

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

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INTRODUCTION

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

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

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

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

HUMAN RESOURCES POLICY

Mersen's corporate project relies first and foremost on the men and women who work for the Group. Our employees have the expertise. They respond to customers' day-to-day needs and develop innovative solutions by analyzing market trends and keeping a close eye on the latest technological advances. Their knowledge and savoir-faire represent our most precious asset—our human capital.

1. HR plan

Every five years, the Human Resources department determines the policy that guides work in a manner consistent with Group strategy. The 2016-2020 master HR plan is predicated on four pillars and is implemented by the entire management team, with the support of the HR teams. The plan aims to build a strong HR identity to support the achievement of Mersen's strategic project, taking into account the priorities of the divisions and its employees' expectations and needs, while giving managers the requisite visibility and clarity in the medium term concerning the changes to be implemented.

1.1. Increase the sense of belonging to the Group and its attractiveness by reinforcing its common culture based on its values

1.1.1. Changing standards

Values

In the wake of the changes to Mersen's management guidelines in 2015, the company decided to reformulate its professional values and behavior policy applicable to all employees. To do this, the Executive Committee used discussions with managers and the HR community. Out of this dialogue arose an expression of these values and the vision and purpose of the Group. There are five in total: Excellence, Collaboration, People-conscious, Agility & Entrepreneurial spirit and partnering with our customers.

All employees approved these values in the first half of 2016 via exchange of viewpoint workshops at all sites throughout the world. Subsequent to this a survey was conducted in the summer to compare these values with those encountered on a daily basis, or those that appeared essential to Mersen's future. This survey, which is the first to have been conducted at all the sites worldwide, created both a local and global vision. A total of 64% of employees took part in the survey, a good result for an international group with diverse languages and cultures. Feedback sessions were then set up to identify opportunities for progress and to implement improvement plans.

Ethics Code

The former Ethics Charter was re-baptized the Ethics Code to highlight the mandatory nature of the process to each employee. This document describes the principles that govern relations within the Group, with our customers, suppliers and competitors, our shareholders and our obligations with regard to protecting the Group's assets and Mersen's commitments as a responsible company.

The fundamental principles of the ILO (International Labour Organization), which the Group has committed to adhering to under current legislation, were reaffirmed in this new Code. These fundamental rights and principles cover labor law issues such as freedom of association, effective recognition of the right to collective bargaining, elimination of all forms of forced or compulsory labor, effective abolition of child labor and elimination of discrimination in respect of employment and occupation.

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

Recruitment

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

The recruitment process for managers has now been harmonized across all the Group's companies to make it as streamlined and professional as possible. With a heightened presence on social networks (LinkedIn, Viadeo and Xing), the Group is improving the visibility of its job postings and is thus increasing its appeal. Mercer's Facebook profile highlights the diversity, energy and collegiality of its teams worldwide.

Integration within the Group

It is also essential to share the culture of the Group during the integration phase of new hires in order to assist them in rapidly finding their way in the company.

Mersen has set up a made-to-measure program for them entitled "I Become Mersen" that is mandatory for all new hires. This program begins on the first day on the job, starting with a welcome kit containing all documents and information necessary to the employee's successful and rapid integration, including the new Group welcome booklet. The program is subsequently adopted on a case-by-case basis and may include appointing a mentor with whom interviews may be held during the initial months.

As part of their integration process, new hires are required to complete a certain number of training programs in classroom situations or via e-learning. One training module outlining policies and tools related to safety at Mersen is mandatory for each new hire. For engineers and management staff, the 'Project Management at Mersen' module is also mandatory. Lastly, new managers must attend training in the new management guidelines.

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

Where a company has been acquired by Mersen, integrating the new employees into the Group is also prepared and conducted in such a way as to instill a sense of belonging to the Group. With this in mind, Mersen has specifically developed an integration program intended for the employees of acquired companies entitled "We are Mersen" that integrates human, social and cultural dimensions.

FOCUS

Custom training programs for sensitive jobs

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

1.1.3. Develop a sense of well-being and cohesion in the workplace

Health & Safety

One of the Group's values is Humanity. At Mersen, this is clearly evident through the strong commitment in the area of health and safety, as well as in improving working conditions and the prevention of psycho-social and hardship risks. The health and safety of employees was cited as being the most important of our employees' values experienced daily in the survey carried out during the summer. This is the result of sustained efforts in these areas exerted over several years. Mersen works unremittingly to protect its employees against the risks it faces that are inherent to all industrial businesses⁽¹⁾. Safety, improved working conditions and the prevention of psychosocial risks and occupational stress represent a major focus for the Group's social policy. An occupational health and safety management system has been introduced and implemented globally, irrespective of the location and culture of individual plants. Mersen's managers strive for excellence in these areas.

