this authorization by allotting 1,172 bonus preference shares to the members of the Executive Committee and the Group's managerial staff. This number corresponds to a maximum number of 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 between 2016 and 2017 compared to that of comparable companies (whichever is more favorable).*

*Empowered by the Board of Directors to make use of the authorization granted by shareholders at the General Meeting of May 11, 2016, the Chief Executive Officer noted on May 11, 2018 the fulfillment of the following allotment conditions: (i) performance conditions have been 100% met; (ii) the number of beneficiaries present within the Company is 14; (iii) the number of bonus preference shares to be allocated, after application of the percentage to which conditions have been met, is 1,172 shares.*

### 3.2. Combined General Meeting of May 18, 2017

#### 3.2.1. Bonus share allotments (resolution 18)

At the General Meeting, the shareholders authorized the Board of Directors to allot existing or new shares to employees, or to certain categories of employees, of the Company and those of affiliated companies, at no cost. The total number of shares that may be thus allotted may not exceed 84,000, representing around 0.4% of the share capital on the day of the Meeting. This authorization provides that the Board of Directors will determine the identity and categories of the beneficiaries of the share allotment referred to, as well as the performance and share allotment conditions and criteria. This authorization invalidates the previous authorization granted by the General Meeting of May 11, 2016. This authorization is valid for 38 months.

*At its meeting of May 18, 2017 the Board of Directors made use of this authorization and empowered the Chief Executive Officer to implement the performance-based bonus share plan and the allotment of said shares. The Chief Executive Officer implemented this authorization by allotting, at no cost, 84,000 Company shares to 121 Mersen Group employees and managerial staff according to the related performance conditions; i.e., a 2018 EBITDA-to-sales ratio criterion, or one based on a change in the EBITDA-to-sales ratio between 2016 and 2018, compared to a panel of comparable French companies (whichever is more favorable).*

#### 3.2.2. Bonus preference share allotments (resolution 19)

At the General Meeting, the shareholders authorized the Board of Directors to allot, on one or more occasions, except during a public offer for the Company's shares, Company bonus preference shares conferring the right to convert them into new or existing ordinary Company shares to certain categories of employees and Management Board members, it being specified that the rights attached to the preference shares were established by the Articles of Association of the Company. The maximum number of ordinary shares that may result from the conversion of the preference shares may not exceed 129,000 shares, or 0.6% of the Company share capital. This authorization provides that the Board of Directors will determine the criteria and conditions for allotting these preference shares, the identity of the beneficiaries, the number of preference shares allotted, and the performance conditions and criteria. This authorization invalidates the previous authorization granted by the General Meeting of May 11, 2016 and any similar delegation. This authorization is valid for 38 months.

*At its meeting of May 18, 2017 the Board of Directors made use of this authorization and empowered the Chief Executive Officer to implement the bonus preference share plan and the allotment of said shares. The Chief Executive Officer implemented this authorization by allotting 1,172 bonus preference shares to the members of the Executive Committee and 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 two criteria, with the most favorable of the two being taken into account. These criteria are based on the average of the 2017 and 2018 EPS and on the change in EPS compared to that of peer companies.*

#### 3.2.3. Issue of shares or securities to employees of Mersen Group companies whose headquarters are not located in France and who are not members of a company investment plan (resolution 22)

The General Meeting authorized the Board of Directors, with the option of subdelegation under the conditions provided for by the law and the Articles of Association, to carry out one or more capital increases reserved for Group employees, in the proportion and at the times that it deems appropriate (except during a public offer for the Company's shares), via the issue of ordinary shares or securities conferring rights to the Company's share capital. These capital increases entail the waiver of shareholders' preferential subscription rights. The total nominal value of the capital increases that may be carried out pursuant to this authorization may not exceed €300,000 or the equivalent in any other currency or currency unit established by reference to more than one currency, i.e., approximately 0.7% of the Company's share capital. The maximum nominal value will be included in the aggregate nominal limit of €300,000 provided for in the twentieth resolution approved by the General Meeting of May 11, 2016. The Company has not used this authorization to date.

### 3.3. Combined General Meeting of May 17, 2018

#### 3.3.1. Capital increase by capitalizing reserves, income and/or additional paid-in capital (resolution 13)

The General Meeting authorized the Board of Directors, with the option of subdelegation under the conditions provided for by the law and the Articles of Association, to carry out one or more capital increases by capitalizing reserves, income, additional paid-in capital or other capitalizable amounts, and issuing bonus shares and/or raising the nominal value of existing ordinary shares. The nominal value of the capital increases that may be carried out under this authorization may not exceed €50,000,000, i.e., approximately 121% of the Company's share capital at the Meeting date. This authorization is valid for a period of 26 months. It replaces and supersedes the previous authorization granted by the General Meeting of May 18, 2017. The Company has not used this authorization to date.

**3.3.2. Issue of ordinary shares conferring rights to ordinary shares or debt securities and/or securities conferring rights to ordinary shares, with preferential subscription rights for existing shareholders (resolution 14)**

The General Meeting authorized the Board of Directors, with the option of subdelegation under the conditions provided for by the law and the Articles of Association, to issue, on one or more occasions, for the amounts and at the times that it deems appropriate, on the French and/or international market, in euros or, where applicable, in foreign currency or any monetary unit determined by reference to a basket of currencies, ordinary shares, and/or ordinary shares conferring rights to ordinary shares or debt securities, and/or securities conferring rights to new ordinary shares. The nominal value of ordinary shares issued under this delegation of authority shall not exceed €15,000,000 and the nominal value of debt securities shall not exceed €300,000,000. This authorization is valid for a period of 26 months. It replaces and supersedes the previous authorization granted by the General Meeting of May 18, 2017. The Company has not used this authorization to date.

**3.3.3. Issue of ordinary shares conferring rights to ordinary shares or debt securities and/or securities conferring rights to ordinary shares, through a public offer without preferential subscription rights but with a priority subscription period for existing shareholders (resolution 15)**

The General Meeting authorized the Board of Directors, with the option of subdelegation under the conditions provided for by the law and the Articles of Association, to issue, on one or more occasions, for the amounts and at the times that it deems appropriate, on the French and/or international market, in euros or, where applicable, in foreign currency or any monetary unit determined by reference to a basket of currencies, ordinary shares, and/or ordinary shares conferring rights to ordinary shares or debt securities, and/or securities conferring rights to new ordinary shares. The nominal value of shares issued under this delegation of authority shall not exceed €8,000,000 and the nominal value of debt securities shall not exceed €300,000,000. This authorization is valid for a period of 26 months. It replaces and supersedes the previous authorization granted by the General Meeting of May 11, 2016. The Company has not used this authorization to date.

**3.3.4. Issue of ordinary shares conferring rights to ordinary shares or debt securities and/or securities conferring rights to ordinary shares, without preferential subscription rights for existing shareholders (resolution 16)**

The General Meeting authorized the Board of Directors, with the option of subdelegation under the conditions provided for by the law and the Articles of Association, to issue, on one or more occasions, for the amounts and at the times that it deems appropriate, on the French and/or international market, in euros or, where applicable, in foreign currency or any monetary unit determined by reference to a basket of currencies, ordinary shares, and/or ordinary shares conferring rights to ordinary shares or debt securities, and/or securities conferring rights to new ordinary shares. The nominal value of ordinary shares issued under this delegation of authority shall not exceed €4,000,000 or the equivalent of 20% of the capital per year, and the nominal value of debt securities shall not exceed €300,000,000. This authorization is valid for a period of 26 months. It replaces and supersedes the previous authorization granted by the General Meeting of May 11, 2016. The Company has not used this authorization to date.

**3.3.5. Increase in the amount of any issues that are oversubscribed (greenshoe option) (resolution 18)**

Having considered the Board of Directors' report, the General Meeting resolved that for each issue of ordinary shares or securities conferring rights to shares decided pursuant to the fourteenth to sixteenth resolutions, if the issue is oversubscribed, the number of securities to be issued may be increased subject to compliance with Articles L.225-135-1 and R.225-118 of the French Commercial Code and the ceilings set by the General Meeting.

**3.3.6. Issue of rights in return for contributions in kind made to the Company comprising capital instruments and securities conferring rights to the Company's share capital (resolution 19)**

The General Meeting authorized the Board of Directors, with the option of subdelegation under the conditions provided for by the law and the Articles of Association, to 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 value of ordinary shares issued under this delegation of authority shall not exceed 10% of the Company's share capital on the date of the Meeting and shall be deducted from the ceiling on ordinary share issues set in the fifteenth and sixteenth resolutions. It replaces and supersedes the previous authorization granted by the General Meeting of May 11, 2016. This authorization is valid for 26 months. The Company has not used this authorization to date.

### 3.3.7. Issue 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 20)

The General Meeting delegated powers to the Board of Directors to issue, on one or more occasions, pursuant to a prior positive and compliant opinion of a committee comprising three independent members specially appointed for this purpose by the Board of Directors, warrants enabling their holders to subscribe on preferential terms to the Company's shares and their allotment free of charge to all Company shareholders with this status prior to the expiry of the public offer. The total nominal value of the capital increase resulting from the exercise of these subscription warrants may not exceed 25% of the nominal value 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 issue of the warrants, as well as the financial and legal terms of the warrants. They will automatically become null and void when the offer or any rival offer fails, becomes null and void or is withdrawn. The delegation conferred upon the Board of Directors is valid for 18 months. This authorization invalidates the previous authorization granted by the General Meeting of May 18, 2017. The Company has not used this authorization to date.

### 3.3.8. Issue of rights reserved for employees participating in the Group Investment Plan (resolution 21)

The General Meeting authorized the Board of Directors, with the option of subdelegation, to increase the share capital on one or more occasions at its sole discretion, through the issue of shares for cash reserved for employees participating in the Group Investment Plan. These capital increases require that shareholders' preferential subscription rights be waived. The nominal value of the capital increases that may be carried out pursuant to this delegation may not exceed €400,000 or approximately 1% 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 18, 2017. The Company has not used this authorization to date.

### 3.3.9. Issue of shares or securities to employees of Mersen Group companies whose headquarters are not located in France and who are not members of a company investment plan (resolution 22)

The General Meeting authorized the Board of Directors, with the option of subdelegation under the conditions provided for by the law and the Articles of Association, to carry out one or more capital increases reserved for Group employees, in the proportion and at the times that it deems appropriate (except during a public offer for the Company's shares), via the issue of ordinary shares or securities conferring rights to the Company's share capital. These capital increases require that shareholders' preferential subscription rights be waived. The total nominal value of the capital increases that may be carried out pursuant to this authorization may not exceed €400,000 or the equivalent in any other currency or currency unit established by reference to more than one currency or approximately 1% of the Company's share capital. The maximum nominal value will be deducted from the ceiling on share issues set in the twenty-first resolution of the General Meeting of May 17, 2018. The Company has not used this authorization to date.

### 3.3.10. Bonus share allotments (resolution 23)

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

*At its meeting of May 17, 2018 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 67,050 free shares to 156 Mersen Group employees and managerial staff according to performance conditions based on average growth in EBITDA margin and average organic sales growth over a period of several years. As in 2017, the performance criteria include a target growth rate and a growth rate compared to a panel of comparable companies (excluding any companies with abnormal fluctuations or material exceptional transactions over the period), with the bonus determined based on the most favorable amount of the two criteria.*

### 3.3.11. Bonus preference share allotments, without preferential subscription rights for existing shareholders (resolution 24)

The General Meeting authorized the Board of Directors to allot, on one or more occasions, except during a public offer for the Company's shares, Company bonus preference shares conferring the right to convert them into new or existing ordinary Company shares to certain categories of employees and Management Board members, it being specified that the rights attached to the preference shares were established by the Articles of Association of the Company. The maximum number of ordinary shares that may result from the conversion of the preference shares may not exceed 129,000 shares, or 0.5% of the Company's share capital. This authorization provides that the Board of Directors will determine the criteria and conditions for allotting these preference shares, the identity of the beneficiaries, the number of preference shares allotted, and the performance conditions and criteria. This

authorization invalidates the previous authorization granted by the General Meeting of May 18, 2017 and any similar delegation. This authorization is valid for 38 months.

*At its meeting of May 17, 2018 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 940 bonus preference shares to the members of the Executive Committee and the Group's managerial staff. This number corresponds to a maximum number of 103,400 ordinary shares after conversion.*

*The definitive allotment of preference shares is subject to performance conditions associated with two criteria, with the most favorable of the two being taken into account. These criteria are based on the average of the 2018 and 2019 EPS and on the change in EPS compared to that of peer companies.*

## 4. Changes in share capital

Dates	Type of operation	Share capital after operation	Issue premium (in €)	Total number of shares after the operation
01/27/2016	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
01/27/2016	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	N/A	20,471,854
12/12/2017	Issue of 165,772 new shares through the exercise of subscription options in 2017	41,275,252	2,666,545	20,637,626
12/12/2017	Cancellation of 585 category B shares, each with a par value of €2	41,274,082	N/A	20,637,041
05/11/2018	Issue of 1,172 category C shares, each with a par value of €2	41,276,426	N/A	20,638,213
01/23/2019	Issue of 129,905 new shares through the exercise of subscription options in 2018	41,536,236	2,075,670	20,768,118

## 5. Voting right certificates

None.

## 7. Shares pledged

None.

## 6. Investment certificates

None.

## 8. Shareholders' agreement

The Company is not aware of any shareholders' agreements or other agreements concerning its share capital.

## 9. Securities conferring rights to the share capital

### ■ Subscription options

The number of subscription options still to be exercised at December 31, 2018 (after taking cancellations into account) would make it possible to issue 144,976 new shares, each with a par value of €2.

### ■ Preference bonus shares

At December 31, 2015, 902 category B preference shares (corresponding to 99,220 ordinary shares after conversion) were allotted. At the end of the vesting period and taking into account performance conditions, 317 category B preference shares were allotted definitively, corresponding to 34,870 ordinary shares. The Board canceled the other 585 preference shares at its meeting of December 12, 2017.

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

At December 31, 2017, 1,172 category D preference shares (corresponding to 128,920 ordinary shares that may be converted) were allotted, subject to performance criteria.

At December 31, 2018, 940 category E preference shares (corresponding to 103,400 ordinary shares that may be converted) were allotted, subject to performance criteria.

The number of ordinary shares that may be allotted definitively to members of the Executive Committee (under the 2015, 2016, 2017 and 2018 preference share plans) is 299,860, of which 57,750 to the Chief Executive Officer.

### ■ Bonus shares (non-executive program)

The number of bonus shares that may be allotted definitively (under the 2016, 2017 and 2018 bonus share plans) is 150 250.

### ■ Summary

The number of bonus shares that could be allotted definitively, including by converting category B, C, D and E shares into ordinary shares, is 546,360 new shares, each with par value of €2, representing 2% of the current share capital.

Based on the number of subscription options that may be exercised by beneficiaries (144,976) and the shares that may be definitively allotted (546,360), the maximum dilution would be 3.3%.

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

## 10. Ownership of the share capital

At December 31, 2018, the Company's share capital was set at €41,536,236 divided into 20,768,118 shares, of which 20,766,629 category A shares, 317 category B shares and 1,172 category C shares, each with par value of €2. Category D and E shares, which are preference shares, may be issued in application of Article L. 228-11 *et seq.* of the French Commercial Code.

At December 31, 2018, 45,659 shares representing 0.2% of the share capital were held by the Company pursuant to the liquidity agreement entered into with Exane BNP Paribas.

During 2018, the Company bought back 245,200 shares and used 59,025 of them to cover employee share plans.

As a result, a total of 231,834 shares were held by the Company at December 31, 2018.

No public tender or exchange offer, nor any guaranteed share price offer has been made in respect of the Company's shares over the past three years. The Company has not initiated any such offers for other companies over the same period.

Following the investment by AXA Private Equity (now Ardian) in the Company's share capital in July 2008, an agreement was entered into with the Company. Under the terms of the agreement, ACF I Investment (Ardian) undertook not to sell any block of shares representing 5% or more of Mersen's share capital to an identified investor, except in connection with a public offer. Any sale by ACF I Investment of its shares on 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, as long as Ardian holds more than 10% of the Company's share capital.

## 11. Voting rights

The theoretical number of voting rights stood at 25,219,670 at December 31, 2018.

Double voting rights are attached to all shares that fulfill both of the following conditions: i) being held in registered form for at least two years; and ii) being fully paid up. Double voting rights have been recorded since April 4, 2016, in accordance with legal provisions.



# STOCK REPURCHASE PROGRAM

## 1. Liquidity agreement

In March 2005, the Company signed a liquidity agreement with Exane BNP Paribas in compliance with the charter of ethics drawn up by the AMAFI. This liquidity agreement was renewed each year by tacit approval. The Company signed a new agreement with Exane on January 23, 2019, in order to comply with the new AMAFI recommendations.

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, 2018, the following funds and shares appeared in the liquidity account:

- 45,659 shares;
- 693,152 euros.

## 2. Trading in its own shares by the Company in 2018

<b>Number of treasury shares held by the Company at December 31, 2017</b>	<b>24,673</b>
Number of shares purchased on March 15, 2018	200,000
Number of shares purchased in December 2018	45,200
Number of shares allocated to 2016 bonus share plans	59,025
Number of shares purchased under the liquidity agreement	451,950
Number of shares sold under the liquidity agreement	430,964
<b>Number of treasury shares held by the Company at December 31, 2018</b>	<b>231,834</b>

The Company did not use any derivatives.

### 3. Description of the stock repurchase program submitted for shareholders' approval at the Combined General Meeting of May 17, 2019

Prepared in accordance with Articles 241-1 *et seq.* of the General Regulation of the French Financial Markets Authority (*Autorité des marchés financiers* – AMF) and Articles L. 225-209 *et seq.* of the French Commercial Code, this description is intended to present the objectives, and terms and conditions of the renewal of the stock repurchase program.

#### 3.1. Summary of the principal characteristics of the operation

- Mersen's ordinary shares, admitted for trading on Euronext Paris, Compartment B (ISIN code: FR0000039620).
- Maximum percentage of the share capital authorized for repurchase by shareholders at the General Meeting: 10%.
- Maximum acquisition price per share: €50.
- Duration of the program: the authorization is valid for 18 months as of the General Meeting of May 17, 2019, i.e., until November 16, 2020.

#### 3.2. Objectives of the program

Shares may be acquired in order to:

- enhance trading in the secondary market or the liquidity of the Mersen share by engaging the services of an investment service provider under a liquidity agreement that complies with practices approved by French law. For the purposes of the program, the number of shares taken into account to calculate the above-mentioned limit of 10% corresponds to the number of shares acquired, less the number of shares re-sold;
- hold the acquired shares in treasury and subsequently remit them as part of an exchange offer or in consideration for any acquisitions;
- cover share option and/or bonus share plans (or similar plans) allotted to Group employees and/or corporate officers, share allotments under company or group investment plans (or similar plans) or company profit-sharing plans and/or any other forms of share allotments to Group employees and/or corporate officers;
- cover securities conferring rights to allotments of shares in the Company, in accordance with applicable regulations;
- cancel the acquired shares, in accordance with the authorization granted or to be granted by the Extraordinary General Meeting.

#### 3.3. Legal framework

The stock repurchase program is compliant with the provisions of Article L. 225-209 *et seq.* of the French Commercial Code. It will be submitted to the approval of the shareholders at the Combined General Meeting of May 17, 2019, deliberating in accordance with quorum and majority voting requirements for Ordinary General Meetings. The corresponding resolution to be proposed by the Board of Directors is worded as follows:

##### 3.3.1. Resolution on the share repurchase program

After having read the Board of Directors' report, the General Meeting authorizes the Board of Directors for a period of eighteen months and in accordance with Articles L. 225-209 *et seq.* of the French Commercial Code, to purchase shares in the Company on one or more occasions and at the times that it deems appropriate. The number of shares held by the Company under this authorization may not be greater than 10% of the share capital and may be adjusted as necessary to take into account any capital increases or reductions that may occur during the term of the program.

This authorization supersedes the authorization granted to the Board of Directors by the General Meeting of May 17, 2018 in its eleventh ordinary resolution.

The shares may be purchased by any means, including by way of block purchases, at the times that the Board of Directors deems appropriate.

The Company does not intend to use options or derivatives.

The Board of Directors may not use this authorization without prior authorization from the General Meeting from the date that a public offer for the Company's shares is filed by a third party until the end of the offer period.

The maximum purchase price has been set at €50 per share. In the event of a transaction affecting the Company's share capital, such as share splits or reverse splits and bonus share allotments to shareholders, the above amount will be adjusted in the same proportion (a coefficient of the ratio between the number of shares comprising the share capital before the transaction and the number of shares after the transaction).

The maximum amount of the stock purchase program has been set at €103,840,600.

The General Meeting grants full powers to the Board of Directors to carry out the stock purchase program, determine the conditions and procedures thereof, enter into any and all agreements and carry out all formalities.

### 3.4. Procedures

#### 3.4.1. Maximum percentage of the share capital to be acquired and maximum amount payable by Mersen

Mersen will have the option of acquiring up to 10% of the share capital at the date of the General Meeting, i.e., 2,076,812 shares. This limit shall be assessed on the date on which shares are acquired, in order to take into account any capital increases or reductions that may occur during the term of the stock repurchase program. The number of shares taken into account to calculate the limit corresponds to the number of shares acquired, less the number of shares re-sold during the term of the program for liquidity purposes. As the Company cannot hold more than 10% of its share capital and given that it already held 231,834 shares at December 31, 2018 (i.e., 1% of the share capital), the maximum number of shares that it may acquire under the program is 1,844,978 (i.e., 8.9% of the share capital), unless it sells or cancels the shares that it already holds.

The Company reserves the right to use the entire authorization. Accordingly, the maximum amount that Mersen may pay, assuming that it acquires shares at the maximum price set by the General Meeting, i.e., €50 per share, would be €103,840,600.

The Company's discretionary reserves, as stated under liabilities in the most recent annual financial statements prepared and certified at December 31, 2018, amounted to €307,189,365 pursuant to the law, the amount of the stock repurchase program may not exceed this figure until the 2018 financial statements are prepared.

Mersen undertakes to stay below the direct and indirect ownership threshold of 10% of the share capital at all times.

#### 3.4.2. Conditions governing repurchases

These shares may be purchased, allotted or transferred at any time (except during a public offer for the Company's shares) and paid by any means, on and off the market, including by acquisition or transfer of blocks of shares, and specifically pursuant to a liquidity agreement entered into by the Company with an investment service provider.

#### 3.4.3. Duration of the program

These stock repurchases may take place only after the approval of the corresponding resolution to be presented to the Combined General Meeting of May 17, 2019 and for a period of 18 months, i.e., until November 16, 2020.

### 3.5. Breakdown by objectives of treasury shares held at December 31, 2018

	Number of treasury shares and percentage of share capital
Grant or transfer of shares to Group employees and/or Management Board members under the company investment plans and the allotment of shares, specifically, the allotment of bonus shares or stock purchase options	186,175 0.9%
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 remittal 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	0 0%
Enhancement of trading via a liquidity contract	45,659 0.2%

# SHARE OWNERSHIP

## 1. Share ownership thresholds crossed

- On **March 16**: Norges Bank Investment Management announced that it had exceeded the statutory threshold of 5% of the share capital and voting rights and now holds 1,626,603 shares, i.e., 7.9% of the share capital and 5.7% of voting rights.
- On **March 20**: ACF I Investment announced that it had fallen below the statutory threshold of 15% of the share capital and voting rights and now holds 2,121,055 shares, i.e., 10.3% of the share capital and 14.9% of voting rights.
- On **March 20**: Sofina announced that it had fallen below the statutory threshold of 5% of the share capital and voting rights and now holds 883,101 shares, i.e., 4.3% of the share capital and 3.1% of voting rights.
- On **March 22**: Crédit Suisse announced that it had fallen below the statutory threshold of 1% of the share capital and holds 198,559 shares, i.e., 0.96% of the share capital.
- On **April 3**: Crédit Suisse announced that it had exceeded the statutory threshold of 1% of the share capital and holds 207,005 shares, i.e., 1.01% of the share capital.
- On **April 3**: Covéa Finance announced that it had exceeded the statutory threshold of 1% of the share capital and holds 236,554 shares, i.e., 1.15% of the share capital.
- On **April 11**: La Caisse des Dépôts et Consignation (including Bpifrance Participations) announced that it had passively exceeded the statutory threshold of 20% of the voting rights and holds 3,216,489 shares, i.e., 15.6% of the share capital and 21.5% of voting rights.
- On **April 20**: OppenheimerFunds announced that it had exceeded the statutory threshold of 1% of the share capital and holds 246,382 shares, i.e., 1.19% of the share capital.
- On **April 23**: UBS announced that it had fallen below the statutory threshold of 1% of the share capital and holds 211,807 shares, i.e., 1.03% of the share capital and 0.84% of voting rights.
- On **April 23**: OppenheimerFunds announced that it had exceeded the statutory threshold of 1% of the share capital and now holds 285,163 shares, i.e., 1.13% of voting rights.
- On **April 24**: Dimensional announced that it had exceeded the statutory threshold of 2% of the share capital and holds 558,707 shares, i.e., 2.7% of the share capital and 2.2 % of voting rights.
- On **April 26**: OppenheimerFunds announced that it had exceeded the statutory thresholds of 2% and 3% of the share capital and voting rights and holds 729,047 shares, i.e., 3.5% of the share capital and 2.9% of voting rights.
- On **April 27**: Norges Bank Investment Management announced that it had fallen below the statutory threshold of 6% of the share capital and holds 1,138,731 shares, i.e., 5.5% of the share capital.
- On **April 30**: OppenheimerFunds announced that it had exceeded the statutory thresholds of 3% and 4% of the share capital and voting rights and holds 851,934 shares, i.e., 4.1% of the share capital and 3.4% of voting rights.
- On **May 9**: Tocqueville Finance announced that it had exceeded the statutory threshold of 1% of the share capital and holds 216,000 shares, i.e., 1.05% of the share capital.
- On **May 14**: UBS announced that it had fallen below the statutory threshold of 1% of the voting rights and holds 223,372 shares, i.e., 1.08% of the share capital and 0.87 % of voting rights.
- On **May 22**: Norges Bank Investment Management announced that it had fallen below the statutory thresholds of 4% and 5% of the share capital and voting rights and now holds 1,011,735 shares, i.e., 3.96% of the share capital and 4.9% of voting rights.
- On **July 3**: Tocqueville Finance announced that it had fallen below the statutory threshold of 1% of the share capital and now holds 158,603 shares, i.e., 0.77% of the share capital.
- On **July 12**: Jousse Morillon Investment announced that it had fallen below the statutory threshold of 1% of the voting rights and now holds 245,000 shares, i.e., 1.19% of the share capital and 0.97 % of voting rights.
- On **August 7**: Sofina announced that it had fallen below the threshold of 4% of the share capital and now holds 816,541 shares, i.e., 3.96% of the share capital and 3.22% of voting rights.
- On **September 5**: Dimensional announced that it had exceeded the threshold of 3% of the share capital and now holds 619,868 shares, i.e., 3.004% of the share capital and 2.45% of voting rights.
- On **October 17**: Norges Bank Investment Management announced that it had exceeded the statutory threshold of 5% of the share capital and now holds 1,067,338 shares, i.e., 5.17% of the share capital and 4.22% of voting rights.
- On **December 12**: Covea announced that it had exceeded the statutory threshold of 2% of the share capital and now holds 417,037 shares, i.e., 2.02% of the share capital.
- On **December 19**: Sycomore Asset Management announced that it had exceeded the statutory threshold of 1% of the share capital and now holds 220,000 shares, i.e., 1.08% of the share capital and 0.88% of voting rights.