Prevention in this area involves ongoing efforts to raise employee awareness of safety issues. This begins as soon as the employee enters the company. All new hires must watch a Group safety presentation (available via e-learning in English, Chinese, Spanish, and French).

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

This module presents and explains clear and understandable rules to all Group employees. These golden rules of safety are the backbone of the system. They concern the primary risks that are encountered in all production facilities, such as traffic flows, postures, protective equipment, energy powered systems, lifting operations, working at heights, confined spaces, risk situations, co-activity, forklift operations and high storage, and are displayed at all sites. These rules have translated into 18 languages in order to be understood, assimilated and adopted by all Group employees, regardless of location.

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

As part of building a culture of safety, we also publish a monthly report of safety results, together with an analysis, and share best practices. Over the years, the Group has recorded a certain number of good safety practices observed in its production facilities, whose adoption may become mandatory. This represents the minimum requirements that each facility must put in place and maintain.

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

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

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

In occupational health, Mersen embarked on a program several years ago to develop well-being in the workplace, which paved the way for the signing of an agreement by all labor partners in France. As in the area of safety, the company emphasizes prevention while providing remedial measures where necessary. Actions of analysis, prevention and risk regulation may be launched at the departmental level or at a site, in cooperation with the workplace health and safety committees and occupational health services.

Many Group facilities prioritized improved ergonomics at workstations in 2016. Multi-disciplinary working groups composed of operators, managers, technical departments, occupational medicine, safety officers, and the workplace health and safety committee are being formed at sites to identify risks and improve workstation design in production, administrative and technical departments. These processes are intended to reduce incapacity at work, occupational diseases, and absenteeism. Their objective is to take action as early as possible to prevent risks.

Facilities such as St. Mary's and Rochester (United States), Cabreuva (Brazil), and others in Korea, Colombia and India, evaluated the ergonomics of certain workstations. Investments were also made at French and United States facilities (respectively, Bazet-Lannemesan, Amiens, Angers, Saint Bonnet de Mure and Pagny-sur-Moselle and Bay City and Newburyport) to modify certain handling equipment, thereby improving operators' safety and preventing occupational stress.

Osteopathy treatments were also offered during working hours at certain plants.

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

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

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

BEST PRACTICE

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

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

Absenteeism

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

(1) Scope included in HRIS excluding the site of Rochester.
 (2) Scope included in HRIS excluding the following sites: Bazet (France), Gonzales, Rochester, Oxnard and Salem (United States).

1.1.4. Diversity

Mersen's international establishment makes diversity a natural part of the company. There is diversity in peoples' origins, in cultures and ways of thinking amongst staff, all of which stimulate creativity in the Group. This is useful for getting a better grasp of what customers want on a worldwide scale.

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

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

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

While Mersen's corporate culture is strong, it is adapted in each country to fit in with the local culture and customs. The best way to achieve this integration is to give the management reins to local managers, which is the practice at nearly all of the Group's facilities. The Group's human dimension takes on its full meaning in this drive for a subtle balance between respecting its principles and values and embracing local customs and practices. Lastly, Mersen wants its management structures to reflect the diversity of its teams.

As a percentage	2016	2015
Plant managers/local nationality	90%	91%

Gender balance

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

In 2015, management and all union organizations renewed their commitment to gender equality in the workplace by signing a new agreement. This document also sets the objective of promoting

more flexibility between professional life and family responsibilities and improving gender balance in representative bodies.

The proportion of women managers is approaching the Group's objective of at least 20%. This proportion is 24% in the Board of Directors and Executive Committee governance bodies.

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

A women's network created in 2010, WiN: Women in Mersen, brings together male and female Group employees who want to work on a joint project to promote cooperation and mutual assistance, encouraging growth through greater diversity. The aim of the WiN network is to pool the potential capabilities of its members and to provide opportunities for meetings and analysis outside the scope of any hierarchical system. WiN also aims to become an international network within the Group that can take part in inter-company events and share experiences.

Employment and integration of disabled workers

Going beyond its legal obligations, Mersen has strengthened its disability policy in connection with its policy to foster diversity. Accordingly, it set up a partnership in France with ARPEJEH, a non-profit organization supporting educational projects for disabled school-age and university students. It offers an opportunity to accommodate disabled people and introduce them to the business world. It helps to change the attitudes of Mersen's employees to disabilities, while encouraging creativity and open-mindedness.

The Group has undertaken other initiatives. In France, for example, Mersen Amiens works with the Sign Language Institute to facilitate communication with one of its hearing-impaired employees. Internationally, Mersen India is relying on EnAble India to train Group employees on accommodating and working with disabled colleagues and five severely disabled operators now work in our Indian plants. Mersen Canada prepared a facilities access charter for its disabled employees and customers and Mersen Gebze in Turkey specially re-fitted its work areas to facilitate circulation in the factory.

The Group also regularly subcontracts with sheltered work agencies in France (ESAT) and equivalent entities in other countries.

1.1.5. Labor Dialogue

The Group Works Committee in France and the European Works Committee provide a forum for dialogue with employee representative bodies concerning the Group's position and strategic objectives in France and in Europe as a whole. They provide an extra dimension to relations with employee representatives through the employee consultation and discussion bodies that exist within the Group's companies.

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

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

In addition, the Group continued to implement the arrangements established in 2014, which were designed to prepare for possible psycho-social risks and support employees interested in initiating their own career planning process. Apart from this, Management drew on all participants in the area of occupational health and generally the executive staff so as to remain attentive to requirements.

1.2. Rallying collective intelligence through an organization that promotes collaboration

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

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

1.2.2. Promote cross-business methods

Project management and cross-business coordination

The Group carries out various major, strategic projects, such as acquisitions, industrial adjustments, and major investments on an ongoing basis. Their complexity requires that we use a common project management method. This method, the Global Project Standard (GPS), allows the Group to complete these highly complex projects. A project group established in early 2015, which includes operational employees from the various business lines and project management experts, revised the methodology, training and deployment systems in the Group.

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

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

Reinforcing Communities

Communities also promote cross-sector approaches as well as information sharing and best practices. HR and Safety communities have already existed for several years within the Group. In 2016, the first multi-cultural technical community for machining experts of the Group was formed. This new community, which will meet twice yearly, set several objectives: pursue the objective of improving productivity by reducing costs, improving safety of equipment and capitalize and consolidate the extensive expertise in the area.

BEST PRACTICE

The technical community

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

1.2.3. Internal communications

Sharing information is a key aspect of employee motivation. Mersen endeavors to communicate internally about the performance of its businesses, including both its results and future projects. This emphasis on transparency enables each individual to gain a full sense of what it means to be part of the Group. In 2016, Mersen improved its internal communications process by setting up four telephone interviews between General Management, the Finance department and all executives and managers of the sites. During these meetings, quarterly results are presented and remarked upon, as are upcoming priorities. Every participant has the opportunity to ask questions and the responsibility to report information from their respective areas.

The internal publication "Inside Mersen" is available in French, English, Spanish and Chinese. It is available in an interactive electronic format on the intranet. Information is also passed on using complementary theme-based publications concerning the latest news and plant magazines, which focus on local information. In addition, discussions between management and employees take place on a monthly basis at most facilities.

The Group's intranet, accessible in real time right around the world, provides a forum for sharing information and tools. Its content is constantly enriched by contributions from many section managers.

1.3. Pursue the strengthening of the new managerial culture

1.3.1. Strengthen the quality of management

Faced with a changing, fast-moving world, Mersen is adapting and changing its management culture. The new set of Group management guidelines, referred to as "Open Manager", was produced in 2015 and describes what managerial qualities and behavior is expected. It addresses five major topics: Working with Everyone, Communicating and Making Sense, Motivating and Developing Employees, Building the Future, and Achieving and Raising Standards. The entire Group's chain of management is concerned; corporate executives, middle managers and supervisors are all essential players in the Group transformation process in a world undergoing globalization where information circulates rapidly.

Going forward, the decision to assign an individual to a management position will be based on the new managerial skills identified. The Group has decided to combine the internal promotion approach further with external hires in key jobs such as expertise area executives, business managers and product line managers. In this way, the Group has brought on board a certain number of executives and managers in its two areas of expertise to work in its strategic marketing and site manager functions. In the United States, over one half of site management staff has been renewed.