## 1.1. Changes in ownership of the share capital

Shareholders	Dec. 31, 2018			Dec. 31, 2017			Dec. 31, 2016		
	Number of shares	% of the share capital	% of the voting rights	Number of shares	% of the share capital	% of the voting rights	Number of shares	% of the share capital	% of the voting rights
Free float, o/w									
- French institutional investors	10,442,202	50.3%	58.7%	11,154,393	54.1%	59.6%	11,846,661	57.9%	57.0%
- International institutional investors	7,322,100	35.3%	29.0%	7,465,325	36.2%	32.0%	6,402,089	31.3%	32.7%
Individual shareholders	2,580,835	12.4%	11.1%	1,784,679	8.6%	7.6%	1,972,743	9.6%	8.9%
Employee shareholders	191,147	0.9%	1.2%	207,971	1.0%	0.7%	206,871	1.0%	1.4%
Treasury shares	231,834	1.1%		24,673	0.1%		43,490	0.2%	
<b>TOTAL</b>	<b>20,768,118</b>	<b>100%</b>	<b>100%</b>	<b>20,637,041</b>	<b>100%</b>	<b>100%</b>	<b>20,471,854</b>	<b>100%</b>	<b>100%</b>

The Chief Executive Officer and the Board of the Directors own 2,263,007 shares (of which 2,242,770 held by Bpifrance and 11,862 by the Chief Executive Officer), i.e., a total of 10.9% of share capital.

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

	Shares*	% of the share capital	Voting rights exercisable at GM	% Voting rights exercisable at GM
<b>ACF I Investment (Ardian)</b>	<b>2,121,055</b>	<b>10.2%</b>	<b>4,242,110</b>	<b>16.8%</b>
Bpifrance Participations	2,242,770	10.8%	4,485,540	17.8%
Caisse des Dépôts et Consignations	973,719	4.7%	973,719	3.8%
<b>SUB-TOTAL (BPI + CDC)</b>	<b>3,216,489</b>	<b>15.5%</b>	<b>5,459,259</b>	<b>21.6%</b>
<b>Norges Bank</b>	<b>1,067,338</b>	<b>5.2%</b>	<b>1,067,338</b>	<b>4.2%</b>

\* December 31, 2018.

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.

## 2. Dividend

	No. of shares at year-end	Dividend per share (in €)	Share price (in €)			Overall yield based on share price at year-end
			High	Low	Last	
2014	20,616,814	0.50	27.90	17.50	20.12	2.5%
2015	20,692,054	0.50	25.80	16.53	17.00	2.9%
2016	20,471,854	0.50	20.38	11.25	20.32	2.5%
2017	20,637,041	0.75	39.43	20.43	37.34	2.0%
2018	20,768,118	0.95	41.90	21.95	23.50	4.0%

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

For fiscal 2018, the 3<sup>rd</sup> resolution of the Combined General Meeting of May 17, 2019 provides for the payment of a dividend of €0.95 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 47th. The Company ranked 50th in 2017.

# 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

Until the middle of May 2018, the Mersen share price outperformed the SBF 120 index, climbing 8% (following an 84% increase in 2017) compared with a 5% gain for the SBF 120. After that, and through to the end of the year, the Mersen share price was impacted by the risk aversion associated with small and mid caps and with cyclical stock, reversing the positive trend. Thus, over the year, Mersen stock fell by 36% while the SBF 120 index declined by 11%.

### 1.1. Share-related data

- Listing: Euronext Paris.
- Market: Eurolist Compartment B.
- Indices: CAC All shares, CAC Mid&Small, Next 150, Tech 40.
- Eligible for SRD (deferred settlement) and PEA (equity savings plans).
- ISIN code: FR0000039620.

### 1.2. Price<sup>(1)</sup>

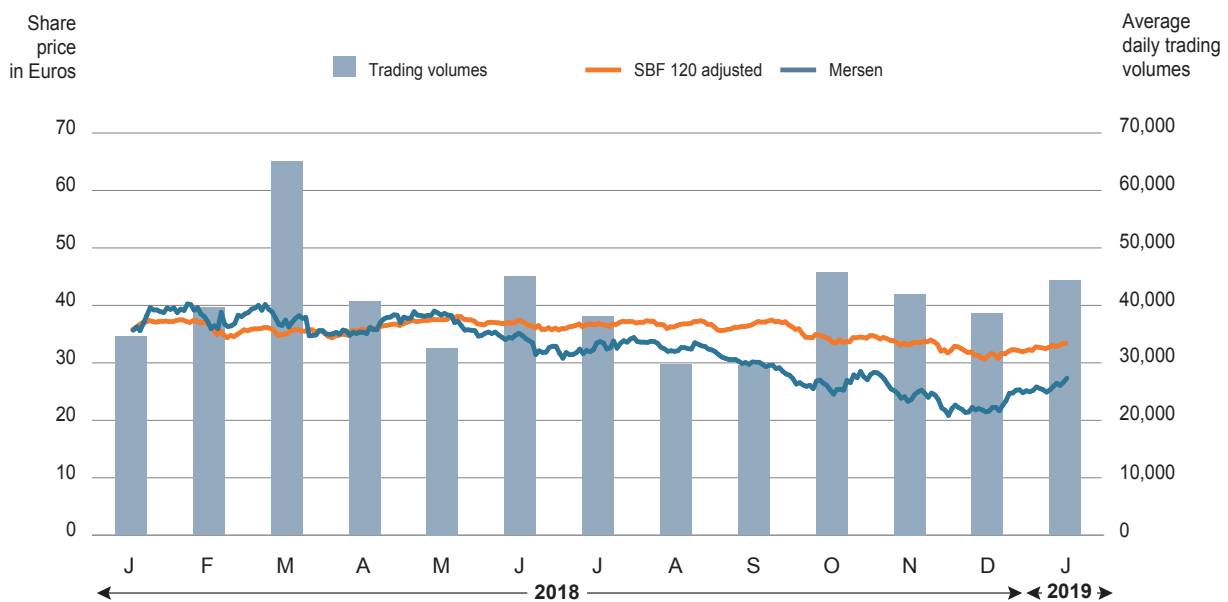
- At December 31, 2018: €23.50
- 2018 high: €41.90
- 2018 low: €21.95

<sup>(1)</sup> Closing price.

### 1.3. Trading

- 2018 average monthly volume: 841,765 (2017 average monthly volume: 624,250).
- 2018 average daily volume: 39,612 (2017 average daily volume: 29,376).

## 2. Share price performance and trading volumes



Source: Euronext.

## Market data

Share price	Number of shares traded	Share capital traded on a monthly basis (in € million)	Average daily number of shares traded	Price		
				High (in €)	Low (in €)	Average(a) (in €)
<b>2017</b>						
January	776,201	17.40	35,282	23.41	20.01	22.49
February	412,502	9.55	20,625	23.95	22.11	23.10
March	1,272,416	30.02	55,322	25.30	20.85	23.70
April	581,985	14.80	32,332	26.50	23.86	25.49
May	603,493	15.98	27,431	27.15	24.86	26.46
June	736,360	20.34	33,470	29.44	25.59	27.55
July	471,562	14.37	22,455	32.93	27.75	30.44
August	423,200	13.71	18,400	33.99	29.53	32.49
September	458,966	14.29	21,855	32.82	29.26	31.25
October	588,829	20.37	26,764	37.89	30.70	33.97
November	788,265	29.97	35,830	39.60	36.31	37.81
December	377,222	13.89	19,853	38.14	35.25	36.96
<b>2018</b>						
January	752,858	29.97	34,221	41.90	36.35	39.87
February	785,129	30.47	39,256	41.45	35.70	39.29
March	1,351,019	49.98	64,334	40.15	35.50	37.44
April	803,327	30.51	40,166	40.15	35.30	37.84
May	708,491	26.91	32,204	40.60	35.65	38.48
June	934,193	32.42	44,485	37.05	31.65	35.05
July	828,262	28.25	37,648	37.15	31.95	33.80
August	675,097	23.28	29,352	36.20	32.70	34.20
September	585,399	18.42	29,270	33.85	29.85	31.59
October	1,039,470	28.63	45,194	30.50	25.60	27.81
November	913,169	24.93	41,508	30.85	24.45	27.15
December	724,767	17.03	38,146	26.50	21.95	23.48
<b>2019</b>						
January	963,298	25.26	43,786	29.20	22.80	26.22

Source: Euronext.

(a) Average closing price.

(Share price in €)	January 2019	2018	2017
At end of period	28.60	23.50	37.34
Number of shares at end of period	20,768,118	20,768,118	20,637,041
Market capitalization at end of period (in € million)	594	488	771
Average daily number of shares traded	43,786	39,612	29,376

### 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 and a twice-yearly shareholders' newsletter.

In addition, the website provides extensive information on products and markets. All regulatory information, Focus documents on the Group's business lines, and presentations of results are available in the Finance section.

### 4. Timetable for the Group's financial communication

#### 4.1. 2018 Calendar

##### Sales

2017 Q4 sales – January 29

2018 Q1 sales – April 25

2018 Q2 sales – July 30

2018 Q3 sales – October 24

##### Results

2017 annual results – March 7

2018 half-year results – July 30

#### Meetings for institutional investors

In Europe and North America – throughout the year

#### Meetings for individual shareholders

Dijon – June

#### Annual General Meeting

Paris – May 17

#### 4.2. 2019 Calendar

##### Sales

2018 Q4 sales – January 30

2019 Q1 sales – April 24

2019 Q2 sales – July 31

2019 Q3 sales – October 29

##### Results

2018 annual results – March 13

2019 half-year results – July 31

#### Meetings for institutional investors

In Europe and North America – throughout the year

#### Meetings for individual shareholders

In regional France

#### Annual General Meeting

Paris - May 17

### 5. Officer responsible for financial information

Thomas Baumgartner

Group Vice President, Finance and Administration

##### Mersen

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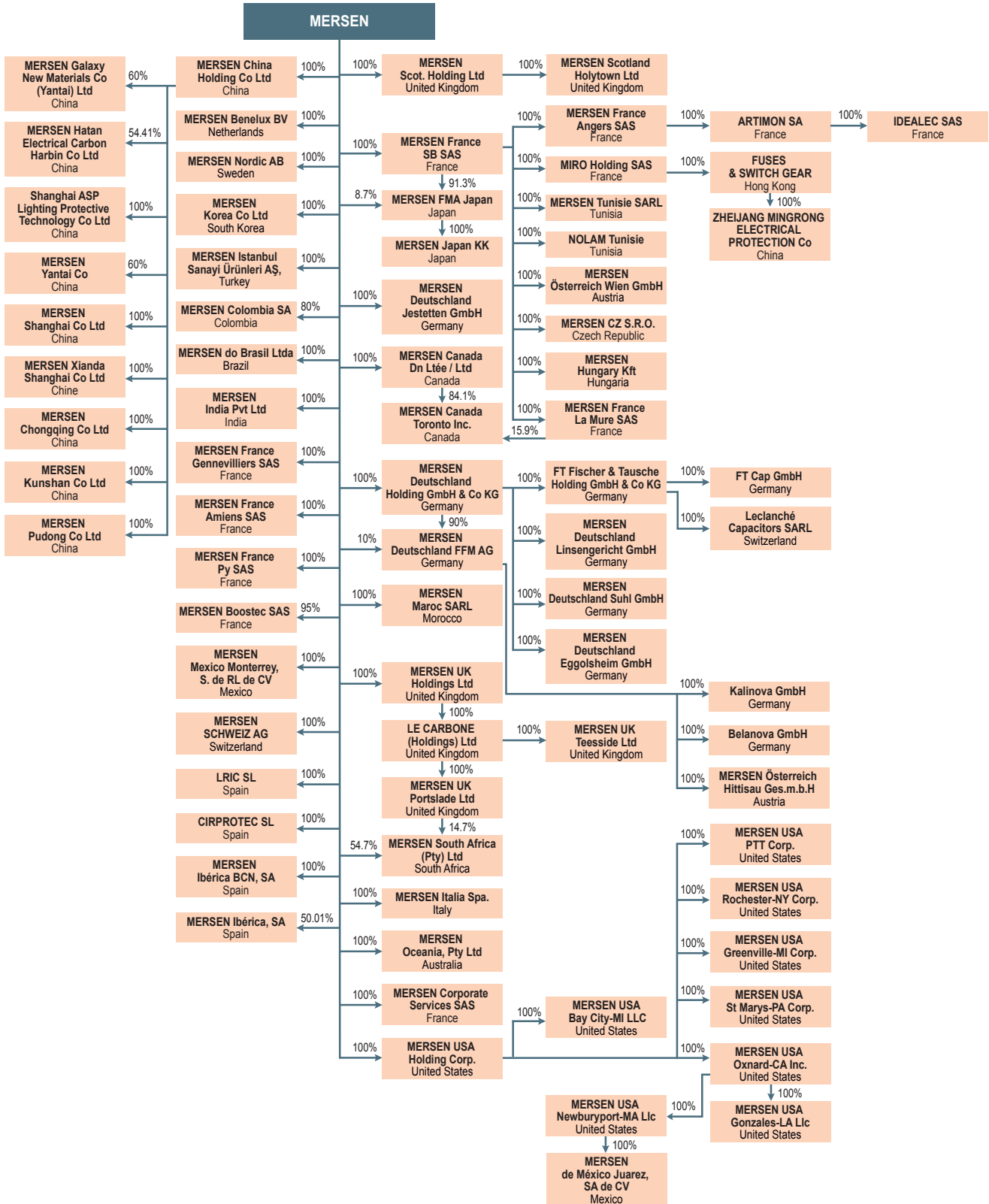


# 6 CONSOLIDATED FINANCIAL STATEMENTS

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*Nota: the comments related to Mersen's activity, results and debt evolution  
are presented in the Management Report (Chapter 3)  
of the present Reference Document*

# CONSOLIDATION SCOPE AT DECEMBER 31, 2018



# LIST OF CONSOLIDATED COMPANIES

	Consolidation method		% of Group interests
	FC: Fully Consolidated	% of Group control	
1. <b>MERSEN</b> (France)	FC	100	100
2. <b>MERSEN France Amiens S.A.S</b> (France)	FC	100	100
3. <b>MERSEN France Gennevilliers S.A.S</b> (France)	FC	100	100
4. <b>MERSEN France Py S.A.S</b> (France)	FC	100	100
5. <b>MERSEN Corporate Services S.A.S</b> (France)	FC	100	100
6. <b>MERSEN France SB S.A.S</b> (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
- Artimon SA (France)	FC	100	100
- Idéalec SAS (France)	FC	100	100
- MERSEN Österreich Wien GmbH (Austria)	FC	100	100
- MERSEN CZ S.R.O. (Czech Republic)	FC	100	100
- MERSEN Hungaria Kft (Hungary)	FC	100	100
- MERSEN Tunisie SARL (Tunisia)	FC	100	100
- NOLAM Tunisie SARL (Tunisia)	FC	100	100
- MIRO Holding SAS (France)	FC	100	100
- FUSES & SWITCHGEAR (Hong Kong)	FC	100	100
- Zhejiang Mingrong Electrical Protection Company (China)	FC	100	100
- MERSEN FMA Japan KK (Japan)	FC	100	100
- MERSEN Japan KK (Japan)	FC	100	100
7. <b>MERSEN Boostec S.A.S</b> (France)	FC	95	95
8. <b>MERSEN Deutschland Holding GmbH &amp; Co. KG</b> (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
- FT Fischer & Tausche Holding GmbH & Co KG (Germany)	FC	100	100
- FTCAP GmbH (Germany)	FC	100	100
- Leclanché Capacitors (Switzerland)	FC	100	100
9. <b>MERSEN Deutschland Jestetten GmbH</b> (Germany)	FC	100	100
10. <b>MERSEN Ibérica S.A</b> (Spain)	FC	50	50
11. <b>MERSEN Ibérica BCN S.A</b> (Spain)	FC	100	100
12. <b>Cirprotec S.L.</b> (Spain)	FC	100	100
13. <b>LRIC S.L.</b> (Spain)	FC	100	100
14. <b>MERSEN UK Holdings Ltd.</b> (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: Fully Consolidated	% of Group control	% of Group interests
<b>15. MERSEN Scotland Holding Ltd.</b> (Great Britain)	FC	100	100
- MERSEN Scotland Holytown Ltd. (Great Britain)	FC	100	100
<b>16. MERSEN Italia Spa.</b> (Italy)	FC	100	100
<b>17. MERSEN Benelux B.V</b> (Netherlands)	FC	100	100
<b>18. MERSEN Nordic AB</b> (Sweden)	FC	100	100
<b>19. MERSEN Schweiz AG</b> (Switzerland)	FC	100	100
<b>20. MERSEN Canada Dn Ltée / Ltd.</b> (Canada)	FC	100	100
- MERSEN Canada Toronto Inc. (Canada)	FC	100	100
<b>21. MERSEN USA Holding Corp.</b> (United States)	FC	100	100
- MERSEN USA PTT 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
<b>22. MERSEN Mexico Monterrey, S de R.L. de C.V.</b> (Mexico)	FC	100	100
<b>23. MERSEN Oceania, Pty Ltd.</b> (Australia)	FC	100	100
<b>24. MERSEN Korea Co. Ltd</b> (South Korea)	FC	100	100
<b>25. MERSEN India Pvt. Ltd.</b> (India)	FC	100	100
<b>26. MERSEN China holding Co. Ltd</b> (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
- MERSEN Galaxy New Materials (Yantai) Co. Ltd (China)	FC	60	60
<b>27. MERSEN South Africa PTY Ltd</b> (South Africa)	FC	69	69
<b>28. MERSEN do Brasil Ltda.</b> (Brazil)	FC	100	100
<b>29. MERSEN Istanbul Sanayi Ürünleri</b> (Turkey)	FC	100	100
<b>30. MERSEN Colombia S.A</b> (Colombia)	FC	80	80
<b>31. MERSEN Maroc S.A.R.L</b> (Morocco)	FC	100	100

All these companies have a fiscal year that corresponds to the calendar year.

## CHANGES IN CONSOLIDATION SCOPE OVER THE PAST TWO YEARS

The principal changes in consolidation scope that impacted the consolidated financial statements in 2017 and 2018 were as follows:

- In 2017, Mersen sold:
  - The high-voltage switches business of the Saint-Loup-de-Naud site in France (in March). This business was classified as held for sale in December 2016 (see below for further details).
  - Mersen France Gorcy S.A.S. (in October). The high-voltage switch and contactor business was sold to a French manufacturer in October 2017. Consequently, it was classified as a discontinued operation in the 2017 consolidated financial statements in accordance with IFRS 5, and the 2016 consolidated financial statements have been restated accordingly.
- In 2018, Mersen acquired:
  - All of the shares of Artimon SA in France and of its operating subsidiary Idéalec SAS (April),
  - All of the shares of FT Fischer & Tausche Holding GmbH & Co KG (Germany) and of its operating subsidiaries FTCAP GmbH (Germany) and Leclanché Capacitors sarl (Switzerland) (July),
  - All the service activities of Louisville Graphite Inc. (LGI) in the United States (June),
  - At end-2018, the Company set up the Mersen Galaxy New Materials (Yantai) Co Ltd. joint venture in China, in which it holds 60% of the shares.

### Businesses classified as held for sale over the past two years:

#### ■ High-voltage switch and contactors business: sale of Mersen France Gorcy S.A.S.

The Group sold Mersen France Gorcy S.A.S in October 2017 in line with its strategy of divesting businesses that have few synergies with the other businesses in the Electrical Power segment.

#### ■ High-voltage switches business: sale of the Saint-Loup-de-Naud site in France

On September 13, 2016, the Group announced its intention to enter into negotiations with a view to selling its high-voltage switches business at the Saint-Loup-de-Naud site, which offered few synergies with the Electrical Power segment's other businesses. The Group received a binding offer during the second half of 2016 from a European specialist in this business. The sale was completed on March 3, 2017.

These businesses are presented in accordance with IFRS 5.

# CONSOLIDATED STATEMENT OF INCOME

<i>In millions of euros</i>	Notes	Dec. 31, 2018	Dec. 31, 2017
Consolidated sales	18	878.5	809.2
Cost of sales		(593.4)	(553.2)
<b>Total gross income</b>		<b>285.1</b>	<b>256.0</b>
Selling and marketing expenses		(78.0)	(77.2)
Administrative and research expenses		(110.2)	(100.6)
Amortization of revalued intangible assets		(1.2)	(1.2)
Other operating expenses		(4.1)	(2.4)
<b>OPERATING INCOME BEFORE NON-RECURRING ITEMS</b>		<b>91.6</b>	<b>74.6</b>
Non-recurring expenses	17	(3.8)	(11.1)
Non-recurring income	17	0.0	0.8
<b>OPERATING INCOME</b>	<b>18/20</b>	<b>87.8</b>	<b>64.3</b>
Financial expenses		(10.3)	(10.0)
Financial income			
Financing costs		(10.3)	(10.0)
<b>Net finance income/(expense)</b>	<b>21</b>	<b>(10.3)</b>	<b>(10.0)</b>
<b>Income from continuing operations before tax</b>		<b>77.5</b>	<b>54.3</b>
Current and deferred income tax	22	(18.3)	(15.1)
<b>Net income from continuing operations</b>		<b>59.2</b>	<b>39.2</b>
Net income/(loss) from operations held for sale and discontinued operations	5	0.0	0.8
<b>NET INCOME</b>		<b>59.2</b>	<b>40.0</b>
Attributable to:			
- Owners of the parent		56.5	37.6
- Non-controlling interests		2.7	2.4
<b>NET INCOME FOR THE YEAR</b>		<b>59.2</b>	<b>40.0</b>
<b>Earnings per share</b>	<b>23</b>		
Basic earnings per share (€)		2.75	1.83
Diluted earnings per share (€)		2.66	1.76
<b>Earnings per share from continuing operations</b>	<b>23</b>		
Basic earnings per share (€)		2.75	1.78
Diluted earnings per share (€)		2.66	1.72
<b>Earnings per share from operations held for sale and discontinued operations</b>	<b>23</b>		
Basic earnings per share (€)		0.00	0.04
Diluted earnings per share (€)		0.00	0.04

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>In millions of euros</i>	Notes	Dec. 31, 2018	Dec. 31, 2017
<b>NET INCOME FOR THE PERIOD</b>		<b>59.2</b>	<b>40.0</b>
<b>Items that will not be subsequently reclassified to income</b>			
Financial assets at fair value through "Other comprehensive income"		0.0	
Remeasurement of net defined benefit liabilities (assets)		6.3	(2.8)
Tax impact		(1.5)	(4.2)
		4.8	(7.0)
<b>Items that may subsequently be reclassified to income</b>			
Change in fair value of hedging instruments		(0.1)	(1.1)
Exchange differences on translation of assets and liabilities at the period-end rate		6.3	(32.7)
Tax impact		0.0	0.1
		6.2	(33.7)
<b>INCOME AND EXPENSES RECOGNIZED DIRECTLY IN EQUITY</b>		<b>11.0</b>	<b>(40.7)</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS)</b>		<b>70.2</b>	<b>(0.7)</b>
Attributable to:			
- Owners of the parent		67.7	(2.4)
- Non-controlling interests		2.5	1.7
<b>TOTAL COMPREHENSIVE INCOME/(LOSS)</b>		<b>70.2</b>	<b>(0.7)</b>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## ASSETS

<i>In millions of euros</i>	Note	Dec. 31, 2018	Dec. 31, 2017
<b>NON-CURRENT ASSETS</b>			
<b>Intangible assets</b>			
- Goodwill	6	276.2	265.2
- Other intangible assets	8	35.1	31.8
<b>Property, plant and equipment</b>			
- Land		30.6	30.3
- Buildings		76.3	70.0
- Plant, equipment and other assets		171.6	149.6
- Assets in progress		22.4	16.3
<b>Non-current financial assets</b>			
- Equity interests	9	4.1	2.3
- Non-current derivatives	3	0.1	0.3
- Other financial assets		3.3	4.5
<b>Non-current tax assets</b>			
- Deferred tax assets	22	26.9	28.2
- Long-term portion of current tax assets		5.8	7.7
<b>TOTAL NON-CURRENT ASSETS</b>		<b>652.4</b>	<b>606.2</b>
<b>CURRENT ASSETS</b>			
- Inventories	10	198.6	158.8
- Trade receivables	11	146.2	123.4
- Contract assets	11	10.6	
- Other operating receivables		20.4	17.4
- Short-term portion of current tax assets		4.6	5.0
- Other current assets		1.9	
- Current financial assets	15	13.8	12.6
- Current derivatives	3	1.2	0.5
- Cash and cash equivalents	15	34.8	25.9
- Assets held for sale and discontinued operations	5	0.0	0.1
<b>TOTAL CURRENT ASSETS</b>		<b>432.1</b>	<b>343.7</b>
<b>TOTAL ASSETS</b>		<b>1,084.5</b>	<b>949.9</b>



**EQUITY AND LIABILITIES**

<i>In millions of euros</i>	Note	Dec. 31, 2018	Dec. 31, 2017
<b>EQUITY</b>			
- Share capital	12	41.5	41.3
- Retained earnings and other reserves		417.6	403.3
- Net income for the year		56.5	37.6
- Cumulative translation adjustments		(9.3)	(15.8)
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b>		<b>506.3</b>	<b>466.4</b>
- Non-controlling interests		21.8	17.6
<b>TOTAL EQUITY</b>		<b>528.1</b>	<b>484.0</b>
<b>NON-CURRENT LIABILITIES</b>			
- Non-current provisions	13	1.5	1.3
- Employee benefit obligations	14	64.6	68.3
- Deferred tax liabilities	22	27.8	20.5
- Long and medium-term borrowings	15	109.4	154.4
- Non-current derivatives	3	0.1	0.2
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>203.4</b>	<b>244.7</b>
<b>CURRENT LIABILITIES</b>			
- Trade payables		71.8	60.0
- Contract liabilities		28.3	
- Other operating payables		84.1	80.7
- Current provisions	13	7.8	11.9
- Short-term portion of current tax liabilities		2.4	2.8
- Miscellaneous liabilities	13	1.0	1.2
- Other current financial liabilities	15	125.3	37.8
- Current derivatives	3	2.0	1.0
- Financial current accounts	15	0.5	0.3
- Bank overdrafts	15	28.9	24.1
- Liabilities related to assets held for sale and discontinued operations	5	0.9	1.4
<b>TOTAL CURRENT LIABILITIES</b>		<b>353.0</b>	<b>221.2</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,084.5</b>	<b>949.9</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>In millions of euros</i>	Attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Additional paid-in capital, retained earnings and other reserves	Net income for the period	Cumulative translation adjustments	Total			
<b>AT JANUARY 1, 2017</b>	<b>40.9</b>	<b>415.7</b>	<b>1.8</b>	<b>16.2</b>	<b>474.6</b>	<b>18.0</b>	<b>492.6</b>	
Prior-period net income		1.8	(1.8)		0.0		0.0	
Net income for the year			37.6		37.6	2.4	40.0	
Change in the fair value of derivative hedging instruments, net of tax		(1.0)			(1.0)		(1.0)	
Remeasurement of net liabilities (assets) for defined benefits after tax		(7.0)			(7.0)		(7.0)	
Translation adjustment				(32.0)	(32.0)	(0.7)	(32.7)	
<b>Total other comprehensive income</b>	<b>0.0</b>	<b>(8.0)</b>	<b>0.0</b>	<b>(32.0)</b>	<b>(40.0)</b>	<b>(0.7)</b>	<b>(40.7)</b>	
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>0.0</b>	<b>(8.0)</b>	<b>37.6</b>	<b>(32.0)</b>	<b>(2.4)</b>	<b>1.7</b>	<b>(0.7)</b>	
Dividends paid		(10.2)			(10.2)	(2.1)	(12.3)	
Treasury shares		0.3			0.3		0.3	
Capital increase	0.4	2.7			3.1		3.1	
Stock options and free shares		0.6			0.6		0.6	
Changes in non-controlling interests					0.0		0.0	
Other		0.4			0.4		0.4	
<b>AT DECEMBER 31, 2017</b>	<b>41.3</b>	<b>403.3</b>	<b>37.6</b>	<b>(15.8)</b>	<b>466.4</b>	<b>17.6</b>	<b>484.0</b>	
Prior-period net income		37.6	(37.6)		0.0		0.0	
Net income for the year			56.5		56.5	2.7	59.2	
Change in the fair value of derivative hedging instruments, net of tax		(0.1)			(0.1)		(0.1)	
Remeasurement of net liabilities (assets) for defined benefits after tax		4.8			4.8		4.8	
Translation adjustment				6.5	6.5	(0.2)	6.3	
<b>Total other comprehensive income</b>	<b>0.0</b>	<b>5.5</b>	<b>0.0</b>	<b>6.5</b>	<b>12.0</b>	<b>(0.2)</b>	<b>11.8</b>	
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>0.0</b>	<b>4.7</b>	<b>56.5</b>	<b>6.5</b>	<b>67.7</b>	<b>2.5</b>	<b>70.2</b>	
Dividends paid		(15.7)			(15.7)	(0.5)	(16.2)	
Treasury shares		(8.4)			(8.4)		(8.4)	
Capital increase	0.2	2.1			2.3		2.3	
Stock options and free shares		2.1			2.1		2.1	
Acquisition of non-controlling interests in Cirprotec		(8.0)			(8.0)	(2.9)	(10.9)	
Creation of Mersen Galaxy Joint-Venture					0.0	5.1	5.1	
Adjustment resulting from first-time application of IFRS 9: impairment of receivables		(0.5)			(0.5)		(0.5)	
Other		0.4			0.4		0.4	
<b>AT DECEMBER 31, 2018</b>	<b>41.5</b>	<b>417.6</b>	<b>56.5</b>	<b>(9.3)</b>	<b>506.3</b>	<b>21.8</b>	<b>528.1</b>	

# CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In millions of euros</i>	Dec. 31, 2018	Dec. 31, 2017
Income before tax	77.5	54.3
Depreciation and amortization	37.5	38.3
Additions to/(reversals from) provisions	(5.4)	(10.1)
Net finance income/(expense)	10.3	10
Capital gains/(losses) on asset disposals	0.8	1.3
Other	2.5	0.5
<b>Cash generated by operating activities before change in WCR</b>	<b>123.2</b>	<b>94.3</b>
Change in working capital requirement	(21.5)	(14.5)
Income tax paid	(10.0)	(15.4)
<b>Net cash generated by continuing operating activities</b>	<b>91.7</b>	<b>64.4</b>
<b>Cash generated by/(used in) discontinued operations</b>	<b>(0.4)</b>	<b>(0.2)</b>
<b>NET CASH GENERATED BY OPERATING ACTIVITIES</b>	<b>91.3</b>	<b>64.2</b>
<b>Cash flows from investing activities</b>		
Intangible assets	(3.4)	(3.2)
Property, plant and equipment	(55.2)	(34.9)
Decreases (increases) in amounts due to suppliers of non-current assets	(2.8)	(1.8)
Financial assets	(1.0)	0.0
Changes in scope of consolidation	(30.8)	0.0
Other cash flows from investing activities	2.6	2.0
<b>Cash generated by/(used in) investing activities from continuing operations</b>	<b>(90.6)</b>	<b>(37.9)</b>
<b>Cash generated by/(used in) investing activities from discontinued operations</b>	<b>0.0</b>	<b>6.2</b>
<b>NET CASH GENERATED BY/(USED IN) INVESTING ACTIVITIES</b>	<b>(90.6)</b>	<b>(31.7)</b>
<b>NET CASH GENERATED BY OPERATING AND INVESTING ACTIVITIES</b>	<b>0.7</b>	<b>32.5</b>
Amounts received/(paid) on capital increases/reductions and other changes in equity	(6.3)	3.3
Net dividends paid to shareholders and non-controlling interests	(15.8)	(12.3)
Interest payments	(8.1)	(8.0)
Change in debt	39.3	(27.4)
<b>NET CASH GENERATED BY/(USED IN) FINANCING ACTIVITIES</b>	<b>9.1</b>	<b>(44.4)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>9.8</b>	<b>(11.9)</b>
Cash and cash equivalents at beginning of year (Note 15)	25.9	29.2
Cash and cash equivalents at year-end (Note 15)	34.8	25.9
Change in consolidation scope		0.0
Impact of currency fluctuations	0.9	(8.6)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>9.8</b>	<b>(11.9)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## SUMMARY OF THE NOTES TO THE FINANCIAL STATEMENTS

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## Note 1 Compliance statement

In accordance with Regulation (EC) 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, 2018 are indicated in Note 2. The new standards applied with effect from 2018 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, 2018 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 French Financial Markets Authority (Autorité des Marchés Financiers -AMF).

For comparison purposes, the 2018 consolidated financial statements include data for 2017, which were prepared using the same accounting rules.

The accounting principles described in Note 2 et seq. were used to prepare the comparative information and the 2018 annual financial statements.

## Note 2 Summary of significant accounting policies and methods

### A - Scope and consolidation method

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 (R&D).

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 (or amortized) 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.

### 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 effective 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 in operating income under foreign exchange gains and losses.

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 income and offset changes in the value of the hedged assets, liabilities, or firm commitments as and when they occur. The time value of the hedges is recognized in operating income under other operating expenses;
- Changes in the fair value of instruments not eligible for hedging future cash flows are recognized directly in income.

### E2 - Interest rate hedging

Interest rate derivatives are valued on the balance sheet at fair value. Changes in fair value are recognized using the following methods:

- The ineffective component of the derivative instrument is recognized under income as the cost of debt;
- The effective component of the derivative instrument is recognized 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 hedged debt.

## F - Intangible assets

The applicable standards are IAS 38 "Intangible Assets", IAS 36 "Impairment of Assets" and IFRS 3 "Business Combinations".

In accordance with IAS 38 "Intangible Assets", only items whose future economic benefits are likely to benefit the Group and whose cost can be reliably determined are recognized as intangible assets.

The Group's intangible assets consist primarily of goodwill.

Other intangible assets (customer relationships, technology) with a finite lifespan are recognized at cost less accumulated amortization and impairment. Amortization is recognized as an expense on a straight-line basis over the estimated useful life.

**F1 - Goodwill**

For acquisitions completed between January 1, 2004 and January 1, 2010:

Goodwill represents the excess acquisition cost paid over the Group's share of the amounts recognized (usually at fair value) as assets, liabilities and contingent liabilities.

After January 1, 2010, 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.

Goodwill is allocated to the Group's cash-generating units (CGU). The Group has defined the following five CGUs:

- Power Transfer Technologies;
- Graphite Specialties;
- Anticorrosion Equipment;
- Solutions for Power Management;
- Electrical Protection and Control.

In accordance with IFRS 3 "Business Combinations", goodwill is not amortized. It is subject to an impairment test as soon as indications of impairment appear, and at least once a year.

In accordance with IAS 36, the method used by the Group for testing the impairment of assets consists in:

- developing cash flows after normal taxes on the basis of the Strategic Plan of the relevant CGU;
- calculating 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 property, plant and equipment are recognized separately if their useful life and therefore their depreciation period are significantly different.

Accordingly, the depreciation method used by the Group is the straight-line method, depending on the projected useful life of the asset.

The periods used are:

- construction: 20 to 50 years;
- fixtures and fittings: 10 to 15 years;
- plant and equipment: 3 to 10 years;
- vehicles: 3 to 5 years.

These depreciation periods and the residual values are reviewed and adjusted at the end of each annual period; the changes are applied prospectively.

Investment subsidies are recognized at the outset as a deduction from the gross value of the asset.

## H - Leases

According to IAS 17, a lease agreement is categorized as a finance lease if it transfers substantially all of the risks and rewards incidental to the ownership of 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 recognized in the Group's balance sheet both as property, plant and equipment and as an obligation to make future payments under the lease. The finance lease is recognized for amounts equal to the fair value of the leased property or, if lower, the discounted value of the minimum lease payments. At the beginning of the lease, the assets and liabilities corresponding to the future payments under the lease are posted to the balance sheet in the same amounts.

Payments under the lease are broken down between 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 property, plant and equipment and intangible assets

In accordance with IAS 36 "Impairment of Assets", if events or changes in the market environment suggest that there is a risk of impairment, the Group's property, plant and equipment and intangible assets are subject to a detailed review to determine whether their carrying amount is lower than their recoverable amount; this amount is defined as the higher of either their fair value less costs of disposals, or their value in use.

If the recoverable amount of the assets is lower than their carrying amounts, an impairment loss is recognized equivalent to the difference between these two amounts. Impairment losses relating to property, plant and equipment and intangible assets (excluding goodwill) with a finite useful life can be subsequently reversed if the recoverable amount becomes higher than the carrying amount (within the limit of the impairment loss originally recognized).

The recoverable amount 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 economic forecasts 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 market assessments of the time value of money and the risks specific to the asset. It is the rate of return that investors would require if they were to choose an investment whose amount, maturity and risks were equivalent to those of the relevant asset or Cash-Generating Unit (CGU).

## J - Financial assets and liabilities

Measurement and recognition of financial assets and liabilities is defined by IFRS 9 "Financial Instruments", IAS 32 "Financial Instruments: Presentation" and IFRS 7 "Financial Instruments: Disclosures".

Financial assets include equity instruments at fair value through other items of comprehensive income, fair value of hedging instruments-derivatives held as assets, guarantee deposits paid, loans and receivables, contract assets and cash and cash equivalents at amortized cost.

Current and non-current financial assets measured at amortized cost are written down in line with the expected credit losses model set out in IFRS 9: impairment of trade receivables is calculated based on historical credit loss rates, adjusted prospectively for future events that factor in both individual credit risks and the economic outlook on the markets in question.

Financial liabilities include borrowings, other financing facilities and bank overdrafts, guarantee deposits received, contract liabilities and fair value of hedging instruments-derivatives held as liabilities. Unless they have been hedged at fair value, borrowings and other financial liabilities are measured at the amortized cost calculated using the effective interest rate (EIR).



### Equity interests

The equity interests of unconsolidated companies are non-current financial assets classified as “available for sale” and measured at their fair value.

For each investment, at initial recognition, the Group may make an irrevocable election to present subsequent changes in the fair value of the investment in other comprehensive income.

The principal activity of the unconsolidated subsidiaries consists in the distribution of products manufactured by the consolidated companies.

Subsidiaries that are considered, individually or on an aggregate basis, to be immaterial, are not included in the consolidation scope.

### 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 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.

Interest expenses are not capitalized.

### N - Consolidated sales

Sales include sales of finished products and services relating to these products, sales of scrap, sales of goods purchased and invoiced shipping costs.

They are recognized in accordance with IFRS 15 “Revenue from Contracts with Customers”, i.e. revenue is recognized once control over a good or service passes to a customer for the amount of consideration to which a seller expects to be entitled once performance obligations have been satisfied.

Given the nature of the products and the Group’s general terms and conditions of sale, Group sales are usually recognized once the performance obligation has been satisfied, on the date the products leave the Group’s warehouse, or at delivery if Mersen is responsible for transporting the products. The products are recognized as revenue once (i) inherent control over performance obligations has been transferred to the customer, (ii) the consideration is expected to be recovered, and (iii) related costs, the possibility that the goods will be returned and the amount of revenue can all be reliably measured.

For the Advanced Materials segment, income from service agreements and construction contracts is recognized in the income statement based on the contract’s state of progress at the reporting date. Revenue is recognized as and when the performance obligations are satisfied. Progress in satisfying the performance obligations is measured based on work completed.

Use of the Percentage of Completion method requires compliance with one of the three qualifying conditions set out in IFRS 15, paragraph 35(C).

Consequently, the Group recognizes revenue over time, if one of the following criteria is met:

- the asset created by Mersen has no other use apart from that provided for in the contract; and,
- the Group has an enforceable right to payment for performance completed to date.

Moreover, the Group presents the contract in the statement of financial position as a contract asset or a contract liability depending on the relationship between the entity’s performance and the customer’s payment:

- contract assets mainly comprise the Group’s accrued entitlements to payments for work completed but not billed at the reporting date,
- contract liabilities mainly comprise prepayments received from customers.

Income from 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.

Remeasurement of net liabilities (assets) relating to the defined benefits include actuarial differences, the return on the plan assets (other than the amounts taken into account in the calculation of the net interest on the net liabilities (assets) and the variation in the effect of the asset ceiling (other than the amounts taken into account in the calculation of the net interest on the net liabilities (assets), if any). The Group recognizes them immediately as other items of comprehensive income and all the other expenses relating to defined benefit plans are recognized through profit or loss as employee benefit obligations.

If the plan benefits change, the impact associated with past services rendered by personnel is recognized immediately in the income statement at the time of the change. If a plan is reduced, the profit or 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 recurring costs.

Non-recurring income and expense include the following items:

- the proceeds of material and non-recurring sales: property, plant and equipment and intangible assets, equity interests, other financial fixed assets and other assets;
- impairment losses recognized on equity interests, loans, goodwill, and assets;
- certain provisions;
- reorganization and restructuring expenses
- costs relating to acquisitions as part of a business combination.

## Q - Operating income

Operating income is shown before net finance expenses, taxes and non-controlling interests.

Operating subsidies are presented as a deduction from 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 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 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:

- **Advanced Materials segment**, which includes the Group's three businesses related to carbon materials: graphite specialties for hightemperature applications, anticorrosion equipment, mainly used in the chemicals sector, and power transmission technologies.
- **Electrical Power segment**, which includes the Group's two businesses related to the electrical market, namely Solutions for power management and electrical protection and control (primarily fuses, industrial fuse holders, and surge protection solutions).

In application of IFRS 8, the Group therefore 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 outstanding 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 riskfree interest rate over the life of the option. This value is recorded under staff expenses on a straight-line basis over the vesting period, with a corresponding adjustment to equity for share-settled and debt-settled plans vis-à-vis the personnel for cash-settled plans.

## V - Use of estimates

For the preparation of the consolidated financial statements, the calculation of certain figures shown in the financial statements requires that assumptions, estimates or appraisals be used, in particular when calculating provisions and performing impairment tests. These assumptions, estimates or appraisals are carried out on the basis of the information available or existing situations at the reporting date. These estimates and assumptions are made on the basis of past experience and various other factors. The current sharply deteriorating economic and financial environment makes it difficult to accurately assess business prospects. The actual amounts may subsequently turn out to be different from the estimates and assumptions used.

The actual occurrence of certain events after the reporting date may subsequently differ from the assumptions, estimates and appraisals used in this context.

### *Use of management estimates in the application of the Group's accounting standards*

Mersen may be required to make estimates and to rely on assumptions that affect the carrying amount of assets and liabilities, Income and expenses, and also information relating to unrealized assets and liabilities. Future earnings may differ significantly from these estimates.

The underlying estimates and 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 carrying amounts of assets and liabilities that cannot be obtained directly from other sources. Actual amounts may differ from the estimated values.

The underlying estimates and assumptions are reviewed on an ongoing basis. The impact of changes in accounting estimates is recognized during the period of the change, if this affects this period only, or during the period of the change and future periods if these are also affected by the change.

Notes 2-F1, 2-I and 7 relate to impairment testing of goodwill and other fixed assets. The Group's Management has conducted the tests on the basis of best expectations for future valuations of the businesses of the units concerned, taking into account the discount rate.

Notes 13 and 14 relating to provisions and employee benefit obligations describe the provisions introduced by Mersen. In calculating these provisions, the Group took into account the best estimate of these obligations.

Note 22 relating to the tax burden summarizes the Group's tax situation and is based, especially in France and Germany, on the best estimate that the Group has for future changes in taxable income.

All of these estimates are based on an organized process for gathering projections of future flows, with validation by the operational managers, as well as market data projections based on external indicators, used in accordance with consistent, documented methodologies.

## W - New standards applied

The Group applied IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial Instruments” for the first time with effect from January 1, 2018. A number of other new standards were also applicable from January 1, 2018 but did not have any material impact on the Group’s consolidated financial statements.

### **IFRS 15. Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework specifying how and when revenue should be recognized. It replaces the following standards and interpretations related to revenue recognition: IAS 18, Revenue, IAS 11, Construction Contracts and IFRIC 13, Customer Loyalty Programmes.

The Group used the Cumulative Effect Method (without practical simplification measures) for first-time application of IFRS 15 at January 1, 2018. Consequently, 2017 disclosures have not been restated, i.e., they have been presented as before in accordance with IAS 18 and IAS 11 and the related interpretations.

Therefore, in the financial statements for the year ended December 31, 2018, the Group recognized the following:

- concerning sales to distributors (mainly in the EP segment), selling and marketing expenses paid to distributors have been reclassified from expenses and are now treated as a deduction from sales. These expenses totaled €1.3 million in 2017,
- concerning construction contracts (which are primarily used in the AM segment), the Group has not detected any significant impact in the accounts,
- contract assets and liabilities are now presented on separate lines in the statement of financial position. Prepayments received from customers for long-term contracts, which were previously recorded in client accounts, have been recognized in “Contract liabilities” (€28 million at December 31, 2018) and unbilled receivables for long-term contracts, which were previously recorded in “Trade receivables” have been reclassified to “Contract assets” for an amount of €10.6 million at December 31, 2018 (see Note 11).

IFRS 15 has not impacted net income or retained earnings or non-controlling interests.

### **IFRS 9. Financial Instruments**

IFRS 9 – issued in July 2014 – replaces IAS 39, “Financial Instruments: Recognition and Measurement”. It includes amended guidance for the classification and measurement of financial instruments, a new expected credit loss model for measuring impairment losses on financial assets, and new requirements for general hedge accounting. IFRS 9 also carries over from IAS 39 the requirements for recognition and derecognition of financial instruments.

IFRS 9 is effective for reporting periods beginning on or after January 1, 2018.

For Mersen the impact is as follows:

- the Group has elected to classify and measure financial assets at their fair value through “Other comprehensive income”:
  - the transition to IFRS 9 has not impacted opening reserves,
  - the Group recognized a zero net gain in “Other comprehensive income” at December 31, 2018.
- for expected credit losses on its financial assets: an increase in impairment losses recognized against financial assets in view of the new expected credit loss model.
  - a net tax loss of €0.5 million in “Other comprehensive income” reflecting the change in method,
  - a loss of less than €0.1 million for the period in the income statement.

## X - New standards and interpretations not yet applied

### **IFRS 16. “Leases”**

- The IFRS 16 Leases accounting standard published by the IAASB on January 16, 2016 will replace the IAS 17 and associated IFRIC and SIC interpretations. The new standard eliminates the previous distinction between operating and finance leases. Applicable from January 1, 2019 (or in 2018 in the case of early adoption), the standard has been adopted by the European Union and requires lessees to account for each lease of one year or over using the same methods currently applied to finance leases under IAS17. This means that assets and liabilities acquired through the lease must be stated according to their rights and obligations.
- In 2017, the Group began a preparatory phase by compiling an inventory of its leases along with the data needed to assess the new standard’s impact on the balance sheet. Work on the inventory continued into 2018. Cars and forklift trucks mainly account for the highest number of leases whereas offices, plants and warehouses constitute those with the highest value. The standard does not apply to leases valued under €5,000 (or USD 5,000) or those with a term of less than one year. One of the key assumptions is that specific discount rates should be set for each country, to be calculated according to the default risk of the country and the credit risk of the lessee entity, as well as the Group’s external financing conditions. Off the balance sheet commitments at December 31, 2018 provide a fair indication of the amount of debt the standard represents, it being specified that debt should be higher than off balance commitments as they only extend to property lease rates. The impact of other leases, particularly those for forklift trucks and cars, should nevertheless be offset in part by the discount which applies to all the leases. The Group is finalizing the roll-out of a dedicated IT system which will generate the relevant accounting entries with regard to the standard.

- The Group will apply IFRS 16 as of January 1, 2019, using the modified retrospective approach that does not restate comparative figures for 2018. The application of IFRS 16 will result in increased assets and net debt estimated to date respectively at around €40 million. This will lead to a reduction in rental expenses recorded under EBITDA in the income statement, as well as an increase in the amortization of non-current assets and financial costs. The improvement in full-year EBITDA is estimated at between €10 million and

€11 million. The increase in current operating result is estimated at between €2 million and €3 million. These changes will have little bearing on the adjusted net debt/EBITDA ratio, which should be revised from 1.6 to 1.8 (pro forma adjusted EBITDA) as per the Group's position at December 31, 2018. Finance lease documentation, however, states that the impact of the new accounting standard will be neutral. IFRS 16 will not therefore affect the Group's financing and will have a limited influence on earnings per share.

### 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 Group's exposure to each of the above risks, its objectives, its policy and its procedures for evaluating and managing risks.

Quantitative information is provided in other areas in the consolidated financial statements.

Information on capital management is presented in Note 12.

#### Liquidity risk

Mersen has confirmed credit lines and borrowing facilities for a total of €364 million, of which 41% was drawn down at December 31, 2018. Based on the amounts drawn down, the average maturity of these credit lines or borrowing facilities is more than 3.2 years.

Mersen has the following principal financing agreements:

- A multi-currency syndicated bank loan, set up in July 2012 and amended in 2014 and 2017. The amount of this facility is €200 million, repayable in full in July 2023. The interest payable is at a variable rate, plus a credit margin.

- A syndicated loan 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. Interest on the loan is 95% of the People's Bank of China's rate at the time of drawdowns.
- Bilateral banking facilities set up in September, 2013 and amended in August, 2016 in the amount of RMB 45.5 million, which can be repaid up until 2021, intended to finance the Group's activities in China.
- A USD 100 million US private placement (USPP) negotiated in November 2011 with a US investor, comprising one tranche of USD 50 million with a 10-year term and one tranche of USD 37.2 million with an eight-year term, both with a bullet structure. The investor receives 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 a variable rate based on the Euribor plus a credit margin.

Furthermore, as part of its policy to diversify its funding sources, in March 2016 Mersen set up a €200 million commercial paper program with a maturity of less than one year. As at December 31, 2018, €78.8 million has been used. The program can be substituted by drawdowns from the Group Syndicated Loan on maturity.

#### Breakdown of confirmed credit lines and borrowings by maturity

(In millions of euros)	Amount	Drawdown at Dec. 31, 2018	Utilization rate Dec. 31, 2018	Maturity		
				Less than 1 year	From 1 to 5 years	More than 5 years
Group syndicated loan	200.0	0.0	0%	0.0	200.0	0.0
Confirmed credit facilities – China	21.0	5.8	27%	1.7	19.3	0.0
German private placement	60.0	60.0	100%	0.0	60.0	0
US Private Placement	81.0	81.0	100%	37.3 <sup>(3)</sup>	43.7	0.0
Other	1.2	1.2	100%	0.3	0.9	0.0
<b>TOTAL</b>	<b>363.2</b>	<b>148.0</b>	<b>41%</b>			
<b>AVERAGE MATURITY (YEAR)</b>	<b>4.2<sup>(1)</sup></b>	<b>3.3<sup>(2)</sup></b>				

(1) Maturity calculated on the basis of authorized amounts

(2) Maturity calculated on the basis of drawdown amounts

(3) Maturity of US Private Placement (EUR tranche) in November 2019 that may be redeemed out of confirmed credit lines

**Breakdown by maturity of cash flows on drawdowns of confirmed credit facilities and borrowings**

(In millions of euros)

DRAWDOWNS	Impact at December 31, 2018	Expected cash flows	Maturity		
			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 facilities – China	5.8	6.2	0.9	0.9	4.4
German private placement	60.0	64.7	0.5	0.5	63.7
US Private Placement	81.0	89.0	1.9	39.2	47.9
Other	1.2	1.6	0.1	0.1	1.4
<b>TOTAL</b>	<b>148.0</b>	<b>161.5</b>	<b>3.4</b>	<b>40.7</b>	<b>117.4</b>

**Interest rate risk**

The interest rate risk management policy is approved by the CEO of the Group on the basis of recommendations made by Mersen's Finance Department. 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, 2018, the nominal amount stood at GBP 1.2 million.

The USPP of 2011 are fixed rate instruments, with an average interest rate of 4.7%.

In March 2017 the Company set up an interest rate cap with a notional amount of €25 million in order to hedge part of its confirmed debt against an increase in the Euribor of over 1%.

(In millions of euros)

GBP swap	Amount	Interest rate received	Interest rate paid	Maturity		
				Less than 1 year	From 1 to 5 years	More than 5 years
GBP swap	1.2	1- month Libor	5.38%	0.3	0.9	0.0

(In millions of euros)

SWAP	MTM <sup>(a)</sup>	Expected cash flows	Maturity		
			Less than 1 year	From 1 to 5 years	More than 5 years
Assets	0.1	0.0	0.0	0.0	0.0
Liabilities and shareholders' equity	(0.12)	(0.12)	(0.05)	(0.07)	0.0

(a) Mark-to-market = evaluated at market price.

(In millions of euros)

Cap (EUR)	Amount	Variable rate	Rate for the year	MTM
Cap (EUR)	25	6-month Euribor	1%	0.1

**Sensitivity analysis of the fair value of fixed-income instruments**

The Group does not record any fixed-income financial assets or liabilities at fair value through profit or loss or designate any derivatives (interest rate swaps) as fair value hedges. Accordingly, a change in interest rates at the reporting date would not have any impact on the income statement.

A change of 50 basis points in the interest rate would have triggered a change in other comprehensive income of €0.02 million (in 2017: €0.09 million). This calculation applies to the GBP 1.2 million interest rate swap and the €25 million interest rate cap.

**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 €27 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 65% of price risk on copper and 77% of price risk on silver can be covered centrally using bank hedges.

At end-2018, out of the quantities budgeted for 2019, 75% of the copper tonnage and 83% of the silver tonnage that could be hedged was hedged.

An increase or decrease in the price of copper and silver, with relation to closing prices at December 31, 2018 as indicated below, would have resulted in an increase/(decrease) in other comprehensive income and operating income by the amounts indicated below as a result of the commodity hedges.

Impact (in millions of euros) at December 31, 2018	Copper		Silver	
	Other items of comprehensive income	Gains or losses recognized in operating income	Other items of comprehensive income	Gains or losses recognized in operating income
Increase of 5%	0.5	0.0	0.3	0.0
Decrease of 5%	(0.5)	0.0	(0.3)	0.0

### Recognition at year-end 2018 of commodity hedges

MTM <sup>(a)</sup> (stated in millions of euros)	Impact on 2018 other comprehensive income	Impact on 2018 income
MTM of copper and silver hedges	0.2	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. Although there was

a sharp increase in prices in 2018, these were more than offset by increases in our product selling prices so there was no impact on the Group's margins. 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, 2017 to Dec. 31, 2017 <sup>(a)</sup>	126.65	1.1293	1275.83	0.8761	7.6264
Closing exchange rate at Dec. 31, 2017 <sup>(b)</sup>	135.01	1.1993	1279.61	0.8872	7.8044
Average exchange rate from Jan. 1, 2018 to Dec. 31, 2018 <sup>(a)</sup>	130.41	1.1815	1299.25	0.88475	7.8073
Closing exchange rate at Dec. 31, 2018 <sup>(b)</sup>	125.85	1.1450	1277.93	0.89453	7.8751

(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 its commercial activities, barring exceptional circumstances, Group policy is to hedge currency risks when an order is taken or to hedge a large portion of the annual budget. The primary currency risk concerns intra-Group flows.