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

1.3.2. HR tools available to managers

The annual review is still one of the key elements of the skills development process implemented within the Group. Annual reviews, a key opportunity for dialogue and discussions between the employee and direct management superior, help to assess individual performance over the previous year and set objectives for the year to come. They also provide a chance to assess competency development initiatives carried out during the past year and to determine what action needs to be taken or continued to make progress in the employee's current position or to gain promotion in the future. An application developed on the Group's new HRIS can be used to manage online forms and facilitates annual reviews.

In July, managers are asked to conduct a mid-year review, during which they may revise the objectives set at the start of the year, where necessary, due to a change in the environment or other reasons

Training in conducting annual reviews was held in several countries, from Asia to the Americas, including Europe. It is systematized every year with a training program implemented via the Mersen Academy's remote training platform.

Career reviews are another tool which provides a full analysis of employees' professional accomplishments, helping them to formulate their expectations and goals for the medium term. They also provide an opportunity for managers two tiers up to have direct contact with employees and to listen to their aspirations. Career reviews can also be offered during Career Committees or at the mid-point of an employee's career to see how the land lies.

The Group Human Resources Information System (HRIS) has been in operation since 2012. It is set up in some 30 countries. Its primary objectives are the following:

- Support managers in managing their team;
- Strengthen workforce monitoring with reliable, relevant indicators;
- Manage compensation systems;
- Streamline information processes and flows from the countries;
- Deploy the HR strategy throughout all Group subsidiaries; and,
- Promote Group culture and develop a strong Group identity.

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

1.3.3. Training

In addition, to help employees progress and prepare them for future positions of responsibility, employees at all levels of the Group regularly attend training sessions or perform training assignments or projects that deliberately focus on topics outside their usual field of expertise.

By expanding access to e-learning to its employees around the world since 2013, the Group underscores its investment in skills development and support as jobs change. The Mersen Academy, the new e-learning portal, allows employees to obtain both high-quality general training and tailored job-specific training. This also offers the Group an opportunity to focus on priority and strategic topics and to instill the Group's culture.

The objectives of the Mersen Academy are the following:

- Streamline training through e-training;
- Support staff in their personal development and employability efforts;
- Integrate new hires into the core of Group training processes more easily;
- Systematically offer training programs on basic themes, such as safety, quality and management;
- Reduce training costs;
- Promote interactivity and collaborative work within the Group.

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

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

more specific support system is offered that features goal-oriented progress validated at the beginning and end of the courses.

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

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

The Group also promotes qualifying training programs via joint qualification certificates in the business areas, such as metallurgy, chemistry and others, as well as training leading to a degree. Several dozen employees from all regions participate in e-learning training programs certified by Essec Executive Education or the Institute of Leadership and Management (ILM).

FOCUS

Developing employees' skills

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

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

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

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

(1) Scope included in HRIS excluding the sites of Yantai.

(2) Scope excluding the following site: Terrassa (Spain).

1.3.4. Career paths

Career committees provide the opportunity to assess the career outlooks of key managers in each of the businesses and to prepare an individual skills development plan. These reviews are conducted at plant and divisional level and help to identify key and/or high-potential employees for review by the Management Board's Talents Committee. These committees contribute to improving **succession planning** in the same way as experience interviews.

Mersen's global dimension provides employees with genuine career development opportunities. The Group has demonstrated its desire to encourage exchanges between its various divisions and geographical regions by prioritizing mobility and the international diversity of managers. Mersen's success is predicated on both a **balanced international mobility policy** and the development of local talent. The human dimension requires respect for and the recognition of local cultures and skills, wherever they may be. It facilitates a rapid response for customers and will help to power innovation and growth.

1.4. Pursue the development of the Group's human capital by relying on our technical expertise in particular

1.4.1. Forward human resources planning

The Group must plan ahead and prepare for the future by identifying the competencies that it will need in the future to sustain its development. At the same time, employees must be aware of likely changes in their jobs so that they can improve their own skill set.

Based on the Group's forward human resources planning process and consistent with the strategic planning process, each division prepares an annual forecast of the skills and expertise it will need in the medium term, in keeping with its priorities and those of the Group.

This analysis is consolidated at the Group level, based on Mersen's reference job framework. This framework, which is updated annually, identifies and describes, for each of the 10 support functions (sales and marketing, business, R&D, production, production support, sourcing, information systems, human resources/safety/general services, finance and legal affairs), the 93 Group reference jobs that are common to all divisions. In 2016, the framework was reviewed and rounded out to take into account the organizational changes announced.