In the area of borrowings, Group policy is 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 2018 would have had a translation impact of a negative €4.0 million on the Group's current operating income. Conversely, this 10% decline in the value of the US dollar compared with the closing exchange rate for 2018 would have had a translation impact of a negative €3.7 million on the Group's net debt at December 31, 2018.

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) <sup>(a)</sup>	JPY	USD	KRW	GBP	RMB
Sale of foreign currencies	6.2	24.7	3.4	15.5	10.3
Purchase of foreign currencies	(1.4)	(16.3)	0.0	(16.8)	(13.5)
Potential risks for 2019	4.8	8.4	3.4	(1.3)	(3.2)
Hedges at December 31, 2018	(3.8)	(5.9)	(2)	1.2	2.2
Net position	1	2.5	1.4	(0.1)	(1)
Impact in euros of a 5% fall in the euro <sup>(b)</sup>	0.05	0.13	0.07	(0.01)	(0.05)

(a) Excluding any anticorrosion equipment business, which is hedged when an order is placed.

(b) Sensitivity calculated on the basis of currency exchange rates at December 31, 2018.

### USD / Foreign currency risks

Risks (stated in millions of US dollars) <sup>(a)</sup>	JPY	KRW	GBP	RMB	CAD
Sale of foreign currencies	4.6	18	0.7	20.4	17.4
Purchases of foreign currencies	0.0	(0.5)	(14.1)	(28.8)	(19.0)
Potential risks for 2019	4.6	17.5	(13.4)	(8.4)	(1.6)
Hedges outstanding at December 31, 2018	(3.7)	(10.1)	9.6	5.6	1.4
Net position	0.9	7.4	(3.8)	(2.8)	(0.2)
Impact in USD of a 5% fall in the USD <sup>(b)</sup>	0.05	0.39	(0.20)	(0.15)	(0.01)

(a) Excluding any anticorrosion equipment business, which is hedged when an order is placed.

(b) Sensitivity calculated on the basis of currency exchange rates at December 31, 2018.

### Recognition at year-end 2018 of currency transactions

MTM <sup>(a)</sup> (stated in millions of euros)		Dec. 31, 2018
Mark-to-market of currency hedges value	Other items of comprehensive income	(0.5)
	Other financial items of operating income	(0.5)

(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, 2018 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.

Impact at December 31, 2018 (in millions of euros)	Increase in the euro against foreign currencies		Decrease in the euro against foreign currencies	
	Other items of comprehensive income	Gains or losses recognized in operating income *	Other items of comprehensive income	Gains or losses recognized in operating income *
USD (change of 5%)	0.14	0.14	(0.15)	(0.16)
JPY (change of 5%)	(0.12)	(0.12)	0.12	0.12
RMB (change of 5%)	(0.16)	(0.17)	0.16	0.17

\* 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 2018**

(Stated in millions of euros)

CURRENCY	Mark-to-market of currency derivatives in other comprehensive income	Impact on income	
		Under six months	Over six months
Assets	0.2	0.2	0.0
Liabilities	(0.7)	(0.2)	(0.5)

**Future cash flows on currency transactions recognized at December 31, 2018**

CURRENCY (in millions of euros)	MTM	Expected cash flows
Assets	1.0	1.0
Liabilities	(2.0)	(2.0)

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 nonpayment 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 United Kingdom and China.

This credit insurance program does not however cover 100% of risk because the insurer excludes certain risks from the cover.

During 2017 and 2018, the Group continued its assignment of receivables programs regarding several French subsidiaries, which gave rise to assigned receivables amounting to €15.7 million at December 31, 2018 compared with €12.1 million at December 31, 2017. Delegation riders to contracts covering French company assigned receivables were signed with the factoring agent.

Derecognized assets with continuous application: the amount of the guarantee deposit relating to assigned receivables programs amounts to €0.8 million.

**Note 4 Business combinations recognized in 2018**

■ In 2018 Mersen acquired:

- In April, all of the shares of Artimon SA in France and of its operating subsidiary Idéalec SAS. Idealec is a recognized designer and manufacturer of laminated bus bars.

The new acquisition reinforces the Electrical Power segment's position as a leader on the laminated bus bar market and expands its client portfolio, particularly in the energy and rail sectors. It will also strengthen the Group's position as a preferred partner for the power electronics market.

In 2018, Idéalec contributed €3.9 million to consolidated revenues and recorded an operating loss of €0.1 million and an overall net loss of €0.2 million.

- In July, the Group acquired all of the shares of FT Fischer & Tausche Holding GmbH & Co KG (Germany) and of its operating subsidiaries FTCAP GmbH (Germany) and Leclanché Capacitors sarl (Switzerland), a capacitor designer and manufacturer.

The operation enables the Group to broaden its current range of high-speed fuses, cooling devices and capacitor bus bars, all of which are key components in the design of efficient, high-performance power electronics systems. It will also strengthen Mersen's position as a preferred partner for the power electronics market.

As of July 1, 2018, FTCAP contributed €12.6 million to consolidated revenues, €0.7 million to operating income and €0.6 million to overall profit.

The final purchase price is still subject to negotiations.

- In June, the Group acquired the service activities of Louisville Graphite Inc. (LGI), an integrated service provider specialized in designing, manufacturing and renovating graphite heat exchangers and other graphite systems.

This operation consolidates Mersen's footprint on the North American repair market and aftermarket;

In the second-half of 2018, LGI contributed €0.5 million to consolidated revenues, and €(0.1) million to both operating income and overall profit.

Net assets acquired in the course of these operations together with the related goodwill are presented in the following table:

## TOTAL ACQUISITIONS

<i>In millions of euros</i>	Acquisition-date net assets	Fair value adjustments	Purchase price allocation	Fair value of net assets
Non-current assets	9.4	0.4	3.5	13.3
Current assets	15.4	(0.4)	0.0	15.0
Non-current liabilities	(1.7)	(1.2)	(0.9)	(3.8)
Current liabilities	(4.8)	0.1	0.0	(4.7)
Net assets	18.2	(1.1)	2.6	19.7
Goodwill				5.7
Non-controlling interests				0.0
Consideration transferred				25.4

The following intangible assets were identified as part of these acquisitions:

- FTCAP: technological know-how (€2 million) and a trademark and customer relationships (0.5 million each),
- LGI: customer relationships (0.5 million).

The Group did not identify any intangible assets as part of the Idéalec acquisition.

There was no pending allocation of goodwill at December 31, 2018.

## Note 5 Assets held for sale and discontinued operations

Assets held for sale and discontinued operations from previous years were presented in the 2017 consolidated financial statements as described below.

In 2018, the Group did not carry out or plan any disposals and assets held for sale or discontinued operations from previous periods did not have any impact on 2018 earnings.

### High-voltage switch and contactor business: sale of Mersen France Gorcy S.A.S.

The Group sold Mersen France Gorcy S.A.S. in October 2017 in line with its strategy of divesting businesses that have few synergies with the other businesses in the Electrical Power segment.

Sales from this business – including sales generated by Mersen France Gorcy and four other Group subsidiaries – amounted to €6.6 million in 2017.

Current operating income for this business amounted to €0.8 million in 2017.

The gain on disposal amounted to €1.2 million,

### High-voltage switches business of the Saint-Loup-de-Naud site in France

On September 13, 2016, the Group had announced its intention, under its competitiveness plan, to enter into negotiations with the view to selling its high-voltage switches business at the Saint-Loup-de-Naud site, which offered few synergies with the Electrical Power segment's other operations. The Group received a binding offer during the second half of 2016 from a European specialist in this business and the sale was completed on March 3, 2017.

Sales from this business – which include sales generated by the Saint-Loup-de-Naud site, as well as by some fifteen other Group subsidiaries – amounted to €2 million in 2017.

The Canadian and Japanese subsidiaries of the Electrical Power unit of the Group continued to distribute high-voltage switches in 2017 coming from the Saint-Loup-de-Naud site that no longer belongs to the Group. The sale of these two subsidiaries had not been included in "Assets held for sale and discontinued operations".

Current operating income for this business amounted to €0 million in 2017.

An impairment loss was recognized in 2016 in the amount of €4.7 million. This was calculated by comparing net values of assets and liabilities held for sale with their realizable value.

The loss on disposal recorded in 2017 corresponds to the impairment loss recognized in 2016.

### Businesses in the Advanced Materials segment

The businesses of Mersen Grésy France and the Brignais site (Mersen France PY) were sold at end-November 2013.

A net loss of €0.8 million was recorded in 2017 in relation to these businesses following the recognition of a provision for a quality-related legal dispute under the seller's warranty clause signed by the Group.

In accordance with the standards, assets and liabilities held for sale and discontinued operations are presented on a separate line of the Group's statement of financial position.

## Balance sheet of assets held for sale and discontinued operations

### ASSETS

<i>In millions of euros</i>	Dec. 31, 2018	Dec. 31, 2017
- Trade receivables	0.0	0.1
<b>ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS</b>	<b>0.0</b>	<b>0.1</b>

### EQUITY AND LIABILITIES

<i>In millions of euros</i>	Dec. 31, 2018	Dec. 31, 2017
- Current provisions	0.5	0.5
- Trade payables	0.4	0.9
- Other payables		
<b>LIABILITIES RELATED TO ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS</b>	<b>0.9</b>	<b>1.4</b>
<b>NET ASSETS (LIABILITIES) HELD FOR SALE AND DISCONTINUED OPERATIONS</b>	<b>(0.9)</b>	<b>(1.3)</b>

## Income statement for assets held for sale and discontinued operations

<i>In millions of euros</i>	Dec. 31, 2018	Dec. 31, 2017
Sales	0.0	8.6
Cost of sales	0.0	(8.3)
<b>Total gross income</b>	<b>0.0</b>	<b>0.3</b>
Selling and marketing expenses	0.0	(0.3)
Administrative and research expenses	0.0	0.0
Other operating expenses	0.0	0.0
<b>Operating income before non-recurring items</b>	<b>0.0</b>	<b>0.0</b>
Non-recurring income and expense	0.0	(0.4)
Impairment losses/Disposal gains/(losses)	0.0	1.2
<b>Operating income</b>	<b>0.0</b>	<b>0.8</b>
Net finance income/(expense)	0.0	0.0
<b>Income from continuing operations before tax</b>	<b>0.0</b>	<b>0.8</b>
Current and deferred income tax	0.0	0.0
<b>Net income of assets held for sale/discontinued operations</b>	<b>0.0</b>	<b>0.8</b>
<b>Net earnings per share of assets held for sale and discontinued operations</b>		
- Basic earnings per share (€)	0.00	0.04
- Diluted earnings per share (€)	0.00	0.04

## Note 6 Goodwill

<i>In millions of euros</i>	Dec. 31, 2018	Dec. 31, 2017
Carrying amount at start of period	265.2	288.0
Acquisitions	5.7	
Assets held for sale/discontinued operations	0.0	(4.6)
Cumulative translation adjustments	5.3	(18.2)
Carrying amount at end of period	276.2	265.2
<b>Gross value at end of period</b>	<b>286.2</b>	<b>275.2</b>
Total impairment losses at end of period*	(10.0)	(10.0)

\* Impairment is linked to goodwill for the Anticorrosion Equipment CGU and was recognized in 2015.

Breakdown by Cash-Generating Unit is given in the table below:

<i>In millions of euros</i>	Dec. 31, 2017	Movements during 2018		Dec. 31, 2018
	Carrying amount	Acquisitions	Cumulative translation adjustments	Carrying amount
Anticorrosion Equipment	52.2		1.9	54.1
Graphite Specialties	92		0.5	92.5
Power Transfer Technologies	12.3		(0.1)	12.2
Electrical Protection and Control	71.5		2.0	73.5
Solutions for Power Management	37.2	5.7	1.0	43.9
<b>TOTAL</b>	<b>265.2</b>	<b>5.7</b>	<b>5.3</b>	<b>276.2</b>

Acquisitions concern the goodwill of FTCAP, which was allocated during the period.

There was no pending allocation of goodwill at December 31, 2018.

## 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 2018.

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 2019 budget and projections for the four following years.
- The average weighted cost of capital used in discounting future cash flows include the beta calculation of the Group by analysts and that for no-risk rates on French treasury bonds with a ten-year holding period. In view of these parameters, of a market risk premium and a size-specific premium, the average cost of capital after tax used as a rate for discounting future flows was set at 6.8%, compared with 6.9% in 2017. This discount rate is applied to all of the CGUs. There are no substantive grounds for applying a different discount rate per CGU.
- The perpetual growth rate is 2% for the Power Transfer Technologies CGU, 2.5% for the Anticorrosion Equipment CGU, 3% for the Graphite Specialties CGU and 2.5% for the Solution for Power Management and Electrical Protection & Control CGUs. The rates of growth applied to CGUs can be explained by the development of CGUs' businesses in their respective markets.
- The normative tax rate is 26%.
- No impairment loss was recognized 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 12.0% for the Power Transfer Technologies CGU;
- Around 12.7% for the Solutions for Power Management CGU;
- Around 11.4% for the Electrical Protection & Control CGU;
- Around 11.3% for the Graphite Specialties CGU;
- Around 8.1% for Anticorrosion Equipment CGU.

A sensitivity test was carried out by reducing the perpetual growth rate by one point in the first case and by increasing the discount rate after taxes by one point over the assumed value in the second case. This was done in each CGU. A sensitivity test was also carried out on the basis of a drop of one point in the margin rate (EBIDTA) of the terminal value.

The decline in values in use following these changes in assumptions does not call into question the valuation of net assets.

### Impairment of specific assets

The Group reviewed the recoverable amount of its non-current assets and did not record any additional provisions for impairment for the period.

**Note 8 Property, plant and equipment and intangible assets**

<i>In millions of euros</i>	Intangible assets	Land	Buildings	Plant, equipment and other assets	Assets in progress	Total property, plant and equipment	TOTAL
<b>Carrying amount at January 1, 2017</b>	<b>37.4</b>	<b>31.1</b>	<b>76.6</b>	<b>163.2</b>	<b>14.6</b>	<b>285.5</b>	<b>322.9</b>
Non-current assets	3.2		1.8	12.9	20.2	34.9	38.1
Retirements and disposals	(4.5)	(0.5)	0.5	(1.8)		(1.8)	(6.3)
Depreciation and amortization	(3.2)	(0.1)	(5.1)	(31.0)		(36.2)	(39.4)
Translation adjustments	(1.1)	(0.8)	(5.5)	(10.8)	(1.1)	(18.2)	(19.3)
Impact of changes in the scope of consolidation						0.0	0.0
Assets held for sale and discontinued operations				(0.1)		(0.1)	(0.1)
Other movements		0.6	1.7	17.2	(17.4)	2.1	2.1
<b>Carrying amount at December 31, 2017</b>	<b>31.8</b>	<b>30.3</b>	<b>70.0</b>	<b>149.6</b>	<b>16.3</b>	<b>266.2</b>	<b>298.0</b>
Gross value at Dec. 31, 2017	84.2	32.9	149.1	610.0	16.3	808.3	892.5
Total depreciation and amortization at Dec. 31, 2017	(43.4)	(1.4)	(79.1)	(443.2)		(523.7)	(567.1)
Total impairment losses at Dec. 31, 2017	(9.0)	(1.2)		(17.2)		(18.4)	(27.4)
<b>Carrying amount at January 1, 2018</b>	<b>31.8</b>	<b>30.3</b>	<b>70.0</b>	<b>149.6</b>	<b>16.3</b>	<b>266.2</b>	<b>298.0</b>
Non-current assets	3.4		2.7	19.9	32.6	55.2	58.6
Retirements, disposals and impairment		0.0	(0.1)	(0.8)		(0.9)	(0.9)
Depreciation and amortization	(3.9)	(0.1)	(5.1)	(29.7)		(34.9)	(38.8)
Translation adjustments	0.3	(0.1)	0.9	0.9	0.4	2.1	2.4
Change in scope	3.6	0.5	4.0	8.7		13.2	16.8
Assets held for sale and discontinued operations						0.0	0.0
Other movements	(0.1)	0.0	3.9	23.0	(26.9)	0.0	(0.1)
<b>Carrying amount at December 31, 2018</b>	<b>35.1</b>	<b>30.6</b>	<b>76.3</b>	<b>171.6</b>	<b>22.4</b>	<b>300.9</b>	<b>336.0</b>
<b>Gross value at Dec. 31, 2018</b>	<b>91.4</b>	<b>33.3</b>	<b>160.5</b>	<b>660.6</b>	<b>22.4</b>	<b>876.8</b>	<b>968.2</b>
<b>Total depreciation and amortization at Dec. 31, 2018</b>	<b>(47.3)</b>	<b>(1.5)</b>	<b>(84.2)</b>	<b>(472.5)</b>		<b>(558.2)</b>	<b>(605.5)</b>
<b>Total impairment losses at Dec. 31, 2018</b>	<b>(9.0)</b>	<b>(1.2)</b>		<b>(16.5)</b>		<b>(17.7)</b>	<b>(26.7)</b>

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, 2018, development costs identified by the Group over the period that satisfy these criteria represent less than 0.5% of the Group's revenue.

## Note 9 Equity interests

At year-end, investments in unconsolidated companies held by consolidated companies represented:

<i>In millions of euros</i>	Dec. 31, 2018	Dec. 31, 2017
Gross value	8.6	7.8
Impairment losses		(5.5)
Fair value adjustment in other comprehensive income	(4.5)	
<b>TOTAL</b>	<b>4.1</b>	<b>2.3</b>

The increase in gross value mainly relates to an investment in Caly Technologies.

The principal investments are the following:

<i>Company name</i>	% held	Gross value	Fair value of investments	Provision for contingencies
Fusetech	50%	2.3	1.2	
Mersen Argentina	98%	3.7	0.0	0.3
Caly Technologies	49%	1.0	0.5	
Mersen Russia	100%	1.2	0.0	0.8
Mersen Chile Ltd	100%	0.2	1.1	
Other investments		0.2	1.3	
<b>TOTAL AT DEC. 31, 2018</b>		<b>8.6</b>	<b>4.1</b>	<b>1.1</b>

## Note 10 Inventories

<i>In millions of euros</i>	Dec. 31, 2018	Dec. 31, 2017
Raw materials and other supplies	88.6	84.1
Work in progress	66.0	48.8
Finished products	63.8	43.7
<b>Carrying amount of inventories</b>	<b>218.4</b>	<b>176.6</b>
Impairment losses	(19.8)	(17.8)
<b>CARRYING AMOUNT OF INVENTORIES</b>	<b>198.6</b>	<b>158.8</b>

Net inventories increased by €39.8 million at December 31, 2018, of which €1.5 million were due to exchange rate gains and €7.9 million to newly-consolidated entities. On a like-for-like

scope and exchange rate basis, inventories grew by €30.8 million (or 19.4%) in line with the 10% increase in sales and the constitution of buffer stock (supplies and restructuring).

## Note 11 Trade receivables

<i>In millions of euros</i>	Dec. 31, 2018	Dec. 31, 2017
Gross trade receivables	150.1	149.4
Customer advances		(20.9)
Impairment losses	(3.9)	(5.1)
Contracts assets	10.6	
<b>NET TRADE RECEIVABLES</b>	<b>156.8</b>	<b>123.4</b>

Net trade receivables increased by €33.4 million at December 31, 2018, of which €1.1 million were due to exchange rate gains and €4.2 million to inclusions in the scope of consolidation. On a like-for-like scope and exchange rate basis, trade receivables increased by €7.2 million (or 5.8%).

Based on first-time application of IFRS 15, the Group recorded the following entries:

- unbilled revenues for contracts in progress from the AM segment under contract assets for an amount of €10.6 million;
- customer advances related to these contracts under contract liabilities for an amount of €28.3 million.

First-time application of IFRS 9 resulted in additional impairment of receivables of €0.7 million recognized against Other items comprehensive income and did not generate any impact in income for the period.

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, 2018 usage amounted to €15.7 million, compared with €12.1 million at end 2017.

At end 2017, late payments represented 21.3% of client accounts before advance payments, compared with 20.0 % at end 2017. Payments late by over 15 days amount to around 14.5%. 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:

<i>In millions of euros</i>	Dec. 31, 2018		Dec. 31, 2017	
	Gross	Impairment	Gross	Impairment
Receivables not yet due	118.1	(1.0)	119.5	(0.6)
Receivables 0 to 30 days past due	17.6	(0.1)	14.3	(0.6)
Receivables 31 to 120 days past due	8.9	(0.3)	9.1	(0.3)
Receivables 121 days to 1 year past due	2.9	(0.6)	3.1	(0.7)
Receivables more than 1 year past due	2.6	(1.9)	3.4	(2.9)
<b>NET TRADE RECEIVABLES</b>	<b>150.1</b>	<b>(3.9)</b>	<b>149.4</b>	<b>(5.1)</b>

Movements related to impairment of trade receivables are as follows:

<i>In millions of euros</i>	Dec. 31, 2018	Dec. 31, 2017
Impairment losses at January 1 <sup>st</sup>	(5.1)	(6.6)
Allowance/reversal during the fiscal year	1.2	1.5
<b>IMPAIRMENT LOSSES AT DECEMBER 31</b>	<b>(3.9)</b>	<b>(5.1)</b>

Provisions for receivables are based on expected losses.

## Note 12 Equity

<i>Number of shares (unless stated otherwise)</i>	<b>Ordinary shares</b>
Number of shares at January 1, 2018	20,637,041
Capital increase/reduction ( <i>in millions of euros</i> )	0.2
Number of shares at December 31, 2017	20,768,118
Number of shares in issue and fully paid-up during the period	131,077
Number of canceled treasury shares	0
Number of shares in issue and not fully paid-up	0
Par value per share (€)	2
Entity's shares held by itself or by its subsidiaries and associates	231,834

At December 31, 2018, the Company's share capital stood at €41,536,236, divided into 20,768,118 shares, comprising 20,766,629 category A shares, which are ordinary shares, 317 category B shares and 1,172 category C shares, each with a par value of €2.

The theoretical number of voting rights at that date – i.e. excluding treasury shares which do not carry voting rights – was 25,219,670. Since April 3, 2016, a double voting right has been attached to all shares that meet both of the following conditions: (i) they have been held in registered form for at least two years and (ii) they are fully paid up.

To the best of the Company's knowledge, its ownership structure at December 31, 2018 was as follows:

■ French institutional investors:	50.3%
■ International institutional investors:	35.3%
■ Private shareholders:	12.4%
■ Employee shareholders:	0.9%
■ Treasury shares:	1.1%

Since January 1, 2018, certain shareholders have reported crossing the following disclosure thresholds:

- March 16: Norges Bank Investment Management announced that it had exceeded the statutory threshold of 5% of the share capital and voting rights and now holds 1,626,603 shares, i.e., 7.9% of the share capital and 5.7% of voting rights.
- March 20: ACF I Investment announced that it had fallen below the statutory threshold of 15% of the share capital and voting rights and now holds 2,121,055 shares, i.e., 10.3% of the share capital and 14.9% of voting rights.
- March 20: Sofina announced that it had fallen below the statutory threshold of 5% of the share capital and voting rights and now holds 883,101 shares, i.e., 4.3% of the share capital and 3.1% of voting rights.
- March 22: Crédit Suisse announced that it had fallen below the statutory threshold of 1% of the share capital and holds 198,559 shares, i.e., 0.96% of the share capital.

- April 3: Crédit Suisse announced that it had exceeded the statutory threshold of 1% of the share capital and holds 207,005 shares, i.e., 1.01% of the share capital.
- April 3: Covéa Finance announced that it had exceeded the statutory threshold of 1% of the share capital and holds 236,554 shares, i.e., 1.15% of the share capital.
- April 11: La Caisse des Dépôts et Consignation (including Bpifrance Participations) announced that it had passively exceeded the statutory threshold of 20% of the voting rights and holds 3,216,489 shares, i.e., 15.6% of the share capital and 21.5% of voting rights.
- April 20: OppenheimerFunds announced that it had exceeded the statutory threshold of 1% of the share capital and holds 246,382 shares, i.e., 1.19% of the share capital.
- April 23: UBS announced that it had fallen below the statutory threshold of 1% of voting rights and holds 211,807 shares, i.e., 1.03% of the share capital and 0.84% of voting rights.
- April 23: OppenheimerFunds announced that it had exceeded the statutory threshold of 1% of voting rights and now holds 285,163 shares, i.e., 1.13% of voting rights.
- April 24: Dimensional announced that it had exceeded the statutory threshold of 2% of the share capital and holds 558,707 shares, i.e., 2.7% of the share capital and 2.2% of voting rights.
- April 26: OppenheimerFunds announced that it had exceeded the statutory thresholds of 2% and 3% of the share capital and voting rights and holds 729,047 shares, i.e., 3.5% of the share capital and 2.9% of voting rights.
- April 27: Norges Bank Investment Management announced that it had fallen below the statutory threshold of 6% of the share capital and holds 1,138,731 shares, i.e., 5.5% of the share capital.
- April 30: OppenheimerFunds announced that it had exceeded the statutory thresholds of 3% and 4% of the share capital and voting rights and holds 851,934 shares, i.e., 4.1% of the share capital and 3.4% of voting rights.



- May 9: Tocqueville Finance announced that it had exceeded the statutory threshold of 1% of the share capital and holds 216,000 shares, i.e., 1.05% of the share capital.
- May 14: UBS announced that it had fallen below the statutory threshold of 1% of the voting rights and holds 223,372 shares, i.e., 1.08% of the share capital and 0.87% of voting rights.
- May 22: Norges Bank Investment Management announced that it had fallen below the statutory thresholds of 4% and 5% of the share capital and voting rights and now holds 1,011,735 shares, i.e., 3.96% of the share capital and 4.9% of voting rights.
- July 3: Tocqueville Finance announced that it had fallen below the statutory threshold of 1% of the share capital and now holds 158,603 shares, i.e., 0.77% of the share capital.
- July 12: Jousse Morillon Investment announced that it had fallen below the statutory threshold of 1% of the voting rights and now holds 245,000 shares, i.e., 1.19% of the share capital and 0.97% of voting rights.
- August 7: Sofina announced that it had fallen below the threshold of 4% of the share capital and now holds 816,541 shares, i.e., 3.96% of the share capital and 3.22% of voting rights.
- September 5: Dimensional announced that it had exceeded the threshold of 3% of the share capital and now holds 619,868 shares, i.e., 3.004% of the share capital and 2.45% of voting rights.
- October 17: Norges Bank Investment Management announced that it had exceeded the statutory threshold of 5% of the share capital and now holds 1,067,338 shares, i.e., 5.17% of the share capital and 4.22% of voting rights.
- December 12: Covea announced that it had exceeded the statutory threshold of 2% of the share capital and now holds 417,037 shares, i.e., 2.02% of the share capital.
- December 19: Sycomore Asset Management announced that it had exceeded the statutory threshold of 1% of the share capital and now holds 220,000 shares, i.e., 1.08% of the share capital and 0.88% of voting rights.

### Treasury shares

At December 31, 2018, 231,834 shares were held in treasury, representing 1.1% of the share capital, including 45,659 shares held pursuant to the liquidity agreement entered into with Exane BNP Paribas.

### Stock repurchases

During the first-half of the year, the Group repurchased 200,000 of its own shares for an amount of €7 million as part of an Accelerated Book Building process arranged by Ardian and Sofina. During the second-half of 2018, the Group repurchased 45,200 of its own shares

### Stock options, free shares and preference shares

At December 31, 2018, the Group's employees held 191,147 shares, namely 0.9% of the share capital, plus 144,976 stock subscription options which, if exercised in full, would represent 0.7% of the current share capital. The stock option plans set up by the Group are based on an exercise price determined without any discount, as the options may only be exercised if certain conditions related to the Group's future performance are met. This enables the Group to ensure that the interests of its managers are closely aligned with those of its shareholders.

The Chief Executive Officer, Luc Themelin, was granted 62,345 exercisable stock options.

In addition, for several years now the Group has implemented a policy of granting free shares. The final allocation of these shares is contingent on the beneficiaries still forming part of the Group at the end of the vesting period. Free shares granted to members of Management and employees who Management considers have contributed significantly to the Company's performance only vest if certain pre-defined performance conditions are met. Management has, however, decided that no performance conditions should apply to free shares granted to employees who, by the nature of their jobs, contribute less directly to the Company's results. At December 31, 2018, the number of free shares likely to be allotted definitively stands at 150,250 new shares, representing 0.7% of the current share capital. This includes 67,050 performance shares granted under the plan approved at the Annual General Meeting of May 17, 2018.

No free shares have been granted to the Chief Executive Officer.

Since May 2015, the Group has also set up four plans for granting preference shares (which can be converted into ordinary shares), with performance conditions attached. These shares have been granted to certain categories of employees and corporate officers, mostly members of the Executive Committee. At December 31, 2018 the maximum number of ordinary shares that could potentially be converted from the preference shares granted was 396,110, representing 1.9% of the Company's capital. This total includes 103,400 shares granted under the plan approved at the Annual General Meeting of May 17, 2018.

The maximum number of ordinary shares that could potentially be converted from the preference shares granted to the Chief Executive Officer, Luc Themelin, totaled 70,070.

Neither the Company nor its subsidiaries are subject to any specific capital requirements pursuant to external rules or regulations.

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 valued in accordance with IFRS 2. The characteristics and assumptions used to value the plans are as follows:

Characteristics/Assumptions	2014 plan Stock subscription options	2014 plan Free per- formance shares	2015 plan Free per- formance shares	2015 plan Free pre- ference shares	2016 plan Free per- formance shares	2016 plan Free pre- ference shares	2017 plan Free per- formance shares	2017 plan Free pre- ference shares	2018 plan Free per- formance shares	2018 plan Free pre- ference shares
Allotment date	21/05/2014	21/05/2014	09/07/2015	10/07/2015	11/05/2016	11/05/2016	18/05/2017	18/05/2017	17/05/2018	18/05/2017
Availability date	21/05/2016	21/05/2016/ 21/05/2018	09/07/2017/ 09/07/2019	09/07/2017/ 09/07/2020	11/05/2018/ 11/05/2020	11/05/2018/ 11/05/2021	18/05/2019/ 18/05/2021	18/05/2019/ 18/05/2022	17/05/2021	18/05/2019/ 18/05/2022
Expiration date	21/05/2021	22/05/2018	10/07/209	10/07/210	11/05/2020	11/05/2020	18/05/2021	18/05/2021	18/05/2021	18/05/2021
Adjusted exercise price (€)	22.69 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €
Adjusted share price at allotment date (€)	21.30 €	21.30 €	20.89 €	20.89 €	12.87 €	12.87 €	25.15 €	25.15 €	39.50 €	39.5 €
Estimated life (number of years)	4.5	4	4	4	4	4	4	4	3	4
Volatility	31.00%	31.00%	25.90%	25.90%	25.9%	25.9%	27.7%	27.7%	30.00%	30.00%
Dividend per share (as a % of share price)	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Risk-free interest rate	0.64%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Exercise period (number of years)	5	2 / 4	2 / 4	2 / 4	2 / 4	2 / 4	2 / 4	2 / 4	3	2 / 4
Lock-up period (number of years)	2	2 / 0	2 / 0	2 / 0	2 / 0	2 / 0	2 / 0	2 / 0	3	2 / 0
Adjusted number of options/ share allotments	150,000	31,400/ 18,600	34,900/ 30,100	75,460 / 23,760	84,000	128,920	84,000	128,920	67,050	103,400
Estimated annual cancellation rate at the closing	5.00%	5.00%	5%	5.00%	5%	5%	5%	5%	5%	5%
% of shares/options vested following satisfaction of the performance condition	85%	0%	0%	39%	0%	0%	100%	100%	100%	100%
Estimated number of options at end of vesting period	129,375	44,260	56,769	87,933	81,269	123,610	78,246	117,782	59,343	94,303
Valuation of options/shares (€)	3.68	19.08 / 18.89	18.71 / 18.53	17.73 / 18.53	12.12	10.92 / 11.41	23.69	21.35 / 22.31	36.10	33.53 / 35.03
Valuation as a % of the share price at grant	17.30%	89.60 %/ 88.70 %	89.60 %/ 88.70 %	84.90 %/ 88.70 %	94.20%	84.8% / 88.7%	94.20%	84.8% 88.7%	91.40%	84.9% 88.7%

With respect to share-based payments, a net expense of €2.1 million was recognized in 2018, consisting of:

- a €2.3 million expense relating to existing plans; and
- a €0.2 million gain, which was recorded because the Group expected that the vesting conditions of the free shares and stock options granted under the 2016 plans would not be fully met.

A net expense of €0.6 million was recognized in 2017, consisting of:

- a €1.7 million expense relating to existing plans; and
- a €1.1 million gain, which was recorded because the Group expected that the vesting conditions of the free shares and stock options granted under the 2015 plans would not be fully met.

## Note 13 Provisions, contingent liabilities and other liabilities

In millions of euros	Dec. 31, 2018		Dec. 31, 2017	
	Non-current	Current	Non-current	Current
- provision for restructuring	0.4	2.1	0.2	7.5
- provision for litigation and other expenses	1.1	5.7	1.1	4.4
<b>TOTAL</b>	<b>1.5</b>	<b>7.8</b>	<b>1.3</b>	<b>11.9</b>

Recurring and non-recurring	Dec. 31, 2017	Provisions set aside / reversals	Uses	Other	Translation adjustments	Dec. 31, 2018
- provision for restructuring	7.7	(1.8)	(2.9)	(0.5)	0.0	2.5
- provision for litigation and other gains and expenses	5.5	2.6	(1.6)	0.3	0.0	6.8
<b>TOTAL</b>	<b>13.2</b>	<b>0.8</b>	<b>(4.5)</b>	<b>(0.2)</b>	<b>0.0</b>	<b>9.3</b>

Provisions amounted to €9.3 million at December 31, 2018 (€13.2 million at December 31, 2017), down by €3.9 million. This lower amount reflects the payment of provisions for restructuring under the Competitiveness Plan offset by the reversal of previously recorded provisions for the same plan.

Provisions and debt linked to ongoing legal proceedings and other charges amount to approximately €7 million. Provision for litigation and accrued litigation expenses amounted to €3.5 million.

### Legal proceedings

None of the legal proceedings referred to below led to provisions being set aside, as the Group is not at this stage in a position to assess the financial risk.

#### Civil proceedings in Canada

The lawsuit launched during 2004 in Canada by certain customers against the main Canadian manufacturers of graphite brushes, including Mersen Toronto (a Canadian subsidiary of Mersen) is still in progress and there have been no new developments since 2007. This action was instigated following the CAD 1 million fine that Morgan Crucible Ltd was ordered to pay in July 2004 for anti-trust practices in the graphite brushes sector from 1995 through 1998. In February 2007, the Canadian judge ruled that only Canadian urban transportation companies could join the proceedings in progress. The risk related to these proceedings for Mersen Toronto remains non-material.

#### Administrative proceedings in France

In 2013, SNCF launched two procedures against Morgan, SGL, Schunk and Mersen, in the Paris Administrative Court and the Paris Commercial Court respectively. SNCF is attempting to secure redress for losses that it allegedly suffered following practices that were sanctioned in December 2003 by the European Commission in connection with brushes for electric motors and products for mechanical applications. In 2014, the Paris Administrative Court rejected all of the claims lodged by SNCF, which appealed the decision. The Paris Commercial Court has not yet issued its ruling. Mersen disputes all of the allegations and claims submitted by the SNCF and both cases are still undergoing.

#### Legal proceedings in France

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 2018.

The Group is not aware of any other governmental, judicial or arbitration proceedings, including any pending or potential proceedings, that could have or have had in the last 12 months, a material adverse effect on its business activities, financial position or results of operations.

### Tax and customs proceedings

The Group regularly undergoes tax and customs audits carried out by the tax/customs authorities in the countries in which it operates. In the past, the reassessments issued after tax/customs audits have been for non-material amounts.

The most material risks relate to:

Mersen do Brasil received notice in June 2013 of a customs audit covering the period from January 2008 through December 2012. The customs authorities issued a reassessment notice for an initial amount (principal and interest) of BRL 7.5 million, increased each year by applying the interest rate issued by the Central Bank of Brazil. At December 31, 2018, the amount of the revised adjustment was BRL 11.7 million, or approximately €2.6 million at the December 31, 2018 exchange rate. This amount is not covered by a provision in the accounts of Mersen do Brasil, as the risk of losing the dispute is deemed very weak. A first instance ruling was handed down in favor of the Group on February 8, 2018. However, it was the subject of an ex officio appeal to a second instance court by the Brazilian authorities. It is not possible to estimate when the second instance ruling will be delivered.

On September 22, 2017, Mersen France SB SAS was issued an accounting audit notice for the period from 2014 through 2016 (and subsequently extended to July 31, 2017) concerning sales taxes and also covering the amount declared for the research tax credit for expenses incurred in 2013 through 2016. The increase notified on July 11, 2018, in a total amount of €151,719, in respect of the CVAE, VAT and research tax credit, was fully paid in 2018.

Other liabilities in the amount of €1 million at December 31, 2018 chiefly comprise liabilities related to property, plant and equipment.

No other material contingent liabilities were identified at December 31, 2018.

## Note 14 Employee benefits

Under defined contribution plans, the Group is under no obligation to make additional payments on top of the contributions already paid into a fund if the latter does not have sufficient assets to pay out the benefits corresponding to the service provided by employees during the period in progress or during future periods. For these plans, contributions are expensed as incurred.

The Mersen group's principal pension plans are defined benefit plans and are located in the United States (45% of obligations), the United Kingdom (20% 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 89% for the salaried plan. The hourly plan is fully covered by plan assets.

There is a pension plan in the United Kingdom that was closed to new entrants in 2006. Based on local rules and conservative assumptions, it is fully covered by plan assets. 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, etc.

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, 2018 with the assistance of independent actuaries and in accordance with IAS 19.

The rates used for the main countries are summarized below:

2018	Discount rate	Average rate of salary increases	Inflation rate
France	1.60%	Between 2.0% and 6.25% depending on age	1.8%
Germany	1.60%	2.50%	1.8%
United States	4.25%	Not applicable	Not applicable
United Kingdom	2.75%	2.9%	3.40%

2017	Discount rate	Average rate of salary increases	Inflation rate
France	1.20%	Between 2% and 6.25% depending on age	1.8%
Germany	1.20%	2.50%	1.8%
United States	3.65%	Not applicable	Not applicable
United Kingdom	2.60%	3.0%	3.40%

Mortality assumptions are based on published statistics and mortality tables.

## Reconciliation between assets and liabilities recognized

	Dec. 31, 2018	Dec. 31, 2017
Actuarial obligation	173.5	178.1
Fair value of plan assets	(109.0)	(109.9)
<b>PROVISION BEFORE THE LIMIT ON ASSETS</b>	<b>64.5</b>	<b>68.2</b>
Surplus management reserve	0.1	0.1
<b>PROVISION AFTER THE LIMIT ON ASSETS</b>	<b>64.6</b>	<b>68.3</b>

## Breakdown of the Group's obligations at December 31 by geographical area

	France	Germany	United States	United Kingdom	Rest of the world	Total at December 31, 2018
Actuarial obligation	23.2	14.8	78.5	35.3	21.7	173.5
Fair value of plan assets	(0.3)		(56.0)	(40.4)	(12.2)	(108.9)
<b>NET AMOUNT RECOGNIZED</b>	<b>22.9</b>	<b>14.8</b>	<b>22.5</b>	<b>(5.1)</b>	<b>9.5</b>	<b>64.6</b>

## Movements in the Group's obligations

	France	Germany	United States	United Kingdom	Rest of the world	Total
<b>Dec. 31, 2017</b>	<b>25.1</b>	<b>15.5</b>	<b>81.3</b>	<b>37.5</b>	<b>18.7</b>	<b>178.1</b>
Payments made	(0.8)	(1.3)	(4.3)	(1.8)	(1.2)	(9.4)
Expenses recognized	0.8		5.2	1.1	1.5	8.6
Translation adjustment			3.6	(0.4)	(0.2)	3.0
Actuarial gains and losses	(1.9)	(0.7)	(7.3)	(1.1)	(0.6)	(11.6)
Other movements		1.3			3.5	4.8
<b>DEC. 31, 2018</b>	<b>23.2</b>	<b>14.8</b>	<b>78.5</b>	<b>35.3</b>	<b>21.7</b>	<b>173.5</b>

## Change in plan assets

	France	Germany	United States	United Kingdom	Rest of the world	Total
<b>Dec. 31, 2017</b>	<b>0.4</b>	<b>0.0</b>	<b>57.1</b>	<b>42.5</b>	<b>9.8</b>	<b>109.8</b>
Return on plan assets			1.8	1.1	0.3	3.2
Employer contribution			2.0	0.2	0.4	2.6
Employee contribution						0.0
Payment of benefits			(3.3)	(1.8)	(0.7)	(5.8)
Actuarial gains and losses			(4.0)	(1.3)	0.0	(5.3)
Translation adjustment			2.4	(0.3)	(0.2)	1.9
Other movements	(0.1)				2.6	2.5
<b>DEC. 31, 2018</b>	<b>0.3</b>	<b>0.0</b>	<b>56.0</b>	<b>40.4</b>	<b>12.2</b>	<b>108.9</b>

The plan assets cover primarily the United States plans (51% of total plan assets, with 59% invested in equities and 41% in bonds) and the United Kingdom plans (37% of total plan assets, with 17% invested in equities, 80% in government bonds and 4% in real estate and cash).

Other movements (net commitments on plan assets) amounted to €2.3 million and mainly relate to first-time consolidation of FTCAP.

## Net expense recognized

The net expense recognized for these plans in 2018 was €4.5 million, compared with €5.0 million in 2017:

	France	Germany	United States	United Kingdom	Rest of the world	Total at December 31, 2018	Total at December 31, 2017
Current service cost	1.1	0.1	0.8	0.1	0.9	3.0	3.1
Interest cost	0.2	0.1	2.6	1.0	0.6	4.5	4.9
Expected return on plan assets			(1.8)	(1.1)	(0.3)	(3.2)	(3.3)
Administrative costs			0.9			0.9	0.7
Plan amendment	(0.5)	(0.2)		0.1		(0.6)	0.2
Other movements				(0.1)		(0.1)	(0.6)
<b>NET EXPENSE FOR THE PERIOD</b>	<b>0.8</b>	<b>0.0</b>	<b>2.5</b>	<b>0.0</b>	<b>1.2</b>	<b>4.5</b>	<b>5.0</b>

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	Total at December 31, 2018	Total at December 31, 2017
Adjustments linked to changes in demographic assumptions	0.0	0.3	(0.3)	(0.7)	(0.1)	(0.8)	0.0
Adjustments linked to changes in financial assumptions	(0.8)	(0.7)	(6.6)	(0.3)	(0.7)	(9.1)	9.0
Experience adjustments to obligations	(1.1)	(0.3)	(0.2)	(0.1)	0.2	(1.5)	(0.4)
Experience adjustments to plan assets	0.0	0.0	3.8	1.3	(0.0)	5.1	(5.8)
<b>ACTUARIAL GAINS AND LOSSES</b>	<b>(1.9)</b>	<b>(0.7)</b>	<b>(3.3)</b>	<b>0.2</b>	<b>(0.6)</b>	<b>(6.3)</b>	<b>2.8</b>

## Sensitivity analysis

An increase of 0.5 points in discount rates would lead to a reduction of €10.9 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	(1.2)	
Germany	(0.8)	0.9
United Kingdom	(2.8)	1.5
United States	(5.0)	0
Rest of the world	(1.1)	0.2
<b>TOTAL</b>	<b>(10.9)</b>	<b>2.6</b>

## Note 15 Net debt

Analysis of total net debt at Dec. 31, 2018

<i>In millions of euros</i>	Dec. 31, 2018	Dec. 31, 2017
Long- and medium-term borrowings	109.4	154.4
Current financial liabilities <sup>(a)</sup>	125.3	37.8
Financial current accounts	0.5	0.3
Bank overdrafts	28.9	24.1
<b>TOTAL GROSS DEBT</b>	<b>264.1</b>	<b>216.6</b>
<b>Current financial assets <sup>(b)</sup></b>	<b>(13.8)</b>	<b>(12.6)</b>
Cash and cash equivalents	(34.8)	(25.9)
<b>Cash</b>	<b>(34.8)</b>	<b>(25.9)</b>
<b>TOTAL NET DEBT</b>	<b>215.5</b>	<b>178.1</b>

(a) Including €78.8 million from drawdowns of the commercial paper program, which may be substituted at maturity by drawdowns of the Group Syndicated Loan

(b) Including 13.1 million of good quality Chinese bank drafts. Poor quality bank drafts are classified under Other operating receivables.

Total consolidated net debt at December 31, 2018 amounted to €215.5 million compared with €178.1 million at year-end 2017.

Of the €264.1 million in gross debt, €148.0 million stems from the use of confirmed loans and borrowings, €78.8 million from drawdowns of the commercial paper program and the remainder chiefly from use of unconfirmed lines (bank overdrafts and other lines).

The €87.5 million year-on-year increase in current financial liabilities is mainly attributable to the increase in amounts drawn down under the commercial paper program (may, at maturity, be substituted by drawdowns of the Group Syndicated Loan) and by the maturity in less than one year of the €37.2 million tranche of the US Private Placement (may be redeemed out of confirmed credit lines).

### Net debt/equity

<i>(In millions of euros)</i>	Dec. 31, 2018	Dec. 31, 2017
Total net debt	215.5	178.1
Net debt/equity <sup>(a)</sup>	0.39	0.37

(a) Calculated using the covenant method.

Net debt amounted to 39% of equity at December 31, 2018, compared with 37% at December 31, 2017.

### Reconciliation between changes in net debt shown in the balance sheet and the cash flow statement

<i>In millions of euros</i>	Dec. 31, 2018	Dec. 31, 2017
<b>Prior year debt</b>	<b>178.1</b>	<b>202.8</b>
Cash generated/(used) by operating and investing activities after tax	(39.2)	(40.2)
Cash used by restructurings and litigation	7.3	13.7
Net cash inflows/(outflows) attributable to changes in the scope of consolidation	30.8	0.0
<b>Cash generated by the operating and investing activities of continuing operations</b>	<b>(1.1)</b>	<b>(26.5)</b>
Cash generated by the operating and investing activities of divested and discontinued operations	0.4	(6.0)
Increase/decrease in capital	6.3	(3.3)
Dividends paid	15.8	12.3
Interest payments	8.1	8.0
Translation adjustments and other	1.0	(8.6)
Change in scope	6.6	0.0
Other changes	0.3	(0.6)
<b>DEBT AT YEAR-END</b>	<b>215.5</b>	<b>178.1</b>

### Financial covenants at December 31, 2018

In connection with its various confirmed borrowings at Group level and in China, Mersen is required to comply with a number of obligations, which are customary for this type of lending arrangement. Should it fail to comply with some of these obligations, the banks or investors (for the US private placements)

may require Mersen to repay the relevant borrowings ahead of schedule. Under the cross-default clauses, early repayment of one significant loan may trigger an obligation for the Group to repay other loans and borrowings immediately.

Mersen must comply with the following financial covenants at June 30 and December 31 each year:

### Financial covenants <sup>(a)</sup> (consolidated financial statements)

<i>(In millions of euros)</i>	Net debt/ EBITDA	Net debt/ equity	EBITDA/ net interest
<b>Covenant ratios</b>			
Confirmed credit lines, Group	< 3.50	< 1.3	-
2011 US private placement	< 3.50	< 1.3	> 3
2016 German private placement	< 3.50		
Confirmed credit lines – China	< 3.50	< 1.3	
<b>Actual ratios at December 31, 2018</b>			
Group syndicated loan	1.59	0.39	
2011 US Private Placement	1.59	0.39	13.93
2016 German private placement	1.59		
Confirmed credit lines – China	1.59	0.39	
<b>Actual ratios at December 31, 2017</b>			
Group syndicated loan	1.58	0.37	
2011 US Private Placement	1.58	0.37	11.98
2016 German private placement	1.58		
Confirmed credit lines – China	1.58	0.37	
<b>Actual ratios at December 31, 2016</b>			
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	-

*(a) Method for calculating the covenants: in line with the applicable accounting rules, when calculating the net debt for the purpose of the financial statements, closing exchange rates are used to determine the euro-equivalent value of debt denominated in foreign currencies. Net debt has to be recalculated at the average EUR/USD exchange rate for the period if there is a difference of more than 5% between the average exchange rate and the closing rate. To calculate the covenants at June 30, the convention is for EBITDA or gross operating income to be deemed to be EBITDA reported for the first six months of the year multiplied by two.*

The Group complies with all of its financial covenants.

At December 31, 2018, 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, 2018

Total gross debt at December 31, 2018 stood at €264.1 million and is broken down by currency as follows:

<i>(By currency)</i>	%
EUR	66.9
USD	16.9
GBP	6.8
RMB	3.7
Other	5.7



### Breakdown by currency of the drawdowns on credit lines and confirmed long- and medium term borrowings including the short-term portion at December 31, 2018

Operating receivables and payables all mature in less than one year. A breakdown of borrowings by maturity is shown below.

<i>(In millions of euros)</i>	Total	1 year	1 to 5 years	> 5 years
Borrowings in USD	43.7	0.0	43.7	0.0
Borrowings in EUR	97.3	37.3	60.0	0.0
Borrowings in GBP	1.2	0.3	0.9	0.0
Borrowings in RMB	5.8	1.7	4.1	0.0
<b>TOTAL</b>	<b>148.0</b>	<b>39.3</b>	<b>108.7</b>	<b>0.0</b>
Amortization of issuance costs at the EIR <sup>(a)</sup>	(0.7)			
Fair value of interest-rate derivatives	0.0			
<b>TOTAL</b>	<b>147.3</b>			

*(a) Effective interest rate*

Of the €108.7 million in debt due to mature in between one and five years' time, €2 million had a maturity of less than two years at December 31, 2018.

<i>(In millions of euros)</i>	Total	O/w maturity < 5 years	O/w maturity > 5 years
Debt	264.1	264.1	0.0
Financial assets	(48.6)	(48.6)	0.0
<b>Net position before hedging</b>	<b>215.5</b>	<b>215.5</b>	<b>0.0</b>
Fixed-rate debt	107.2	107.2	0.0
<b>Net position after hedging</b>	<b>108.3</b>	<b>108.3</b>	<b>0.0</b>

Total net debt at December 31, 2018 breaks down as follows by type of interest rate:

<i>(By interest rate)</i>	%
Fixed	49.7
Floating	50.3

Assuming Mersen's debt and exchange rates remain unchanged at their December 31, 2018 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 €1.1 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

The following tables show the fair value of the Group's financial assets and liabilities and their carrying amount in the statement of financial position, as well as their ranking in the fair value hierarchy for instruments measured at fair value: They do not

provide information about the impairment of financial assets and liabilities that are not measured at fair value, insofar as their carrying amount corresponds to a reasonable approximation of the impairment loss.

Dec. 31, 2018	Carrying amount					Fair value				
	Note	Fair value of hedging instruments	Fair value through "Other items of comprehensive income"	Financial assets at amortized cost	Other financial liabilities	Total carrying amount	Level 1	Level 2	Level 3	TOTAL
<b>Financial assets measured at their fair value</b>										
Unlisted equity interests	9		4.1			4.1			4.1	4.1
Derivatives held as current and non-current assets	3	1.3				1.3		1.3		1.3
		<b>1.3</b>	<b>4.1</b>	<b>0.0</b>	<b>0.0</b>	<b>5.4</b>	<b>0.0</b>	<b>1.3</b>	<b>4.1</b>	<b>5.4</b>
<b>Financial assets not measured at their fair value</b>										
Current and non-current financial assets	15			17.1		17.1				
Trade receivables	11			146.2		146.2				
Cash and cash equivalents	15			34.8		34.8				
		<b>0.0</b>	<b>0.0</b>	<b>198.1</b>	<b>0.0</b>	<b>198.1</b>				
<b>Financial liabilities measured at their fair value</b>										
Derivatives held as current and non-current liabilities	3	(2.1)				(2.1)		(2.1)		(2.1)
		<b>(2.1)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(2.1)</b>	<b>0.0</b>	<b>(2.1)</b>	<b>0.0</b>	<b>(2.1)</b>
<b>Financial liabilities not measured at their fair value</b>										
Bank borrowings	15				(109.4)	(109.4)		(109.5)		
Financial current accounts	15				(0.5)	(0.5)				
Bank overdrafts	15				(28.9)	(28.9)				
Current financial liabilities	15				(125.3)	(125.3)				
Trade payables					(71.8)	(71.8)				
		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(335.9)</b>	<b>(335.9)</b>				
<b>Carrying amount by class</b>		<b>(0.8)</b>	<b>4.1</b>	<b>198.1</b>	<b>(335.9)</b>	<b>(134.5)</b>				

Dec. 31, 2017	Statement of financial position sections and category of instrument	Note	Carrying amount				Fair value				
			Fair value of hedging instruments	Fair value through "Other items of comprehensive income"	Financial assets at amortized cost	Other financial liabilities	Total carrying amount	Level 1	Level 2	Level 3	TOTAL
	<b>Financial assets measured at their fair value</b>										
	Unlisted equity interests	9		2.3			2.3			2.3	2.3
	Derivatives held as current and non-current assets	3	0.8				0.8	0.8			0.8
			<b>0.8</b>	<b>2.3</b>	<b>0.0</b>	<b>0.0</b>	<b>3.1</b>	<b>0.0</b>	<b>0.8</b>	<b>2.3</b>	<b>3.1</b>
	<b>Financial assets not measured at their fair value</b>										
	Current and non-current financial assets	15			17.1		17.1				
	Trade receivables	11			123.4		123.4				
	Cash and cash equivalents	15			25.9		25.9				
			<b>0.0</b>	<b>0.0</b>	<b>166.4</b>	<b>0.0</b>	<b>166.4</b>				
	<b>Financial liabilities measured at their fair value</b>										
	Derivatives held as current and non-current liabilities	3	(1.2)				(1.2)	(1.2)			(1.2)
			<b>(1.2)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(1.2)</b>	<b>0.0</b>	<b>(1.2)</b>	<b>0.0</b>	<b>(1.2)</b>
	<b>Financial liabilities not measured at their fair value</b>										
	Bank borrowings	15				(154.4)	(154.4)	(153.5)			
	Financial current accounts	15				(0.3)	(0.3)				
	Bank overdrafts	15				(24.1)	(24.1)				
	Current financial liabilities	15				(37.8)	(37.8)				
	Trade payables					(60.0)	(60.0)				
			<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(276.6)</b>	<b>(276.6)</b>				
	<b>Carrying amount by category</b>		<b>(0.4)</b>	<b>2.3</b>	<b>166.4</b>	<b>(276.6)</b>	<b>(108.3)</b>				

Regarding financial derivative instruments (including foreign exchange forward contracts and interest rate swaps): the market comparable measurement technique is used. Fair value is based

on brokers' quoted prices. Similar contracts are negotiated on an active market and their price reflects transactions that include similar instruments.