This mapping, which describes the jobs, their challenges, specificities and associated skills, enables the Group to increase the effectiveness of its HR policies (including hiring, mobility and training):

- In the area of training, Mersen relies on the job skills guide to offer training programs by support function and continue to develop expertise and professionalism within the Group. An initial e-learning program was offered in late 2014 to all Procurement employees through the new Mersen Academy training platform. This was completed in 2016, with certification of the participants.
- In the area of annual performance evaluations, employees with the same position will be evaluated in terms of the same skills. This will strengthen the objectivity and soundness of the Group's evaluation process.

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

1.4.2. Stimulating innovation

Innovation is used to build a distinctive range of products and to drive growth. The Group's primary partners in terms of innovation are its customers, for which it develops tailored products.

Mersen has two objectives: bolster the culture, resources and oversight of innovation and of Research & Development (R&D); and structure and promote the sharing and synergies of R&D resources among the Group's various units.

The decisions made and initiatives implemented over the past five years have led to:

- The modification of an internal online database to include a list of experts (by materials, by physical and chemical phenomena and by industrial processes) and special equipment at all of the Group facilities;
- The formal fixing of research, development and technology-watch priorities for divisions and the Group, while ensuring that they remain consistent with its growth objectives in certain key markets;
- The three ideas creating the most value being rewarded each year through the Innovation challenge.

Innovation also lies at the heart of our corporate culture and our HR policy, which promotes autonomy, creativity, initiative-taking and idea sharing by restricting the number of management tiers and providing easy access to managers.

Exchanges with outside experts are also encouraged. For example, the Group entered into a partnership with French laboratories, productivity clusters, universities and engineering schools under a Unique Interministerial Fund (FUI) project. This collaborative project, FE²E (economically and environmentally efficient fuses), integrates these partners in areas of advanced research (including materials, electrical engineering and modelling). In the field of materials, the Group is collaborating on the FORCE⁽¹⁾ project, launched in 2014 to develop a low-cost carbon fiber sector in France. Working within a consortium comprised of French manufacturers and laboratories, Mersen is involved as a technical expert in this strategic project for the industry of the future, providing our knowledge of high-temperature processes and carbon materials used in the carbon fiber production chain. These collaborative projects reflect the Group's interest in and ability to meet significant technological and manufacturing challenges.

To better prepare for large-scale changes – both markets and customers – and to help guide the Group's R&D strategy and efforts, in 2016 the Group created a Division of Technology, Research, Innovation and Business Support attached directly to the CEO of the Group. This function aims at better anticipating product and solutions issues of the future, and will allow for more efficient arbitrage and monitoring of R & D projects. It will also contribute to better identifying key experts in the Group.

After one year of existence, the Department of Technology, Research, Innovation and Business Support of the Group is focusing on a certain number of priority areas:

- Improving the time to market of new products, an essential factor for organic growth;
- Intensifying the selection process of priority projects, in order to better concentrate the bulk of resources on strategic projects;
- Resorting more to simulation tools to save time and react better to customer requirements.

1.4.3. Knowledge transmission

Planning ahead for departures linked to demographic trends in the Group's workforce is a key aspect of the Group's policy of human resource planning.

In France, the purpose of the action plan under the Contrat de Génération legislation, which was signed in September 2013 for a period of three years, is to promote the hiring of young people under permanent employment contracts, while ensuring that senior employees' knowledge and skills are passed on. The Group intends to play an active role in pursuing this three-part objective through various commitments. The Group has thus committed, in France, to hiring 30 employees under the age of 27 under permanent work contracts. In addition, over 50 internships for young people on degree courses and 50 apprenticeships or vocational training contracts were offered in 2016. An assessment of this action plan is presented annually to the Group committee.

Many facilities hire people on an internship or work-study basis in order to integrate young people and identify the strongest candidates. For example, Mersen Korea entered into an agreement with a government agency to hire people aged 19 to 34 as interns, as in the United States at the Greenville and Rochester sites, which entered into partnerships with local universities. An Austrian university of applied sciences also works with the Hittisau site in that country engaging people in work-study programs. In Tunisia, the facility offers 12-24 month internships to young people, who may be hired at the end of the internship if their qualifications meet the company's criteria.

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

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

An "experience interview" may be held with each employee whose skills are judged to be essential and for all employees who may retire within two to five years. The objective is to review the individual's knowledge and key skills to ensure and prepare for their transmission. This interview also reviews the employee's position ahead of his/her retirement and/or the final part of his/her career to make sure it is as interesting and useful as possible. Managers are offered training to prepare for this interview.