## Note 17 Other non-recurring income and expense

Other non-recurring income and expenses break down as follows:

<i>In millions of euros</i>	Dec. 31, 2018	Dec. 31, 2017
Litigation and other gains and expenses	(1.8)	(1.7)
Acquisition-related costs	(1.6)	
Competitiveness plan	(0.4)	(8.6)
<b>TOTAL</b>	<b>(3.8)</b>	<b>(10.3)</b>

At December 31, 2018, non-recurring income and expenses amounted to €3.8 million and mainly included:

- acquisition costs, in particular for FTCAP and Idéalec, for €1.6 million,
- cost related to disputes and other non-recurring expenses representing a material amount of €1.8 million, mainly involving trade disputes and other material and non-recurring expenses,
- expenses (net of reversals) relating to the competitiveness plan amounting to €0.4 million.

At end 2017, non-recurring income and expenses amounted to €10.3 million and mainly included:

- expenses related to the competitiveness plan for €8.6 million,

■ litigation and other non-recurring expenses of a material amount of €1.7 million, which primarily involve:

- impairment of assets developed in-house for €2.6 million,
- a €0.5 million net reversal of a provision for major legal disputes related to tax litigation in France,
- reversals of provisions for impairment of assets recommissioned in China for €0.4 million.

The costs of the competitiveness plan were measured according to a process formulated and supervised by the Management Board of the group.

## Note 18 Segment reporting

### Operating income

<i>In millions of euros</i>	Advanced Materials (AM)		Electrical Power (EP)		Total for continuing operations		
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	
Sales to third parties	487.1	446.6	391.4	362.6	878.5	809.2	
Sales breakdown	55.4%	55.2%	44.6%	44.8%	100.0%	100.0%	
<b>Segment operating income before non-recurring items</b>	<b>68.9</b>	<b>49.6</b>	<b>39.0</b>	<b>39.9</b>	<b>107.9</b>	<b>89.5</b>	
Recurring unallocated costs					(16.3)	(14.9)	
<b>Segment operating margin before non-recurring items*</b>	<b>14.1%</b>	<b>11.1%</b>	<b>10.0%</b>	<b>11.0%</b>			
Operating income from continuing operations					91.6	74.6	
Operating margin from continuing operations before non-recurring items					10.4%	9.2%	
Segment non-recurring income and expenses	0.5	(1.1)	(4.3)	(9.2)	(3.8)	(10.3)	
<b>Segment operating income</b>	<b>69.4</b>	<b>48.5</b>	<b>34.7</b>	<b>30.7</b>	<b>104.1</b>	<b>79.2</b>	
Segment operating margin*	14.2%	10.9%	8.9%	8.5%			
EBITDA margin <sup>(1)</sup>	20.1%	17.9%	12.5%	13.6%			
					Non-recurring unallocated costs	0.0	0.0
					<b>Operating income from continuing operations</b>	<b>87.8</b>	<b>64.3</b>
					Operating margin from continuing operations	10.0%	7.9%
					Net finance income/(expense)	(10.3)	(10.0)
					Current and deferred income tax	(18.3)	(15.1)
					<b>Net income from continuing operations</b>	<b>59.2</b>	<b>39.2</b>

\* Segment operating margin = Operating income/Segment sales to third parties.

(1) EBITDA represents combined segment operating income before non-recurring items plus segment depreciation and amortization. The EBITDA margin is calculated by dividing segment EBITDA by segment sales to third parties.

## Breakdown of sales and sales trends by geographical area

<i>In millions of euros</i>	Dec. 31, 2018	%	Dec. 31, 2017	%
France	79.4	9%	67.1	9%
Rest of Europe	217.7	25%	196.0	24%
North America	293.2	33%	282.4	35%
Asia	250.3	29%	228.7	28%
Rest of the world	37.9	4%	35	4%
<b>TOTAL</b>	<b>878.5</b>	<b>100%</b>	<b>809.2</b>	<b>100%</b>

No single customer accounts for over 10% of the Group's sales. The number one customer accounted for 3% of the Group's sales.

The Group's activities are not subject to any significant seasonal variation.

## Segment assets

<i>In millions of euros</i>	AM	EP	Dec. 31, 2018
Net non-current assets	420.2	199.5	619.7
Inventories	137.1	61.5	198.6
Trade receivables	80.9	65.3	146.2
Contract assets	10.6		10.6
Other operating receivables	9.5	10.9	20.4
<b>TOTAL SEGMENT ASSETS</b>	<b>658.3</b>	<b>337.2</b>	<b>995.5</b>
Deferred tax assets			26.9
Non-current portion of current tax assets			5.8
Current portion of current tax liabilities			4.6
Other current assets			1.9
Current financial assets			13.8
Current derivatives			1.2
Financial assets			0
Cash and cash equivalents			34.8
Assets held for sale and discontinued operations			0
<b>TOTAL UNALLOCATED ASSETS</b>			<b>89</b>
<b>TOTAL</b>			<b>1084.5</b>

## Segment liabilities

<i>In millions of euros</i>	AM	EP	Dec. 31, 2018
Trade payables	39.9	31.9	71.8
Contract liabilities	27.9	0.4	28.3
Other payables and other liabilities	49.3	35.8	85.1
Non-current and current provisions	6.3	3.0	9.3
Employee benefits	47.8	16.8	64.6
<b>TOTAL SEGMENT LIABILITIES</b>	<b>171.2</b>	<b>87.9</b>	<b>259.1</b>
Deferred tax liabilities			27.8
Long and medium-term borrowings			109.4
Non-current derivatives			0.1
Current portion of current tax liabilities			2.1
Other current financial liabilities			125.3
Current derivatives			2.0
Financial current accounts			0.5
Bank overdrafts			28.9
Liabilities related to assets held for sale and disc. op.			0.9
<b>TOTAL UNALLOCATED LIABILITIES</b>			<b>297.3</b>
<b>TOTAL</b>			<b>556.4</b>

## Note 19 Payroll costs and headcount

Group payroll costs (including social security contributions, provisions for pension obligations and retirement compensation) came to €269 million in 2018 compared with €257.3 million in 2017.

Based on a constant scope of consolidation and constant exchange rates, payroll costs (including for temporary staff) were 4.7% higher than in 2017.

### Headcount of consolidated companies at end of period by geographical area

Geographical area	Dec. 31, 2018	%	Dec. 31, 2017	%
France	1,353	19%	1,303	20%
Rest of Europe	1,010	15%	759	12%
North America (+ Mexico)	2,102	30%	2,012	32%
Asia	1,780	26%	1,723	27%
Rest of the world	672	10%	587	9%
<b>TOTAL</b>	<b>6,917</b>	<b>100%</b>	<b>6,384</b>	<b>100%</b>

The headcount increased by 533 in 2018 and this was mainly attributable to:

- acquisitions (248) including 221 for FTCAP and 27 for Idéalec, and with the creation of Mersen Galaxy In China (39 people)
- increased levels of business in North America (90 people), in the rest of the world (85 people) – especially in Tunisia – in France (23 people), in the Rest of Europe (30 people) and in Asia (18 people).

## Headcount of consolidated companies at period-end broken down by category

Categories	Dec. 31, 2018	%	Dec. 31, 2017	%
Engineers and managers	1,325	19%	1,183	18%
Technicians and supervisors	1,083	16%	1,004	16%
Employees	556	8%	562	9%
Blue-collar workers	3,953	57%	3,635	57%
<b>TOTAL</b>	<b>6,917</b>	<b>100%</b>	<b>6,384</b>	<b>100%</b>

## Note 20 Operating income

An analysis of operating income by category of income and expense is shown in the following table:

<i>In millions of euros</i>	Dec. 31, 2018	Dec. 31, 2017
Product sales	846.9	780.1
Trading sales	31.6	29.1
<b>TOTAL SALES</b>	<b>878.5</b>	<b>809.2</b>
Other operating revenues	5.9	7.6
Cost of trading sales	(22.1)	(20.4)
Raw material costs	(232.7)	(211.6)
Costs on other operating revenues	(2.2)	(2.4)
Manufacturing costs	(152.4)	(142.6)
Salaries, incentives and profit-sharing	(269.0)	(257.3)
Other expenses	(73.8)	(63.9)
Financial components of operating income	(4.3)	(3.3)
Depreciation and amortization	(37.5)	(38.3)
Impairment losses and provisions	(1.8)	(11.3)
Gains/(losses) on asset disposals	(0.8)	(1.4)
<b>OPERATING INCOME</b>	<b>87.8</b>	<b>64.3</b>

Provisions are specified in Note 13

## Note 21 Financial income and expense

<i>In millions of euros</i>	Dec. 31, 2018	Dec. 31, 2017
Amortization of bond issuance expenses	(0.3)	(0.3)
Interest paid on debt	(6.1)	(7.1)
Short-term financial expense	(2.0)	(0.2)
Commission on debt	(0.7)	(0.6)
Ineffective portion of interest-rate hedges	0.1	(0.2)
Net interest income from employee benefits	(1.3)	(1.6)
Interest income from bank deposits		
<b>NET FINANCE EXPENSE</b>	<b>(10.3)</b>	<b>(10.0)</b>
Total interest income from financial assets	0.0	0.0
Total interest income from financial liabilities	(10.3)	(10.0)
<b>Net Finance Expense</b>	<b>(10.3)</b>	<b>(10.0)</b>

The net finance expense shown above includes the following items from assets and liabilities that are not stated at fair value through profit or loss:

<i>In millions of euros</i>	Dec. 31, 2018	Dec. 31, 2017
Change in fair value of currency hedges	0.0	(1.1)
Change in fair value of interest rate hedges	(0.1)	0.1
Change in fair value of commodity hedges	0.0	(0.1)
Impact on changes recognized in equity	0.0	0.1
<b>Net finance costs recognized directly in equity, net of tax</b>	<b>(0.1)</b>	<b>(1.0)</b>

## Note 22 Income tax

<i>In millions of euros</i>	Dec. 31, 2018	Dec. 31, 2017
Current income tax	(11.1)	(15.6)
Deferred income tax	(6.9)	0.7
Withholding tax	(0.3)	(0.2)
<b>Total tax expense</b>	<b>(18.3)</b>	<b>(15.1)</b>

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 was 24% in 2018 (32% in 2017, excluding the deferred tax impact of tax cuts voted in late 2017 (mainly in the US), and excluding impairment of deferred tax assets on non-recurring, non-deductible and/or non-recognizable losses).

The lower rate in 2018 is mainly linked to lower tax rates in the United States.

### Analysis of income tax expense

<i>In millions of euros</i>	Dec. 31, 2018
<b>Net income</b>	<b>59.2</b>
Net income from assets held for sale/discontinued operations	0.0
<b>Net income from continuing operations</b>	<b>59.2</b>
Income tax expense/(benefit) on continuing operations	(18.3)
<b>TOTAL INCOME TAX EXPENSE (BENEFIT)</b>	<b>(18.3)</b>
<b>TAXABLE INCOME</b>	<b>77.5</b>
Current tax rate in France	34.43%
Theoretical tax benefit/(expense) (taxable income x current income tax rate in France)	(26.7)
Difference between income tax rate in France and other jurisdictions	8.2
Transactions qualifying for a reduced rate of taxation	
Permanent timing differences	(1.8)
Impact of limiting deferred tax assets	(1.3)
Other	3.3
<b>ACTUAL INCOME TAX BENEFIT (EXPENSE) RECOGNIZED</b>	<b>(18.3)</b>

The deferred tax assets and liabilities recognized in the statement of financial position are as follows:

<i>In millions of euros</i>	Dec. 31, 2018	Dec. 31, 2017
Deferred tax assets	26.9	28.2
Deferred tax liabilities	(27.8)	(20.5)
<b>Net position</b>	<b>(0.9)</b>	<b>7.7</b>



Deferred tax movements during fiscal 2018 were as follows:

<i>(in millions of euros)</i>	Dec. 31, 2017	Net income	Other comprehensive income	Other	Translation adjustment	Dec. 31, 2018
Employee benefit obligations	13.7	(2.2)	(0.6)	0.5	0.0	11.4
Depreciation of non-current assets	(25.4)	0.3	0.0	0.1	(0.1)	(25.1)
Tax-regulated provisions	(0.2)	0.1	0.0	0.0	0.0	(0.1)
Impact of tax losses	20.3	(1.3)	0.0	0.0	(0.2)	18.8
Impairment losses	(0.7)	0.0	0.0	0.1	0.0	(0.6)
Other	0.0	(3.8)	0.3	(0.9)	(0.9)	(5.3)
<b>DEFERRED TAX IN THE STATEMENT OF FINANCIAL POSITION - NET POSITION</b>	<b>7.7</b>	<b>(6.9)</b>	<b>(0.3)</b>	<b>(0.2)</b>	<b>(1.2)</b>	<b>(0.9)</b>

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 (€70 million), China (€21 million), Germany (€11 million) and Brazil (€5 million).

## Note 23 Earnings per share

Basic and diluted earnings per share are presented below:

Continuing operations and discontinued operations	Dec. 31, 2018	Dec. 31, 2017
Numerator: net income used to compute basic earnings per share (net income for the period in millions of euros)	56.5	37.6
Denominator: weighted average number of ordinary shares used to compute basic earnings per share	20,536,284	20,612,368
Adjustment for dilutive potential ordinary shares: unexercised options	691,336	734,391
Weighted average number of ordinary shares used to calculate diluted earnings per share	21,227,620	21,346,759
Basic earnings per share (€)	2.75	1.83
Diluted earnings per share (€)	2.66	1.76

Continuing operations	Dec. 31, 2018	Dec. 31, 2017
Numerator: net income used to compute basic earnings per share (net income for the period in millions of euros)	56.5	36.8
Denominator: weighted average number of ordinary shares used to compute basic earnings per share	20,536,284	20,612,368
Adjustment for dilutive potential ordinary shares: unexercised options	691,336	734,391
Weighted average number of ordinary shares used to calculate diluted earnings per share	21,227,620	21,346,759
Basic earnings per share (€)	2.75	1.78
Diluted earnings per share (€)	2.66	1.72

After adjusting net income for the items set out below, earnings per share for 2018 and 2017 would be as follows:

Continuing and discontinued operations	Dec. 31, 2018	Dec. 31, 2017
Basic earnings per share (€)	2.75	1.88
Diluted earnings per share (€)	2.66	1.81

Continuing operations	Dec. 31, 2018	Dec. 31, 2017
Basic earnings per share (€)	2.75	1.88
Diluted earnings per share (€)	2.66	1.81

Adjustments to net income	Dec. 31, 2018	Dec. 31, 2017
<b>Net income</b>	<b>56.5</b>	<b>37.6</b>
Non-recurring expenses for the competitiveness plan, net of tax	0.0	6.4
Non-recurring charges on discontinued businesses	0.0	(0.8)
Impact of US tax reforms	0.0	(4.5)
<b>Restated net income</b>	<b>56.5</b>	<b>38.7</b>

In view of the amount and nature of non-recurring expenses, earnings per share for 2018 have not been restated.

## Note 24 Dividends

The General Meeting of the Shareholders of May 17, 2018 decided to distribute a dividend of €0.75 per share for fiscal 2017. In July 2018, the Group paid out dividends totaling €15.6 million.

The dividend proposed in respect of fiscal 2018 stands at €0.95 per share, representing an aggregate amount of €20 million.

## Note 25 Leases

### 1 - Finance leases

#### Carrying amount by asset category

(In millions of euros)	Dec. 31, 2018	Dec. 31, 2017
Buildings	0	0

### 2 - Leases where the Group is lessee (operating leases)

#### Schedule of minimum payments

(In millions of euros)	Total at Dec. 31, 2018	< 1 year	> 1 year	O/w five years or more
Minimum payments	33.0	9.1	23.9	2.5

Minimum payments represent the amount of certain future property lease payments up until the expiration of the lease prior to any renewals. The leases concerned do not contain any clauses relating to debt restrictions or dividend payments. Lease payments related to vehicles, forklift trucks and software have not

been included as the related lease contracts are currently being analyzed in preparation for the application of IFRS 16 in 2019.

The year-on-year increase in minimum payments (€30.2 million at December 31, 2017) is mainly attributable to the renewal of major leases in China.

## 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 91 consolidated and unconsolidated companies in 34 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 €3.6 million in 2018 (€3.1million in fiscal 2017).

At December 31, 2018, the management and administrative fees charged to unconsolidated subsidiaries by the Group (deducted from administrative costs) amounted to €0.1 million, the same amount as for 2017.

The amounts receivable by the Group from its unconsolidated subsidiaries came to €1.3 million at December 31, 2018, while amounts payable were less than €0.1 million.

At December 31, 2018, Mersen granted shareholders' advances to unconsolidated subsidiaries amounting to €0.8 million (€0.1 million at end-2017).

### 2 - Compensation and benefits paid to key management personnel

The table below includes annual compensation for the Group's Chief Executive Officer for 2018.

(In millions of euros)	Dec. 31, 2018	Dec. 31, 2017
Salaries, bonuses, benefits in kind	0.9	0.8
Top-up pension plan payments <sup>(1)</sup>	0.2	0.2
Other long-term employee benefits		
<b>TOTAL</b>	<b>1.1</b>	<b>1.0</b>

(1) By contract, the Chief Executive Officer is entitled to the benefit of a top-up pension plan, defined as follows: Provided that the person is still employed by the Group upon his/her retirement, this regime guarantees a top-up pension income of 10-20%, depending on length of service, of the basic reference salary during the final three years prior to retirement plus a flat-rate of 50% of the maximum bonus. The actuarial obligation was assessed at December 31, 2018 at €4.1 million, the same amount as at December 31, 2017.

Should his appointment be terminated, the Chief Executive Officer will receive a severance payment of no more than 0.5 times the total gross compensation and benefits paid to him in respect of the 36-month period preceding termination, subject to the attainment of performance criteria. He will also receive a monthly no-compete payment equal to 50% of his last gross fixed monthly compensation, payable over 12 months.

In addition, the following share-based payments were granted to the Chief Executive Officer:

- Stock options: 62,345 stock subscription options were granted to the Chief Executive Officer in 2009 and 2014. The options attributed in 2007 expired in 2017.

#### 2009 Plan Tranche 12

Date of Board of Directors' meeting	January 22, 2009
Total number of shares allotted	32,345
Subscription price	17.53
Start of option exercise period	February 2013
Expiration date	February 2019

#### 2014 Plan Tranche 13

Date of the Management Board's meeting	May 21, 2014
Total number of shares allotted	30,000
Subscription price	22.69
Start of option exercise period	May 2016
Expiration date	May 2021

- Bonus shares: table of past allotments to the Chief Executive Officer below: no bonus shares were allotted to the Chief Executive Officer in respect of the 2015, 2016, 2017 and 2018 plans.
- Bonus preference shares: table of past allotments to the Chief Executive Officer.

	<b>2015 plan</b>
Date of the Management Board's meeting	July 9, 2015
Total number of preference shares allotted	183
Minimum equivalent in number of ordinary shares after conversion subject to achievement of performance criteria	1,830
Maximum equivalent in number of additional ordinary shares after conversion subject to the achievement of performance criteria and share price trends.	18,300
Reference price at allotment date:	
Ordinary shares subject to achievement of performance criteria	17.73
Ordinary shares	4.92
Definitive allotment date (end of the vesting period)	July 9, 2017
End of lock-up period	July 9, 2019
	<b>2016 plan</b>
Date of Board of Directors' meeting	May 11, 2016
Total number of preference shares allotted	188
Minimum equivalent in number of ordinary shares after conversion subject to achievement of performance criteria	1,880
Maximum equivalent in number of additional ordinary shares after conversion subject to the achievement of performance criteria and share price trends.	18,800
Reference price at allotment date:	
Ordinary shares subject to achievement of performance criteria	10.92
Ordinary shares	1.52
Definitive allotment date (end of the vesting period)	May 11, 2018
End of lock-up period	May 11, 2020
	<b>2017 plan</b>
Date of Board of Directors' meeting	May 18, 2017
Total number of preference shares allotted	189
Minimum equivalent in number of ordinary shares after conversion subject to achievement of performance criteria	1,890
Maximum equivalent in number of additional ordinary shares after conversion subject to the achievement of performance criteria and share price trends.	18,900
Reference price at allotment date:	
Ordinary shares subject to achievement of performance criteria	21.35
Ordinary shares	6.44
Definitive allotment date (end of the vesting period)	May 18, 2019
End of lock-up period	May 18, 2021
	<b>2018 plan</b>
Date of Board of Directors' meeting	May 17, 2018
Total number of preference shares allotted	77
Minimum equivalent in number of ordinary shares after conversion subject to achievement of performance criteria	770
Maximum equivalent in number of additional ordinary shares after conversion subject to the achievement of performance criteria and share price trends.	7,700
Reference price at allotment date:	
Ordinary shares subject to achievement of performance criteria	33.53
Ordinary shares	12.41
Definitive allotment date (end of the vesting period)	May 17, 2020
End of lock-up period	May 17, 2022

### 3 - Other agreement

The Group has not entered into any agreements or commitments with other parties aside from the one described above concerning the non-compete clause, termination of term in office and pension plan of the Chief Executive Officer, Luc Themelin.

## Note 27 Off-balance sheet commitments

### A - Financial commitments and liabilities

<i>(In millions of euros)</i>	Dec. 31, 2018	Dec. 31, 2017
<b>Commitments received</b>		
Guarantees and endorsements	0.0	0.0
Other commitments received	0.0	0.0
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>
<b>Commitments given</b>		
Collateralized debts and commitments	0.0	0.0
Market guarantees	28.9	20.0
Payment guarantee on acquisitions	0.0	0.0
Other guarantees	20.2	21.2
Other commitments given	7.7	3.9
<b>TOTAL</b>	<b>56.8</b>	<b>45.1</b>

The above table summarizes the Group's off-balance sheet commitments.

#### **Nature**

The €8.9 million year-on-year increase in market guarantees is mainly attributable to increased business in the Advanced Materials segment.

The "other guarantees" item, which amounted to €20.2 million, notably includes an €18 million guarantee covering the maximum daily drawings by subsidiaries under the European cash pooling arrangements.

#### **Maturity**

Off-balance sheet commitments with a maturity of over one year amounted to €30.5 million. They include the €18 million guarantee linked to the cash pooling system, which remains in force for as long as the cash pooling agreements are in place. Market guarantees generally last for less than one year, except for a few market guarantees, the duration of which does not exceed three years.

#### **Control**

Under the Group's internal control organization, Group companies are not authorized to enter into transactions giving rise to off-balance sheet commitments without obtaining the prior approval of the Group's Finance department and, where appropriate, of the Board of Directors. Nonetheless, certain Group companies have the option of issuing market guarantees not exceeding €150,000 with a maturity of less than two years without prior authorization in the normal course of their business activities. These guarantees are listed in the documents completed by the companies as part of the account consolidation procedure.

As far as the Company is aware, no material off-balance sheet commitments under the accounting standards in force have been omitted.

### **B - Title retention clause**

None.

## Note 28 Subsequent events

None.

## Note 29 Approval of the financial statements

The Group's consolidated financial statements for the year ended December 31, 2018 were approved by the Board of Directors at its meeting on March 12, 2019.

## Note 30 Fees paid to the Statutory Auditors and members of their networks by the Group

	KPMG		Deloitte	
	Statutory Auditors and their network		Statutory auditors and their network	
	Fees	%	Fees	%
<b>Audit of individual company financial statements and consolidated financial statements and limited review of half-yearly financial statements</b>				
• Entity	165	14%	165	16%
• Entities audited	630	53%	726	68%
<b>SUB-TOTAL A</b>	<b>795</b>	<b>67%</b>	<b>891</b>	<b>84%</b>
<b>Other regulatory and legally required services</b>				
• Entity	0	0%	0	0%
• Entities audited	11	1%	0	0%
<b>SUB-TOTAL B</b>	<b>11</b>	<b>0%</b>	<b>0</b>	<b>0%</b>
<b>Other services provided at the request of the entity</b>				
• Entity	309	26%	26	2%
• Entities audited	80	7%	151	14%
<b>SUB-TOTAL C</b>	<b>389</b>	<b>33%</b>	<b>177</b>	<b>16%</b>
<b>OTHER NON-AUDIT SERVICES<sup>(1)</sup> SUB-TOTAL D = B + C</b>	<b>400</b>	<b>33%</b>	<b>177</b>	<b>16%</b>
<b>TOTAL (E = A + D)</b>	<b>1,195</b>	<b>100%</b>	<b>1,068</b>	<b>100%</b>

(1) Type of services other than auditing services provided by the Statutory Auditors to the consolidated entity and its controlled subsidiaries: independent third-party missions, due diligence procedures carried out as part of an acquisition, accounting consultancy missions, tax advisory services, non-legally required certification processes

# STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED ON DECEMBER 31, 2018

*This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report includes information specifically required by European regulations or French law, such as information about the appointment of Statutory Auditors. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Shareholders of Mersen SA,

## 1. Opinion

In compliance with the engagement entrusted to us by your General Meeting, we have audited the accompanying consolidated financial statements of Mersen SA for the year ended December 31, 2018.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group at December 31, 2018 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit and Accounts Committee.

## 2. Basis for opinion

### Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements" section of our report.

### Independence

We conducted our audit engagement in compliance with the independence rules applicable to us, for the period from January 1, 2018 to the date of our report, and, in particular, we did not provide any non-audit services prohibited by Article 5(1) of Regulation (EU) No 537/2014 or the French Code of Ethics (Code de déontologie) for Statutory Auditors.

## 3. Emphasis of matter

Without qualifying our opinion, we draw your attention to Note 2 "Summary of significant accounting policies and methods" to the consolidated financial statements, which describes the adoption on January 1, 2018 of IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments".

## 4. Justification of assessments – Key audit matters

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgment, were the most significant in our audit of the consolidated financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the consolidated financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the consolidated financial statements.

### Measurement of goodwill

#### Notes 2-F1, 2-V, 6 and 7 to the consolidated financial statements

##### Description of risk

At December 31, 2018, goodwill amounted to €276.2 million against a total balance sheet of €1,084.5 million.

As indicated in Note 2-F1 to the consolidated financial statements, goodwill is tested for impairment whenever there is an internal or external indication of a loss of value or otherwise at least once a year by comparing the carrying amount of the relevant assets with their value in use.

Value in use is determined from discounted projections of future operating cash flows over five years, and a terminal value. The discount rate used for these calculations is the weighted average cost of capital after tax for each cash generating unit (CGU). Details of the assumptions used are provided in Note 7 to the consolidated financial statements.

We deemed the measurement of goodwill to be a key audit matter due to the materiality of these assets in the consolidated financial statements and the method of determining their value in use, which relies primarily on estimates, in turn requiring management to use assumptions and judgments, as described in Note 2-V to the consolidated financial statements.

The methods used to perform impairment tests are described in Note 2-F1 and details about the assumptions used are given in Note 7 to the consolidated financial statements.

### How our audit addressed this risk

We verified the methods used to perform the impairment tests and, in particular:

- examined the process for drawing up and approving business plans;
- analyzed the consistency of cash flow forecasts with past performance, the market outlook, and the forecasts provided to the Board of Directors;
- with the guidance of our valuation experts, assessed the reasonableness of the assumptions used by management to determine the discount rate;
- reviewed the sensitivity analyses performed for the impairment tests.

Lastly, we also verified the appropriateness of the disclosures provided in the notes to the consolidated financial statements.

## Provisions for claims and disputes

### Notes 2-L, 2-V and 13 to the consolidated financial statements

#### Description of risk

The Group operates in multiple countries, therefore requiring it to comply with the regulations applicable in those countries. The products manufactured by the Group are subject to specifications, and non-compliance with those specifications can expose the subsidiaries to liability claims from customers pertaining to defective products or late penalties for project-related sales. Accordingly, the Group undertakes an assessment of the risks arising out of liabilities, disputes or litigation related to its activities that are liable to have a material impact on its business and financial position.

As described in Notes 2-L, "Provisions", 2-V, "Use of estimates", and 13, "Provisions, contingent liabilities and other liabilities", to the consolidated financial statements, provisions and liabilities relating to ongoing claims and litigation amounted to around €3.5 million at December 31, 2018, and correspond to management's best estimate of the risk.

Given the degree of judgment required from management to assess the risks corresponding to the Group's legal, regulatory, contractual and constructive obligations, we deemed these provisions to be a key audit matter.

### How our audit addressed this risk

We familiarized ourselves with (i) the procedures implemented by the Group to identify and catalog all claims made against it and that are liable to have a material impact on its business and financial position, (ii) the resulting risk assessment prepared by the Group, and (iii) the corresponding documentation.

Where applicable, we corroborated the Group's analyses with the written confirmation obtained from the Group's outside legal counsel.

We examined the principal risks identified and assessed the reasonableness of management's risk assessment.

Lastly, we also verified the appropriateness of the disclosures provided in the notes to the consolidated financial statements.

## 5. Specific verifications

As required by law and in accordance with professional standards applicable in France, we have also verified the information pertaining to the Group presented in the Board of Directors' management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

We attest that the Group management report includes the consolidated non-financial information statement required under Article L. 225-102-1 of the French Commercial Code. However, in accordance with Article L. 823-10 of the French Commercial Code, we have not verified the fair presentation and consistency with the consolidated financial statements of the information given in that statement, which will be the subject of a report by an independent third party.



## 6. Report on other legal and regulatory requirements

### Appointment of the Statutory Auditors

We were appointed Statutory Auditors of Mersen SA by the General Meetings held on June 5, 1986 for Deloitte & Associés and May 12, 2004 for KPMG.

At December 31, 2018, Deloitte & Associés and KPMG were in the thirty-third and the fifteenth consecutive year of their engagement, respectively.

## 7. Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for preparing consolidated financial statements giving a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for implementing the internal control procedures it deems necessary for the preparation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it expects to liquidate the Company or to cease operations.

The Audit and Accounts Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems, relating to accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

## 8. Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements

### Objective and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions taken by users on the basis of these consolidated financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of the Company's management.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgment throughout the audit.

They also:

- identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of the internal control procedures relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the consolidated financial statements;

- assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the consolidated financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The Statutory Auditors are responsible for the management, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed thereon.

## Report to the Accounts and Audit Committee

We submit a report to the Audit and Accounts Committee which includes, in particular, a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit and Accounts Committee includes the risks of material misstatement that, in our professional judgment, were the most significant for the audit of the consolidated financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit and Accounts Committee with the declaration provided for in Article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in Articles L. 822-10 to L. 822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit and Accounts Committee.

### The Statutory Auditors

Paris La Défense, March 12, 2019  
KPMG Audit  
*Department of KPMG SA*

Philippe Cherqui  
*Partner*

Paris La Défense, March 12, 2019  
Deloitte & Associés

Laurent Odobez  
*Partner*

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# STATEMENT OF INCOME

<i>(in € thousands)</i>	2018	2017
<b>OPERATING REVENUES (1)</b>		
Revenues		
Other revenues	1,769	1,425
<b>TOTAL SALES</b>	<b>1,769</b>	<b>1,425</b>
Operating subsidies	0	0
Reversals of operating provisions	107	2
Transferred operating costs		456
Other income	14,857	14,724
<b>TOTAL 1</b>	<b>16,733</b>	<b>16,607</b>
<b>OPERATING EXPENSES (2)</b>		
Other purchases	1	1
External charges	16,325	15,448
Taxes other than income tax	565	577
Wages and salaries *	1,661	1,098
Social security charges	438	431
Depreciation, amortization and charges to provisions:		
- against fixed assets: depreciation and amortization	30	28
- for liabilities and charges: charges to provisions	582	491
Other expenses	344	344
<b>TOTAL 2</b>	<b>19,945</b>	<b>18,418</b>
<b>OPERATING INCOME (LOSS) (TOTAL 1 - 2)</b>	<b>(3,212)</b>	<b>(1,811)</b>

<i>(in € thousands)</i>	<b>2018</b>	<b>2017</b>
<b>FINANCIAL INCOME (3)</b>		
Income from participating interests	27,573	28,982
Other income from fixed assets	8	(41)
Other interest and related income	1,963	2,630
Reversals of depreciation, amortization and charges to provisions	992	4,402
Foreign exchange gains	3,706	5,849
<b>TOTAL 3</b>	<b>34,242</b>	<b>41,822</b>
<b>FINANCIAL EXPENSE (4)</b>		
Depreciation, amortization and charges to provisions	6,667	14,111
Interest and related expenses	5,644	6,459
Foreign exchange losses	4,008	5,443
<b>TOTAL 4</b>	<b>16,319</b>	<b>26,013</b>
<b>NET FINANCIAL INCOME (3 - 4)</b>	<b>17,923</b>	<b>15,809</b>
<b>INCOME BEFORE TAX AND NON-RECURRING ITEMS</b>	<b>14,710</b>	<b>13,998</b>
<b>NON-RECURRING INCOME</b>		
Management transactions		178
Capital transactions	2,482	789
Reversals of provisions and transferred costs	78	1,131
<b>TOTAL 5</b>	<b>2,560</b>	<b>2,098</b>
<b>NON-RECURRING EXPENSE</b>		
Management transactions	495	198
Capital transactions	2,850	1,183
Depreciation, amortization and charges to provisions	27	19
<b>TOTAL 6</b>	<b>3,372</b>	<b>1,400</b>
<b>NET NON-RECURRING INCOME (LOSS) (TOTAL 5 - 6)</b>	<b>(811)</b>	<b>698</b>
<b>INCOME TAX</b>	<b>(2,792)</b>	<b>(3,441)</b>
<b>NET INCOME FOR THE YEAR</b>	<b>16,691</b>	<b>18,137</b>
<b>TOTAL INCOME</b>	<b>53,535</b>	<b>60,527</b>
<b>TOTAL EXPENSES</b>	<b>36,844</b>	<b>42,390</b>

\* Total payroll costs for Mersen SA in 2018 were impacted by the one-off tax-free bonus awarded by the Mersen group to some French employees, in a total amount of €450 thousand.

# STATEMENT OF FINANCIAL POSITION

## ASSETS

(in € thousands)	Dec. 31, 2018			Dec. 31, 2017
	Gross	Depreciation and amortization	Net	Net
<b>FIXED ASSETS</b>				
<b>Intangible fixed assets</b>				
Concessions, patents, licenses, brands	7,618	7,618	0	0
<b>SUB-TOTAL</b>	<b>7,618</b>	<b>7,618</b>	<b>0</b>	<b>0</b>
<b>Property, plant and equipment</b>				
Other	355	143	212	231
Property, plant and equipment in progress	0		0	0
Advances and down payments	0		0	0
<b>SUB-TOTAL</b>	<b>355</b>	<b>143</b>	<b>212</b>	<b>231</b>
<b>Financial fixed assets <sup>(a)</sup></b>				
Participating interests	568,220	101,980	466,240	448,211
Loans and advances to participating interests	107,948		107,948	111,601
Other fixed assets	5		5	5
Other	3,307	103	3,204	2,687
<b>SUB-TOTAL</b>	<b>679,481</b>	<b>102,083</b>	<b>577,397</b>	<b>562,504</b>
<b>TOTAL A</b>	<b>687,453</b>	<b>109,844</b>	<b>577,609</b>	<b>562,735</b>
<b>CURRENT ASSETS</b>				
<b>Advances and down payments paid on orders <sup>(b)</sup></b>				
Advances and down payments paid on orders <sup>(b)</sup>	30		30	2
Trade receivables and related accounts <sup>(b)</sup>	2,034		2,034	999
Other <sup>(b)</sup>	74,526	706	73,820	40,381
Investment securities	4,934		4,934	0
Cash and cash equivalents	949		949	1,021
<b>ACCRUALS</b>				
Prepaid expenses <sup>(b)</sup>	632		632	656
<b>TOTAL B</b>	<b>83,105</b>	<b>706</b>	<b>82,399</b>	<b>43,059</b>
Deferred costs D	661		661	949
Foreign currency translation losses E	7,574		7,574	5,440
<b>TOTAL (A+B+C+D+E)</b>	<b>778,793</b>	<b>110,550</b>	<b>668,243</b>	<b>612,183</b>

(a) Due in less than one year: 3,101

(b) Due in over one year: 1,875

## EQUITY AND LIABILITIES

<i>(in € thousands)</i>	Dec. 31, 2018	Dec. 31, 2017
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	41,536	41,274
Issue premium	213,589	211,526
Merger premium	8,252	8,252
Revaluation reserve	3,252	3,252
Unavailable reserves	5,189	5,177
Statutory reserve	4,158	4,158
Other reserves	85,348	82,684
Retained earnings	133	20
Net income for the year	16,691	18,137
Tax-regulated provisions	223	197
<b>TOTAL A</b>	<b>378,372</b>	<b>374,677</b>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>		
Provisions for liabilities	1,733	1,110
Provisions for charges	4,343	3,868
<b>TOTAL B</b>	<b>6,076</b>	<b>4,978</b>
<b>FINANCIAL LIABILITIES <sup>(a)</sup></b>		
Bond issues	2,329	2,329
Borrowings from credit institutions <sup>(b)</sup>	11,366	12,780
Other borrowings	220,163	171,375
Trade payables and related accounts	1,636	1,075
Tax and social security liabilities	2,467	2,033
Amounts due on fixed assets	1	4
Other financial liabilities	39,013	38,091
<b>ACCRUALS</b>		
Prepaid income	2	4
<b>TOTAL C</b>	<b>276,977</b>	<b>227,691</b>
Foreign exchange translation gains D	6,818	4,837
<b>TOTAL (A+B+C+D)</b>	<b>668,243</b>	<b>612,183</b>

(a) Due in over one year: 107,208; due in less than one year: 169,768

(b) Including current bank loans and overdrafts: 10,946

# NOTES TO THE STATEMENT OF FINANCIAL POSITION AND STATEMENT OF INCOME

## SUMMARY OF THE NOTES TO THE FINANCIAL STATEMENTS

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## Note 1 Accounting principles and methods

The financial statements of Mersen SA for fiscal year 2018 have been prepared in accordance with the provisions of French law, in particular Regulation no. 2014-03 of the Autorité des Normes Comptables (French accounting standards authority).

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 non-recurring 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 carrying amount 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 carrying amount, an impairment loss is recognized to bring the net carrying amount 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 carrying amount of an asset exceeds its value in use, with the latter determined by reference to:

- primarily, the share of each subsidiary's equity; and
- where necessary, the economic value determined by reference to the future cash flows including the activity carried out and the outlook for developments.

Expenses related to the acquisition of participating interests and other fixed assets are included in the cost of securities.

Impairment losses and reversals of impairment in investments, as well as provisions related to participating interests, are recorded under financial items. When participating interests are sold, the reversals of impairment on them are recognized under non-recurring items so as not to unbalance net financial income and non-recurring 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 foreign 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, and 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, 2018 rendered likely to occur.

### G - Costs deferred over several periods

Bond issuance costs are allocated over the estimated average life of the relevant borrowing.

### H - Pension obligations and retirement indemnities

Top-up pension obligations under "closed" defined benefit plans covering part of the workforce are recognized in the form of a provision. Obligations to still active employees are recorded under provisions for liabilities and charges. Obligations to retired employees are transferred to a deferred cost account.

A provision for charges is set aside to cover the Company's commitment arising from top-up pension obligations specifically related to the Group's senior managers.

Retirement indemnities and long-service awards payable under collective bargaining agreements are recognized under provisions for liabilities and charges.

Retirement indemnities and long-service awards are calculated on an annual basis by independent actuaries in accordance with the provisions of the collective bargaining agreement for the French chemicals industry and the CNC recommendation issued on April 1, 2003. The projected unit credit method is used for this purpose. It takes into account – using actuarial assumptions – the employee's probable future length of service, level of salary costs, life expectancy and the rate of staff turnover. The obligation is discounted at an appropriate discount rate. The obligation is partially funded through payments to an external organization under a collective life insurance policy, the assets of which are stated at fair value.

Retirement indemnities are recognized using the corridor method.

The principal assumptions used in this calculation are as follows:

- future salary costs are calculated based on current salaries including an annual rate of salary increases of 2.00% and additional age-related increases;
- changes in actuarial assumptions are taken into account only where they fall outside the corridor and are amortized over the expected average remaining working life of plan members;
- discounting to present value at a rate of 1.55%;
- an average cost ratio of 40% to 45%;
- staff turnover calculated by age bracket;
- return on plan assets: 2.75%;
- mortality table used: TGHF05.

### I - Stock repurchases

The stock repurchased by Mersen under the liquidity agreement entered into with a financial institution is shown under other fixed assets, in line with French accounting regulations.

An impairment loss in these shares is recognized when the cost of acquiring the stock exceeds the average share price during the final month of the fiscal year.

Any shares repurchased in order to be canceled in the future are also recognized under fixed assets for their acquisition value.

When these repurchased shares are sold under a liquidity agreement, gains and losses are recognized under non-recurring 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 - Non-recurring items

The Company has adopted the official French chart of accounts. Non-recurring items encompass items not arising during the normal course of the Company's business. Accordingly, non-recurring items comprise the carrying amount of and proceeds from the disposal of fixed assets, accelerated tax depreciation and non-recurring fixed asset write-downs, non-recurring indemnities, fines and penalties, as well as expenses related to these nonrecurring events.

### K - Stock subscription options and bonus share allotments

The Company has put in place stock subscription option and bonus share allotment plans for certain employees.

When stock subscription options are exercised by beneficiaries, the new shares are issued and accounted for in the same manner as a conventional issue of shares. The share premium is equal to the difference between the subscription price paid by the employee and the increase in the share capital.

When bonus shares are allotted to beneficiaries, the new shares are issued and accounted for in the same manner as an increase in capital through the capitalization of reserves. The par value of the shares is added to the share capital account, and the surplus is recorded under unavailable reserves.

The Company may also repurchase treasury shares on the market. In this case, a provision for expenses is recorded when this is likely to give rise to an outflow of resources for the Company and is equal to the loss expected upon allotment of the securities to the employees affected by the plan.

## Note 2 Analysis and commentary

### Income statement

#### Sales and other income

Revenues (€1,769 thousand) primarily derive from services billed in France and abroad. Other income (€14,857 thousand) relates primarily to royalties from trademarks and intangibles.

#### Operating income

Total payroll costs for Mersen SA in 2018 were impacted by the one-off tax-free bonus awarded by the Mersen group to some French employees, in a total amount of €450 thousand.

Overall, this item represented a loss of €3,212 thousand and reflects the holding company's operating costs less the income of the trademark.

### Balance sheet

In addition to the notes shown below, the following comments apply:

#### Financial fixed assets

The increase in net value of €14,893 thousand results mainly from share capital increases for certain subsidiaries (€23,730 thousand), offset by subsidiary loan repayments (€3,654 thousand) and additional impairment of securities held by subsidiaries (€4,585 thousand).

#### Financial income

Financial income of €17,923 thousand was significantly higher than the €15,809 thousand recorded in 2017, due primarily to impairment losses recorded against shares of subsidiaries in the previous fiscal year, which had a significant impact on 2017 income.

#### Non-recurring items

The Company recorded a non-recurring loss of €811 million, mainly because Mersen SA implemented a stock repurchase program during the year (€298 thousand) and funded the pension plans of employees of businesses that have left the Group (€495 thousand).

#### Income tax

The Company recorded a 2018 income tax benefit of €2,792 thousand resulting from the consolidation of Mersen and its French subsidiaries for tax purposes.

#### Debt

Total net debt at December 31, 2018 increased compared with 2017.

(in € thousands)	Dec. 31, 2018	Dec. 31, 2017
Bank overdrafts	10,946	12,120
Bond issue	2,329	2,329
Other borrowings	219,754	170,977
Other financial liabilities <sup>(a)</sup>	38,276	37,531
<b>Total debt</b>	<b>271,305</b>	<b>222,957</b>
Cash and cash equivalents	(5,883)	(1,021)
Other receivables <sup>(b)</sup>	(65,527)	(29,618)
<b>Marketable securities, cash and cash equivalents</b>	<b>(71,410)</b>	<b>(30,639)</b>
<b>Loans to subsidiaries</b>	<b>(107,654)</b>	<b>(111,330)</b>
<b>Other financial fixed assets</b>	<b>(3,204)</b>	<b>(2,685)</b>
Net debt	89,036	78,303
o/w: - due in over one year	4,486	29,976
- due in less than one year	84,550	48,327

(a) Financial advances received recognized under "Other financial liabilities".

(b) Financial advances made recognized under "Other receivables".

Out of the €271.3 million in total gross debt at December 31, 2018, €141.0 million stems from the use of confirmed credit lines and borrowings, €78.8 million from use of the commercial paper

program and the remainder chiefly from the use of non-confirmed lines (bank overdrafts and other lines).

**Note 3 Fixed assets**

<i>(in € thousands)</i>	FIXED ASSETS				DEPRECIATION, AMORTIZATION AND CHARGES TO PROVISIONS			
	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
<b>Accounts</b>								
<b>Intangible assets</b>								
Start-up costs								
Concessions, patents, licenses, brands, processes, rights	7,618			7,618	7,618			7,618
Assets in progress								
<b>TOTAL 1</b>	<b>7,618</b>			<b>7,618</b>	<b>7,618</b>			<b>7,618</b>
<b>Property, plant and equipment</b>								
Buildings and technical installations								
Other property, plant and equipment	344	11		355	113	30		143
Assets in progress								
Advances and down payments								
<b>TOTAL 2</b>	<b>344</b>	<b>11</b>		<b>355</b>	<b>113</b>	<b>30</b>		<b>143</b>
<b>Financial assets</b>								
Participating interests	545,606	23,730	(1,115)	568,221	97,395	4,663	(78)	101,980
Loans and advances to participating interests	111,601	22,493	(26,146)	107,948				
Other fixed assets	5			5				
Other financial fixed assets	2,689	19,432	(18,814)	3,307	2	103	(2)	103
<b>TOTAL 3</b>	<b>659,901</b>	<b>65,655</b>	<b>(46,075)</b>	<b>679,481</b>	<b>97,397</b>	<b>4,766</b>	<b>(80)</b>	<b>102,083</b>
<b>TOTAL</b>	<b>667,863</b>	<b>65,666</b>	<b>(46,075)</b>	<b>687,454</b>	<b>105,128</b>	<b>4,796</b>	<b>(80)</b>	<b>109,844</b>

## Note 4 Provisions

<i>(in € thousands)</i>					
Accounts	Amount at beginning of period	Charges	Reversals of provisions used	Reversals of provisions not used	Amount at end of period
<b>Tax-regulated provisions</b>					
Accelerated tax depreciation	197	26			223
<b>TOTAL 1</b>	<b>197</b>	<b>26</b>			<b>223</b>
<b>Provisions for liabilities and charges</b>					
Retirement indemnities	53		(1)		52
Long-service awards	5	2	(2)		5
Senior manager pensions	2,306	313			2,619
Professional fees	800				800
Risk related to liability guarantee	500				500
Risk related to CL PI	26	44			70
Risk related to Mersen RUS	94				94
Risk related to Mersen ARG		370			370
Personnel costs	204	267	(104)		367
Foreign exchange loss	990	1,199	(990)		1,199
<b>TOTAL 2</b>	<b>4,978</b>	<b>2,195</b>	<b>(1,097)</b>		<b>6,076</b>
<b>Provisions for impairment</b>					
Mersen do Brasil participating interest	19,876				19,876
Mersen France SB participating interest	18,790	3,800			22,590
Mersen Italia participating interest	4,518				4,518
Mersen Argentine participating interest		807			807
Mersen Maroc participating interest	1,613				1,613
Mersen Deutschland Holding KG participating interest	9,464				9,464
Other participating interests	43,134	56	(78)		43,112
Treasury shares	2	103	(2)		103
Mersen Rus short-term credit facility	706				706
<b>TOTAL 3</b>	<b>98,103</b>	<b>4,766</b>	<b>(80)</b>		<b>102,689</b>
<b>TOTAL</b>	<b>103,278</b>	<b>6,987</b>	<b>(1,177)</b>		<b>108,988</b>

## Note 5 Maturity schedule of assets and liabilities

<i>(in € thousands)</i>				
<b>Amounts due to the Group</b>	<b>Gross balance sheet value</b>	<b>Due in one year or less</b>	<b>Due in over one year</b>	
Loans and advances to participating interests	107,948	294		107,654
Other financial fixed assets	3,307	2,807		500
Trade receivables	2,034	2,034		
Other receivables	74,526	72,652		1,874
Prepaid expenses	632	632		
<b>TOTAL</b>	<b>188,448</b>	<b>78,419</b>		<b>110,028</b>

<i>(in € thousands)</i>				
<b>Amounts payable by the Group</b>	<b>Gross balance sheet value</b>	<b>Due in one year or less</b>	<b>Due in over one year</b>	<b>Due in over five years</b>
Bond issue	2,329	2,329		
Borrowings from credit institutions	11,366	11,366		
Other borrowings	220,163	116,495	103,668	
Trade payables and related accounts	1,636	1,636		
Tax and social security liabilities	2,467	1,256	400	811
Amounts due on fixed assets	1	1		
Other financial liabilities	39,013	39,013		
Prepaid income	2	2		
<b>TOTAL</b>	<b>276,977</b>	<b>172,097</b>	<b>104,068</b>	<b>811</b>

## Note 6 Revaluation reserve

*(in € thousands)*

<b>Revaluation reserves</b>	
At beginning of period	3,252
Reversed during period	0
At end of period	3,252

## Note 7 Accrued income and expenses

(in € thousands)

### 1. Amount of accrued income included in the balance sheet items below

Loans and advances to participating interests	294
Other financial fixed assets	
Other receivables	384
Cash and cash equivalents	336
<b>TOTAL</b>	<b>1,014</b>

### 2. Amount of accrued expenses included in the balance sheet items below

Borrowings from credit institutions	409
Other borrowings	420
Operating trade payables and related accounts	1.296
Tax and social security liabilities	2,436
Investment trade payables and related accounts	1
Other financial liabilities	358
<b>TOTAL</b>	<b>4,920</b>

### 3. Amount of prepaid income and expenses

	Expenses	Income
Operating items	632	0
Financial items	0	2
<b>TOTAL</b>	<b>632</b>	<b>2</b>

### 4. Costs deferred over several periods

Bond issuance expenses at Jan. 1, 2018	949
2018 bond issuance expenses	
2017 amortization of bond issuance costs	(288)
<b>TOTAL</b>	<b>661</b>

## Note 8 Share capital

### Share Capital

The share capital is made up of 20,768,118 fully paid-up shares each with a par value of €2.

### Stock subscription options and bonus share allotments

On a regular basis, Group managers are offered the opportunity to subscribe to stock subscription options, subject to achieving specific earnings targets, or bonus shares, provided that they remain with the Group for a certain period of time.

Two stock option plans were set up on February 11, 2009 and May 21, 2014.

Five bonus share allotment plans were set up on May 21, 2014, July 9, 2015, May 11, 2016, May 18, 2017 and May 17, 2018.

Four bonus preference share allotment plans were set up on July 9, 2015, May 11, 2016, May 18, 2017 and May 17, 2018.

The bonus share allotment plans and the exercise of the stock options plans are fulfilled primarily through the issuance of new shares. As a result, no expenses or liabilities were recognized during the fiscal year in respect of these plans.

When the shares are repurchased on the market, a provision for expenses is recorded when this is likely to give rise to an outflow of resources to the employee, in the amount corresponding to the loss expected for the Company.



The characteristics of the stock options plans are as follows:

Characteristics/Assumptions	2009 Stock option plan	2014 Stock option plan
Allotment date	02/11/2009	05/21/2014
Availability date	02/11/2013	05/21/2016
Expiration date	02/11/2019	05/21/2021
Adjusted exercise price (€)	17.53	22.69
Adjusted share price at allotment date (€)	17.95	21.30
Estimated life (number of years)	8	4.5
Volatility	38.1%	31.0%
Dividend per share (as a % of share price)	2.5	3.0
Risk-free interest rate	3.26%	0.64%
Exercise period (number of years)	4	5
Lock-up period (number of years)	0	2
Adjusted number of options/share allotments	366,582	150,000
Estimated annual cancellation rate at year-end 2009	7.0%	
Estimated annual cancellation rate at year-end 2010	7.0%	
Estimated annual cancellation rate at year-end 2011	7.0%	
Estimated annual cancellation rate at year-end 2012	7.0%	
Estimated annual cancellation rate at year-end 2013	End of the plan	
Estimated annual cancellation rate at year-end 2013	End of the plan	
Estimated annual cancellation rate at year-end 2014	End of the plan	5.0%
Estimated annual cancellation rate at year-end 2015	End of the plan	5.0%
% of shares/options vested after performance condition satisfied <sup>(a)</sup>	100	85
Estimate of the number of options/shares ultimately vested in 2009	274,222	
Estimate of the number of options/shares ultimately vested in 2010	314,391	
Estimate of the number of options/shares ultimately vested in 2011	338,055	
Estimate of the number of options/shares ultimately vested in 2012	361,191	
Estimate of the number of options/shares ultimately vested in 2013	361,191	
Estimate of the number of options/shares ultimately vested in 2014	361,191	142,505
Estimate of the number of options/shares ultimately vested in 2015	361,191	129,375
Estimate of the number of options/shares ultimately vested in 2016	361,191	112,200
Estimate of the number of options/shares ultimately vested in 2017	361,191	112,200
Estimate of the number of options/shares ultimately vested in 2018	361,191	112,200
Valuation of options/shares	€6.11	€3.68
Valuation as a % of the share price on allotment	34.1%	17.3%

(a) The definitive performance condition for the 2014 stock options allotment plan is 0%.

The characteristics of the bonus share allotment plans are as follows:

Characteristics/Assumptions	2014 Bonus share plan	2015 Bonus share plan
Allotment date	05/21/2014	07/09/2015
Availability date	05/21/2016	07/09/2017
	05/21/2018	07/09/2019
Expiration date	05/22/2018	07/10/2019
Adjusted exercise price (€)	0.00	0.00
Share price at allotment date (€)	21.30	20.89
Estimated life (number of years)	4	4
Volatility	31.0%	25.9%
Dividend per share (as a % of share price)	3.0	3.0
Risk-free interest rate	N/A	N/A
Exercise period (number of years)	2 - 4	2 - 4
Lock-up period (number of years)	2 - 0	2 - 0
Number of options/shares allotted	50,000	65,000
Estimated annual cancellation rate at year-end 2014	5.0%	N/A
Estimated annual cancellation rate at year-end 2015	5.0%	5.0%
Estimated annual cancellation rate at year-end 2016		5.0%
Estimated annual cancellation rate at year-end 2017		5.0%
Estimated annual cancellation rate at year-end 2018		5.0%
% of shares/options vested after performance condition satisfied <sup>(a)</sup>	0	0
Estimate of the number of options/shares vested in 2014	44,876	
Estimate of the number of options/shares vested in 2015	44,260	56,769
Estimate of the number of options/shares vested in 2016	0	59,182
Estimate of the number of options/shares vested in 2017	0	0
Estimate of the number of options/shares vested in 2018	0	0
Valuation of options/shares	€19.08 - €18.89	€18.71 - €18.53
Valuation as a % of the share price on allotment	89.6%/88.7%	89.6%/88.7%

(a) The definitive performance condition for the 2014 and 2015 bonus share allotment plans is 0%, rather than the 100% expected previously.