The results of these experience interviews will be used to enhance succession planning.

Lastly, highly motivated employees with expertise in a key area for the Group may be asked to become mentors. This kind of mentoring ensures the proper transmission of professional knowledge, which concerns everyone, whether experienced managers, engineers, technicians or operators.

FOCUS

Apprenticeships are a tool for training and for detecting talent

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

(1) Optimized and Realistic Economic Carbon Fiber.

FOCUS

Promoting the retention of senior employees

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

1.5. A motivating compensation policy**1.5.1. Enable employees to share in the Group's success**

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

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

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

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

1.5.2. Ensure employees' social protection

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

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

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

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

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

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

In 2015, two major changes were made to standardize the health and welfare systems that had coexisted within a single region. Ten supplemental welfare plans coexisted in France, based on employee status (management/non-management) or subsidiary. A

general standardization effort was initiated in May 2015, which in October 2015 resulted in a labor/management agreement signed by all union organizations standardizing the welfare system for all employees, regardless of status, and applicable to all Mersen subsidiaries in France. This plan, which is handled by the same insurer responsible for the supplementary health coverage, took effect in 2016. In the United States, the coexisting health plans were also standardized in 2015, simultaneously guaranteeing a level of coverage comparable to that in major American companies.

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

2. Workforce and facilities

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

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

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

The workforce fell by 265 people.

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

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

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

* Scope included in HRIS

2.2. Age pyramid (at December 31)*

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

*Scope included in HRIS

The average age of Group employees is 41.7.

2.3. Headcount broken down by category

Categories	Dec. 31, 2016	%	Dec. 31, 2015	%
Engineers and managers	1,168	19%	1,231	19%
Technicians and supervisors	1,010	16%	994	16%
Employees	585	10%	617	10%
Blue-collar workers	3,347	55%	3,533	55%
TOTAL	6,110	100%	6,375	100%

2.4. Geographical analysis of facilities (at December 31)

The Group has a presence on five continents. This presence reflects part of Mersen's strategy of forging close relationships in its markets and represents a strategic advantage.

The Group's various manufacturing facilities include both large plants (>125 staff) dedicated to producing intermediate products and large runs and local workshops, which meet the highly specific needs of their local customers. They break down as follows by geographical area:

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

2.5. Outsourcing

The Group partially outsources the manufacture of its products. The value of outsourcing in 2016 totaled approximately €62 million, including labor subcontracting for assembly,

machining and welding and for the manufacture of components such as metal, plastic and ceramic parts.

3. Social information concerning the Group's companies in France

In accordance with the provisions of Decree no. 2002-221 of February 20, 2002 in application of Article L. 225-102-1 of the French Commercial Code (operations in France):

3.1. Headcount at December 31

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

3.2. Recruitment

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

3.3. Temporary workers

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

3.4. Overtime

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

3.5. Absenteeism

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

3.6. Part-time work

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

3.7. Disabled employees

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

3.8. Organization of working hours

In France, an agreement on executives' working hours was signed in 2011 for an indefinite period.

The working hours of engineers and managers are calculated based on an annual total of 216 work days, which gives them an average of 12 days of additional leave per year. The 2011 agreement also provides for an annual review between a manager and his/her employees covering issues including the organization of work, work load and fluctuations in daily activities.

HEALTH AND SAFETY POLICY

Mersen is committed to developing and consolidating a health and safety culture within the Group by relying on three main tools: **Accountability, Risk Analysis and Continuous Improvement**. The medium-term goal remains to achieve to **Excellence** in health and safety.

1. Organization of the function

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

The function relies on a Group Safety Committee, composed of the member of the Executive Committee. It reports to the committee on a monthly basis. This close relationship allows it to be highly responsive and demonstrates senior management's unstinting commitment to health and safety. It also draws on a network of regional correspondents. Their role is to perform cross-audits in the region, conduct more detailed audits at underperforming units and implement the Group safety policy formulated by the Group Safety Committee. These correspondents are also responsible for reporting to the Group on local environmental and health and safety changes.