Characteristics/Assumptions	2016 Bonus share plan	2017 Bonus share plan
Allotment date	05/11/2016	05/18/2017
Availability date	05/11/2018	05/18/2019
	05/11/2020	05/18/2021
Expiration date	05/12/2020	05/19/2021
Adjusted exercise price (€)	0.00	0.00
Share price at allotment date (€)	12.87	25.15
Estimated life (number of years)	4	4
Volatility	25.9%	27.7%
Dividend per share (as a % of share price)	3.0	3.0
Risk-free interest rate	N/A	N/A
Exercise period (number of years)	2 - 4	2 - 4
Lock-up period (number of years)	2 - 0	2 - 0
Number of options/shares allotted	84,000	84,000
Estimated annual cancellation rate at year-end 2014	N/A	N/A
Estimated annual cancellation rate at year-end 2015	N/A	N/A
Estimated annual cancellation rate at year-end 2016	5.0%	N/A
Estimated annual cancellation rate at year-end 2017	5.0%	5.0%
Estimated annual cancellation rate at year-end 2018	5.0%	5.0%
% of shares/options vested after performance condition satisfied <sup>(a)</sup>	75	100
Estimate of the number of options/shares vested in 2016	78,324	N/A
Estimate of the number of options/shares vested in 2017	81,269	78,246
Estimate of the number of options/shares vested in 2018	59,025	81,850
Valuation of options/shares	€12.12 - €12.12	€23.69 - €23.69
Valuation as a % of the share price on allotment	94.2%/94.2%	94.2%/94.2%

(a) The provisional performance condition for the 2016 and 2017 bonus share allotment plans is 75% and 100%, respectively.

Characteristics/Assumptions	2018 Bonus share plan
Allotment date	05/17/2018
Availability date	05/17/2021
	05/17/2021
Expiration date	05/18/2021
Adjusted exercise price (€)	0.00
Share price at allotment date (€)	39.50
Estimated life (number of years)	3
Volatility	30.0%
Dividend per share (as a % of share price)	3.0
Risk-free interest rate	N/A
Exercise period (number of years)	3
Lock-up period (number of years)	3
Number of options/shares allotted	67,050
Estimated annual cancellation rate at year-end 2018	5.0%
% of shares/options vested after performance condition satisfied <sup>(a)</sup>	100
Estimate of the number of options/shares vested in 2018	59,343
Valuation of options/shares	€36.10 - €36.10
Valuation as a % of the share price on allotment	91.4%/91.4%

(a) The provisional performance condition for the 2018 bonus share allotment plan is 100%.

Characteristics/Assumptions	2015 Bonus preference share plan	2016 Bonus preference share plan
Allotment date	07/09/2015	05/11/2016
	07/09/2017	05/11/2018
Availability date	07/09/2019	05/11/2020
Expiration date	07/10/2019	05/12/2020
Adjusted exercise price (€)	0.00	0.00
Adjusted share price at allotment date (€)	20.89	12.87
Estimated life (number of years)	4	4
Volatility	25.9%	25.9%
Dividend per share (as a % of share price)	3.0	3.0
Risk-free interest rate	N/A	N/A
Exercise period (number of years)	2 - 4	2 - 4
Lock-up period (number of years)	2 - 0	2 - 0
Adjusted number of preference shares allotments	902	1,172
Adjusted number of ordinary share allotments	99,220	128,920
Estimated annual cancellation rate at year-end 2015	5.0%	
Estimated annual cancellation rate at year-end 2016	5.0%	5.0%
% of shares/options vested after performance condition satisfied <sup>(a)</sup>	39	100
Estimate of the number of ordinary shares ultimately vested in 2015	87,933	N/A
Estimate of the number of ordinary shares ultimately vested in 2016	89,376	117,429
Estimate of the number of ordinary shares ultimately vested in 2017	34,175	123,610
Estimate of the number of ordinary shares ultimately vested in 2018	34,624	126,854
Valuation of guaranteed ordinary shares	€17.73 - €18.53	€10.92 - €11.41
Valuation of non-guaranteed ordinary shares <sup>(b)</sup>	€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 allotment share plans is 39% and 100%, respectively.

(b) The non-guaranteed shares are subject to performance conditions.

Characteristics/Assumptions	2017 Bonus preference share plan	2018 Bonus preference share plan
Allotment date	05/18/2017	05/17/2018
Availability date	05/18/2019	05/17/2020
Expiration date	05/18/2021	05/17/2022
Adjusted exercise price (€)	0.00	0.00
Adjusted share price at allotment date (€)	25.15	39.50
Estimated life (number of years)	4	4
Volatility	27.7%	30.0%
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)	2 - 4	2 - 4
Lock-up period (number of years)	2 - 0	2 - 0
Adjusted number of preference shares allotments	1,172	940
Adjusted number of ordinary share allotments	128,920	103,400
Estimated annual cancellation rate at year-end 2017	5.0%	N/A
Estimated annual cancellation rate at year-end 2018	5.0%	5.0%
% of shares/options vested after performance condition satisfied <sup>(a)</sup>	100	100
Estimate of the number of ordinary shares ultimately vested in 2017	117,782	N/A
Estimate of the number of ordinary shares ultimately vested in 2018	123,981	94,303
Valuation of guaranteed ordinary shares	€21.35 - €22.31	€33.53 - €35.03
Valuation of non-guaranteed ordinary shares	€6.44 - €6.73	€12.41 - €12.97
Valuation as a % of the guaranteed ordinary share price on allotment	84.9%/88.7%	84.9%/88.7%
Valuation as a % of the non-guaranteed ordinary share price on allotment	25.6%/26.8%	31.4%/32.8%

(a) The provisional performance condition for the 2017 and 2018 bonus preference share allotment plans is 100%.

(b) The non-guaranteed shares are subject to performance conditions.

## Statement of changes in equity

(in € thousands)

<b>Opening equity at January 1, 2018</b>	<b>374,677</b>
Net income for the year	16,691
Change in tax-regulated provisions	26
Issue of new shares	2,325
Dividend payment	(15,345)
<b>Closing equity at December 31, 2018</b>	<b>378,372</b>

## Note 9 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	24,986
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	2,183
Rental guarantee covering Mersen Hittisau building	3,521
Lease for Mersen SA building	2,313
Other guarantees and deposits	1,668
<b>TOTAL</b>	<b>69,671</b>
<b>Commitments received</b>	<b>0</b>
<b>TOTAL</b>	<b>69,671</b>

### Other reciprocal commitments

(in € thousands)

#### Reciprocal commitments given

Currency hedges	34,801
Commodity hedges	157
<b>TOTAL</b>	<b>34,958</b>
<b>Reciprocal commitments received</b>	
Currency hedges	50,036
Commodity hedges	157
<b>TOTAL</b>	<b>50,193</b>

### Employee benefits

#### Retirement indemnities, long-service awards and defined-benefit top-up pension plans

(in € thousands)

Present value of plan obligations at 12/31/2018	5,581
Mathematical value of plan assets	(264)
Unrecognized actuarial gains and losses	(1,807)
<b>TOTAL</b>	<b>3,510</b>

## Note 10 Leases

The Company did not hold any finance leases in progress at December 31, 2018.

## Note 11 Executive compensation

The compensation and benefits paid to members of the Group's management and supervisory bodies for 2018, either directly by the Company or indirectly by certain subsidiaries, came to €1,288 thousand.

Net top-up pension obligations for senior managers came to €4,168 thousand.

## Note 12 Average headcount

	Salaried employees	Seconded employees
Executives	3	0
Supervisors and technicians	2	0
<b>TOTAL</b>	<b>5</b>	<b>0</b>

## Note 13 Analysis of tax expense

<i>(in € thousands)</i>	Income before tax	Tax payable
Current	14,710	0
Non-recurring	(811)	0
Tax benefit received from subsidiaries consolidated for tax purposes		2,792

### Increase and decrease in future tax liability

<i>(in € thousands)</i>	Beginning of period	Change during period	End of period
Accelerated tax depreciation	(1)	(1)	(2)
Provision for GPC pension obligations	733	428	1,161
Top-up pension provision	180	(41)	139
Provision for senior manager pension obligations	2,306	312	2,619
Retirement indemnities	53	(1)	52
Paid vacation	17	(1)	16
Class action professional fees	800	0	800
Tax base or future tax credit (significant items)	4,088	696	4,785
Group French tax deficit	125,395	(1,236)	124,159
Total	129,483	540	128,943
Future short-term tax rate adopted	34.43%		34.43%
Future long-term tax rate (2019)	32.02%		32.02%
Future long-term tax rate (2020)	28.92%		28.92%
Future long-term tax rate (2021)	27.37%		27.37%
Future long-term tax rate (after 2022)	25.83%		25.83%
Amount of future tax receivable	34,619		34,170

## Note 14 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 (Code général des impôts). 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 15 Foreign currency translation

<i>(in € thousands)</i>	Amounts	O/w differences offset by hedges or by overall foreign exchange position	Other	Provisions for liabi- lities and charges
On financial fixed assets	956	84		872
On receivables	9			9
On miscellaneous borrowings	6,609	6,609		
<b>TOTAL</b>	<b>7,574</b>	<b>6,693</b>		<b>881</b>
On financial fixed assets	6,614	6,610		4
On miscellaneous borrowings	204		204	
<b>TOTAL</b>	<b>6,818</b>	<b>6,610</b>	<b>204</b>	<b>4</b>
On bank currency hedging (unrealized loss)	318			318
<b>TOTAL</b>	<b>318</b>			<b>318</b>

## Note 16 Treasury shares

Under the liquidity agreement established with Exane BNP, the Company held 45,659 treasury shares at December 31, 2018. The Group also held 186,175 shares to be allocated to employee bonus share allotment plans.

## Note 17 Information about non-recurring items

### Non-recurring income

(in € thousands)

#### Management transactions

Personal pensions for non-active workers

Other

#### SUB-TOTAL

#### Capital transactions

Transfer surplus

68

Gains on the sale of treasury shares

2,414

#### SUB-TOTAL

2,482

Reversal of impairment on CL SA securities

78

Other

#### SUB-TOTAL

78

#### TOTAL

2,560

### Non-recurring expenses

(in € thousands)

#### Management transactions

GPC pensions for non-active workers

495

#### SUB-TOTAL

495

#### Capital transactions

Losses on the sale of treasury shares

2,712

Losses on CL SA securities

138

#### SUB-TOTAL

2,850

Allowance for accelerated tax depreciation

27

#### SUB-TOTAL

26

#### TOTAL

3,371



## Note 18 Information about risk factors

The financial risk management policy is approved by the Chief Executive Officer based on proposals submitted by the finance department. Currency and commodity hedging transactions are carried out subject to strictly defined procedures.

### Liquidity risk

Mersen has the following principal financing agreements:

- A multi-currency syndicated bank loan, set up in July 2012 and amended in 2014 and 2017. The amount is €200 million and it has a five-year term, repayable in full at maturity in 2023.
- A USD 100 million US private placement (USPP) negotiated in November 2011 with a US investor, comprising one tranche of USD 50 million with a 10-year term and one tranche of USD 37.2 million with an eight-year term, both with a bullet structure. The investor receives a fixed rate of interest.
- The Company holds cash to meet the November 2019 repayment of the USD 37.2 million tranche of the USPP.
- A €60 million German private placement ("Schuldschein") arranged in November 2016 with a pool of European and Asian investors, repayable in full at maturity after seven years. Investors receive interest at a variable rate based on the Euribor plus a credit margin.

Furthermore, as part of its policy to diversify its funding sources, in March 2016 Mersen set up a €200 million commercial paper program with a maturity of less than one year. As at December 31, 2018, €78.8 million has been used. The program can be substituted by drawdowns from the Group Syndicated Loan on maturity.

### Interest rate risk

The interest rate risk management policy consists in establishing positions from time to time in line with 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 19 Consolidation

Mersen is fully consolidated by the Mersen group.

# LIST OF SUBSIDIARIES AND SHAREHOLDINGS INVESTMENTS

<i>(in € thousands)</i> Detailed information (gross carrying amount 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	37,780	4,575	100	69,589	46,999		40,000	
Mersen France Amiens SAS	22,477	5,855	100	25,402	25,402			
Mersen France Gennevilliers SAS	10,151	690	100	28,896	28,896			
Mersen Corporate Services SAS. (France)	3,574	1,000	100	3,646	3,646	471		
Mersen France PY SAS	10,339	465	100	43,321	28,944			
Mersen Boostec (France)	3,243	10,643	95.07	11,792	11,792			20
Mersen Deutschland FFM AG (Germany)	10,021	7,732	10	1,635	1,635			
Mersen Deutschland Holding GmbH & Co KG (Germany) KG (Germany)	17,849	(9,464)	100	28,700	19,236		414	8,000
Mersen Argentina SA (Argentina) (Argentina)	28	203	97.99	962	0			
Mersen Oceania Pty Ltd (Australia)	678	2,623	100	702	702	354		
Mersen do Brasil Ltda (Brazil)	9,069	(5,447)	100	25,172	5,296			
Mersen Canada Dn Ltee/Ltd (Canada)	1,237	4,993	100	1,322	1,322	1,088	3,460	
Mersen China Holding Co Ltd (China)	127,189	(40,399)	100	114,723	92,507			
Mersen Korea Co. Ltd (South Korea)	3,818	8,564	100	12,060	11,540	2,482		
Cirprotec (Spain)	1,000	6,150	100	12,572	12,572	1,000		
Mersen Ibérica SA (Spain) (Spain)	2,404	4,547	50.02	680	680			
Mersen Ibérica Bcn SA (Spain) (Spain)	2,043	2,057	100	2,396	2,396			
Mersen USA Bn Corp. (United States)	42,112	(53,538)	100	68,926	68,926	11,230	43,668	9,000
Mersen UK Holdings Ltd (United Kingdom)	6,963	(546)	100	903	903			
Mersen Scot. Holding Ltd (United Kingdom)	74,399	(1,035)	100	75,409	75,409		11,067	
Mersen India Pvt Ltd (India)	654	13,255	100	11,443	11,225			
Mersen Italia Spa (Italy)	5,500	786	100	10,613	6,095	5,073		
Mersen Fma Japan KK (Japan)	398	9,324	8.70	2,977	917	122		
Mersen Maroc SARL (Morocco)	2,802	(198)	100	4,450	2,838			
Mersen Mexico Monterrey S. de R.L. de C.V. (Mexico)	1,273	(133)	100	1,149	1,149			131
Mersen South Africa Pty Ltd (RSA)	64	(125)	54.77	813	813			
Mersen Rus (Russia)	589	(827)	100	1,200	0			
Mersen Nordic AB (Sweden)	1,299	515	100	551	551			
Mersen Istanbul Sanayi Urunleri AS (Turkey)	471	1,855	100	5,016	2,907			
<b>Aggregate information (regarding other subsidiaries and participating interests)</b>								
<b>Subsidiaries (at least 50%-owned)</b>								
In France								
Outside France				1,020	818	48		
<b>Shareholdings (10% to 50%-owned)</b>								
Outside France				180	124	27		
<b>Other shareholdings (less than 10%-owned)</b>								
				0	0			
<b>TOTAL</b>				<b>568,220</b>	<b>466,240</b>	<b>21,895</b>	<b>98,609</b>	<b>17,151</b>

Note: Information on sales and income has been omitted intentionally because of the serious harm that could result from its release in a highly competitive international environment.

# STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

*This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report includes information specifically required by European regulations or French law, such as information about the appointment of Statutory Auditors. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Shareholders of Mersen SA,

## Opinion

In compliance with the engagement entrusted to us by your General Meeting, we have audited the accompanying financial statements of Mersen SA for the year ended December 31, 2018.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company at December 31, 2018 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit and Accounts Committee.

## Basis for opinion

### Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the financial statements" section of our report.

### Independence

We conducted our audit engagement in compliance with the independence rules applicable to us, for the period from January 1, 2018 to the date of our report, and, in particular, we did not provide any non-audit services prohibited by Article 5(1) of Regulation (EU) No 537/2014 or the French Code of Ethics (*Code de déontologie*) for Statutory Auditors.

## Justification of assessments – Key audit matters

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgment, were the most significant in our audit of the financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the financial statements.

## Valuation of participating interests

*Notes 1-C and 3 to the financial statements*

## Description of risk

The balance of participating interests at December 31, 2018 amounted to €466 million out of a total of €668 million, making them one of the largest assets on the balance sheet. Participating interests are initially stated at cost and are impaired based on their value in use, corresponding to the amount the Company would be prepared to pay for the interest if it were to acquire it outright.

As indicated in Note 1-C to the financial statements, the Company estimates the value in use of each interest at the end of the reporting period to determine whether it has fallen below the carrying amount.

The analysis undertaken depends on a multi-criteria approach taking into account:

- the share of each subsidiary's equity;
- where necessary, the economic value determined by reference to the future cash flows including the activity carried out and its future prospects.

Accordingly, due to the inherent uncertainty relating to (i) the method of determining value in use, which relies primarily on estimates, in turn requiring management to use assumptions and judgments, and (ii) the achievement of these forecasts, we deemed the valuation of participating interests to be a key audit matter.

## How our audit addressed this risk

In order to assess the reasonableness of the estimated value in use of participating interests and based on the information provided to us, our audit work consisted primarily in verifying that the appropriate method and underlying data were used by management to make the estimates, and, depending on the subsidiary concerned:

### *For valuations based on historical data:*

- verifying that recorded equity can be reconciled with the financial statements of the entities concerned.

### *For valuations based on forecast data:*

- obtaining forecast future cash flows from operations of the entities concerned, as established by local management, and assessing their consistency with the forecasts prepared by general management;
- checking the consistency of the assumptions used with the economic environment at the end of the reporting period and at the date of preparation of the financial statements;
- verifying that the values based on forecast cash flows were adjusted to account for the debts of the entity in question.

We also tested the accuracy of management's calculations of value in use.

## Specific verifications

In accordance with professional standards applicable in France, we have also performed the specific verifications required by French law.

### *Information given in the management report and in the other documents provided to the shareholders with respect to the Company's financial position and the financial statements*

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the Board of Directors' management report and in the other documents provided to the shareholders with respect to the Company's financial position and the financial statements.

We attest to the fair presentation and the consistency with the financial statements of the information given with respect to the payment terms referred to in Article D. 441-4 of the French Commercial Code.

### *Report on corporate governance*

We attest that the Board of Directors' report on corporate governance sets out the information required by Articles L. 225-37-3 and L. 225-37-4 of the French Commercial Code.

Concerning the information given in accordance with the requirements of Article L. 225-37-3 of the French Commercial Code relating to remuneration and benefits received by corporate officers and any other commitments made in their favor, we have verified its consistency with the financial statements or with the underlying information used to prepare these financial statements, and, where applicable, with the information obtained by your Company from companies controlling it or controlled by it. Based on this work, we attest to the accuracy and fair presentation of this information.

Concerning the information given in accordance with the requirements of Article L. 225-37-5 of the French Commercial Code relating to those items your Company has deemed liable to have an impact in the event of a takeover bid or exchange offer, we have verified its consistency with the underlying documents that were disclosed to us. Based on this work, we have no matters to report with regard to this information.

## Other information

In accordance with French law, we have verified that the required information concerning the identity of the shareholders and holders of the voting rights has been properly disclosed in the management report.

## Report on other legal and regulatory requirements

### Appointment of the Statutory Auditors

We were appointed Statutory Auditors of Mersen SA by the General Meetings held on June 5, 1986 for Deloitte & Associés and May 12, 2004 for KPMG.

At December 31, 2018, Deloitte & Associés and KPMG were in the thirty-third and the fifteenth consecutive year of their engagement, respectively.

## Responsibilities of management and those charged with governance for the financial statements

Management is responsible for preparing financial statements giving a true and fair view in accordance with French accounting principles, and for implementing the internal control procedures it deems necessary for the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting, unless it expects to liquidate the Company or to cease operations.

The Audit and Accounts Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems, relating to accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

## Responsibilities of the Statutory Auditors relating to the audit of the financial statements

### Objective and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions taken by users on the basis of these financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of the Company's management.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgment throughout the audit. They also:

- identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of the internal control procedures relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the financial statements;

- assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

## Report to the Audit and Accounts Committee

We submit a report to the Audit and Accounts Committee which includes, in particular, a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit and Accounts Committee includes the risks of material misstatement that, in our professional judgment, were the most significant for the audit of the financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit and Accounts Committee with the declaration provided for in Article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in Articles L. 822-10 to L. 822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit and Accounts Committee.

### The Statutory Auditors

Paris La Défense, March 12, 2019

KPMG Audit

Department of KPMG SA

Philippe Cherqui

*Partner*

Paris La Défense, March 12, 2019

Deloitte & Associés

Laurent Odobez

*Partner*

## FIVE-YEAR FINANCIAL SUMMARY

	2018	2017	2016	2015	2014	2013
<b>1. Share capital at year-end</b>						
Share capital (in € thousands)	41,536	41,274	40,944	41,234	41,234	41,633
Number of shares outstanding	20,768,118	20,637,041	20,471,854	20,692,054	20,616,834	20,816,364
Par value of shares (€)	2	2	2	2	2	2
<b>2. Overall result of operations</b> (in € thousands)						
Income before tax, depreciation, amortization, charges to provisions and employee profit-sharing	20,028	23,810	45,244	32,395	29,191	9,801
Income tax	(2,792)	(3,441)	(2,319)	(2,168)	(1,608)	(1,500)
Employee profit sharing	0	0	0	0	0	0
Net income after tax, depreciation, amortization and charges to provisions	16,691	18,137	25,838	14,296	30,604	1,762
Total earnings paid out <sup>(a)</sup>	18,691	15,478 (*)	10,236	10,317	10,308	9,259
<b>3. Overall result of operations per share (€)</b>						
Net income after tax and employee profit-sharing, but before depreciation, amortization and charges to provisions	1.10	1.32	2.32	1.67	1.49	0.54
Net income after tax, depreciation, amortization and provisions	1.80	0.88	1.26	0.69	1.48	0.08
Dividend paid on each share	0.95 (**)	0.75	0.50	0.50	0.50	0.45
<b>4. Employees</b>						
Average headcount	5	5	5	5	5	5
Total payroll costs (in € thousands)	1,661	1,098	1,289	1,077	1,078	954
Amount paid for welfare benefits (in € thousands)	438	431	495	358	404	371

(a) In January 2016, reduction in the number of securities for 55,200 shares

(\*) Dividend distribution decided by the Annual General Meeting of May 17, 2018 in the third resolution.

(\*\*) Subject to the decision of the Annual General Meeting.

(\*\*\*) Overall payroll costs for Mersen SA in 2018 were impacted by the one-off tax-free bonus awarded by the Mersen group to some French employees, totaling €450 thousand.





# 8

# ADDITIONAL INFORMATION & GLOSSARIES

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## INFORMATION INCLUDED BY REFERENCE

The following information is included by reference in this annual report:

### 1. Fiscal 2017

Included in annual report no. D-18-0103 submitted to the Autorité des Marchés Financiers on March 6, 2018 are:

- the consolidated financial statements for fiscal 2017 prepared in accordance with the IFRSs in force in 2017, together with the Statutory Auditors' reports on the consolidated financial statements, pages 152 to 209;
- the annual financial statements for 2017, together with the Statutory Auditors' reports on the annual financial statements, pages 212 to 237;
- the 2017 management report, pages 70 to 94.

### 2. Fiscal 2016

Included in annual report no. D-17-0133 submitted to the Autorité des Marchés Financiers on March 7, 2017 are:

- the consolidated financial statements for fiscal 2016 prepared in accordance with the IFRSs in force in 2016, together with the Statutory Auditors' reports on the consolidated financial statements, pages 142 to 194;
- the annual financial statements for 2016, together with the Statutory Auditors' reports on the annual financial statements, pages 198 to 219;
- the 2016 management report, pages 124 to 139.

## 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 75 to 97 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, 2018, presented in this document, were addressed in a report by the auditors, which appears on pages 205 to 208.

I obtained an end-of-assignment letter from the Statutory Auditors, Deloitte & Associés and KPMG Audit ID, stating that they have completed their verification of the information related to the financial position and financial statements provided in the annual report, and read through this entire report.

Luc Themelin

# AUDITORS

## 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)

# INDEPENDANT THIRD PARTY

### **Bureau Veritas Exploitation**

Le Guillaumet  
60, avenue du Général de Gaulle  
92046 Paris La Défense cedex

Represented by Jacques Matillon

# GLOSSARIES

## Finance

Average capital employed	Weighted average capital employed for the past five quarters (in order to limit the effects of exchange rate fluctuations at end-of-period versus average).
Bonus preference shares	Free preference shares
Capital employed	Sum of property, plant and equipment and intangible assets, working capital requirement and receivables net of current tax and net derivatives.
EBITDA	Earnings before interest, taxes, depreciation and amortization
EPS	Dividend per share
Free cash-flow	Net cash generated by operating activities after capital expenditure.
Gearing	Net debt-to-equity ratio calculated using the method required by the covenants contained in Mersen's confirmed loans.
Gross [income/margin] rate	Ratio of dividend per share proposed for the year to Group net income per share for the year, calculated based on the average number of ordinary shares excluding treasury shares at December 31 of the current year.
Gross [income/margin] rate restated	Restated payout: ratio of dividend per share proposed for the year to Group net income per share for the year, restated for non-recurring items, calculated based on the average number of ordinary shares excluding treasury shares at December 31 of the current year.
Leverage	Net debt-to-EBITDA ratio calculated using the method required by the covenants contained in Mersen's confirmed loans.
Like-for-like growth	Determined by comparing sales for the year with sales for the previous year, restated at the current year's exchange rate, excluding acquisitions and/or disposals.
Net debt	Gross financial debt net of cash and cash equivalents and current financial assets.
Operating income before non-recurring items	As defined in recommendation 2009.R.03 of the French national accounting board (CNC).
ROCE	Return On Capital Employed: ratio of recurring operating income to average weighted capital employed.
WCR	Working capital requirement (WCR): sum of trade receivables and related accounts, inventories and other current receivables less trade payables and related accounts.
WCR rate	Working capital to sales ratio: ratio of working capital requirement to sales for the quarter, multiplied by four.

## Business model

ACE	Anti-corrosion equipment
AM	Advanced Materials
BEV	Battery electric vehicle
BS (British Standard)	British Standardization organization
DACH	DACH region (Germany, Austria and Switzerland)
DIN (Deutsches Institut für Normung)	German Standardization organization
EP	Electrical power
EPC	Electrical Protection & Control
GAREAT	Insurance and Reinsurance Management of Attacks and Terrorist Acts Risks
GS	Graphite Specialties
HEV	Hybrid electric vehicle
ICPE	Installations classified as environmentally friendly
IEC	International Electrotechnical Commission
ITAR	International Traffic in Arms Regulation
Mersen Excellence Journey	Continuous improvement plan across all Group functions
OEM	Original Equipment Manufacturer
OFAC	Office of Foreign Assets Control
CSP	Company savings plan
pHEV	Plug-in hybrid electric vehicle
PTT	Power Transfer Technologies
PVC	Polyvinyl chloride
SiC	Silicon carbide
SPM	Solutions for Power Management
UL	US Standardization organization
UNIFE	Association for the European Rail Supply Industry
USPP	US Private placement

## CSR

CFE	French corporate property tax
CGR	Governance and Remuneration Committee
CHSCT	Health & Safety Committee
CVAE	French companies' added value contribution
GHG	Greenhouse gases
GPEC	Forward human resources planning process
EHS	Environmental health & safety
MAR	Market Abuse Regulations
RoHS (Restriction of Hazardous Substances Directive)	European Directive seeking to limit the use of 6 hazardous substances







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