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

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

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

2. 2016 Achievements

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

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

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

FOCUS

New tools to reinforce risk prevention

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

The tools developed in recent years are now well-established:

- E-learning in different languages, thus reaching potentially 85% of the Group's population. Intended, on a priority basis, for new employees, many plants use the tool to reinforce the training of employees already on the job;

- Reporting on potentially dangerous situations: the objective is to report potentially serious and dangerous events that have occurred in all of the Group's facilities but that have not caused an accident;
- "Near accident" reporting tool: this tool, which was launched in 2013, has helped to improve awareness of the working environment and avoid events that could have become accidents. In 2016, Group units reported approximately 1,280 potentially dangerous situations, proving that the Group has adopted this working and early detection culture.

To verify that the various tools are set up and that the plants comply with the Group's safety policy, the Health and Safety department conducted 13 site safety audits in 2016.

In addition, the number of safety visits rose by 10% compared to 2015, reaching 3,807, or 65 visits per site and per year. The objectives were achieved overall and this method has helped to strengthen the safety culture on a daily basis.

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

FOCUS

Safety visits

Safety visits provide an opportunity to conduct a rapid safety audit of part of a production workshop or process. They are conducted by a supervisor in charge of a different sector, usually accompanied by a member of the management team or the health and safety committee. The visits help to detect anomalies or deficiencies and generate action plans, whose implementation is verified at the next audit.

3. Risk mapping

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

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

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

4. Risk prevention

The Group continues its employee training in best practices in PAH protection (Polycyclic Aromatic Hydrocarbons) at the Group's main production facilities that face these risks. Some production now uses materials with lower PAH content. In addition, working groups were set up several years ago to ensure continuous improvement of the working environment and the protection of individuals.

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

BEST PRACTICE

Preventing bad posture: a vest with an audible alarm

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

5. Safety training and audit

An e-learning safety program was developed in 2013 and implemented in 2014. It is now part of the integration process. The objective is to enable all new hires to benefit from this training when they arrive at Mersen. It encourages dissemination of the safety message and serves as a reminder of its importance to the Group from the moment the employee first enters the company.

The safety audit program continued in 2016. Thirteen audits were conducted, including cross-audits organized by geographic area. The cross-audits are conducted by specially trained individuals. They help to promote experience-sharing and are instrumental in fostering a Group safety culture. The program's organization by geographic area also helps to strengthen exchanges among facilities of the same culture, promoting understanding and implementation of the solutions proposed.

Many sites hold a safety week every year. In addition to topics related to workplace safety, these events offer an opportunity to address issues such as food safety and the risk of household accidents. It is an opportunity to create awareness among employees, and instill the safety culture.

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

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

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

BEST PRACTICE

Embed safety in people's minds using illustrations

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

6. Safety indicators

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

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

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

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

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

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

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

The Group also continued its incident risk detection program.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Indicators/operations in France

Monitoring of occupational diseases is done only in France. Because the concept of occupational disease varies significantly from country to country, any information emanating from the various countries where the Group is present would be irrelevant. Furthermore, France represents a significant percentage of the Group's employees, with 1,418 staff at end 2016.

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

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

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

SOCIETAL POLICY

The Group takes great care to act as a good corporate citizen wherever it does business. Through its activities, it naturally has an impact on local and regional development. As a general interest action, it also endeavors to engage in a respectful dialogue with the communities in which it is established.

Mersen has been a signatory of the United Nations Global Compact since 2009, reflecting our commitment to make progress on 10 universal principles in order to build societies that are more stable and respectful of human rights and international standards in the areas of labor, the environment and the battle against corruption.

The Group's **Ethics Code**, which is circulated internally and published on Mersen's web site, restates the collective and individual commitment of the Group and its employees. It was updated in December, 2016. It particularly addresses the Group's relationships with its employees, customers, suppliers, competitors, shareholders, and surrounding ecosystem. The audits carried out by the Group's internal audit function provide insight on a regular basis into whether these rules are applied properly. Over the last three years, 92% of Group sites were covered by an internal audit; the other companies that were not covered were of insignificant size.

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

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

A training module focused on fraud-related risks (swindling, counterfeiting, etc.) that was developed for Group managers was also implemented. Nearly 40 managers in various jobs in the Group, including purchasing, sales and logistics were trained worldwide in 2016. Since 2016, a press review in French and English relating to fraud has been sent monthly to Group managers throughout the world in order to illustrate through specific cases how other companies have been subject to fraud schemes. This awareness effort has also been useful in strengthening the messages concerning the internal control policy in the Group.

1. Local initiatives

Numerous local initiatives were taken by plant managers, who are closest to local concerns in regions around the world. These may take the form of financial contributions or concrete measures, including, for instance,

- Participation in competitiveness clusters;
- The development of partnerships with apprenticeship programs, schools and universities (internships to help people learn about the workplace, student programs, participation in job forums, open days);
- Student bursaries;
- Support for professional training campaigns, by hosting people on workplace induction or work-study programs;
- Sponsorship of humanitarian operations and contributions to charitable action organizations.

1.1. Local economic action

In France, competitiveness clusters bring together groups of companies and institutions in a clearly-identified regional area and on a targeted topic.

For example, Mersen Boostec, which is located in the Midi-Pyrénées region, belongs to the European ceramics cluster and the Aerospace Valley cluster of the Optitec photonic and imaging competitive cluster. It works with the local PRIMES (power mechatronics and energy management innovation platform) platform and is a member of the MEPI (European Center for Innovative Procedures). Mersen Angers belongs to the S2E2 (Smart Electricity Cluster).

In addition, purchasing by the facilities, as a whole, helps integrate them into the local community. By working with local suppliers as a priority, in implementation of the Group's purchasing policy recommendations, they contribute to the economic and social development of the regions where they operate, while meeting economic and environmental goals (lower costs and lower greenhouse gas emissions by limiting transportation).

1.2. Actions promoting employment, training and apprenticeship

With operations in approximately 35 countries, the Group works to develop relationships with local schools and universities. Thanks to these local connections, young people can learn more about our industry.

The Group is particularly involved in developing apprenticeships. A certain number of examples are described in the first part of this chapter.

In France, the Pagny-sur-Moselle facility collaborates regularly with local schools and universities (including EEIGM, Ensic, ENIM, and Université Paul Verlaine). This may involve attending courses provided by employees and participation at job forums and conferences. It also includes regular offers of apprenticeships within the company.

In terms of training, the Group is involved in WindLab, a regional wind energy jobs training initiative in the Picardy region. This training offers jobseekers an opportunity to obtain a certificate that is essential for working in the booming wind energy sector. The Gennevilliers site in France implemented a personalized training program to suit its production requirements in collaboration with an industrial and technological training center, AFORP, in the form of professional training contracts. This program led to the hiring of six people in 2015 and three in 2016. In the United States, the subsidiary in St. Mary's, Pennsylvania got involved with the local education committee to play a consulting role in view of guiding training initiatives. In Greenville, Michigan, Mersen works with teachers at a local school to inform them of jobs and the resources to contribute to promote the employability of their students. In Toronto, Canada, the site supports the JobStart association to help jobless people find work that meets their ambitions.

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

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

1.3. Charitable contributions and volunteerism

Through the Group's entities, Mersen seeks to help organizations supporting projects that reflect our values and are consistent with our corporate mission or our challenges.

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

In Germany, Mersen continues to support a recycling organization. This non-profit group organizes the collection and recycling of fuses throughout the country. Profits generated are invested in activities that support training, teaching and research in electrical engineering and in charitable activities. This year, contributions were directed to a fund supporting children and adolescents with serious illnesses.

In India, Mersen continues to support government initiatives to provide training (in embroidery, sewing and hairdressing) for employees' wives, with the added benefit of getting jobs that will provide additional income for the families. The site also plays a consulting role with the children of employees to help them prepare for the future.

At the same time, most of the sites make contributions to local associations and sponsor sports activities in which company employees participate, according to the rules defined in the Donation and Patronage policy.

ENVIRONMENTAL APPROACH

In environmental terms, Mersen is involved on two levels: firstly, through its **positioning in markets related to sustainable development**, and secondly through its commitment to **environmentally friendly** practices. The Group pursues a collective and pragmatic approach involving all its employees, who are educated and receive training at every level of responsibility.

1. Helping to develop sustainable development

A significant share of Mersen's business is related to sustainable development sector, such as renewable energy, energy efficiency, and clean mass transit. In 2016, that sector represented approximately 38% of Mersen's sales.

1.1. Renewable energies

The solutions developed by the Group stimulate the growth of renewable energies.

Mersen supports the entire solar cell production process, from polysilicon to ingot pulling, and provides electrical protection for the panels. Our solutions optimize performance in terms of photovoltaic yield and energy efficiency. We are also the leading supplier for the wind energy sector, both in generator power distribution systems and yaw motors. The Group is also a key partner to the hydro-power segment, from turbine manufacturers to power plant operators.

The Group's solutions improve energy yield and optimize the service life of consumables. They also contribute to transporting the energy produced to the places where it is consumed.

1.2. Energy efficiency and energy saving

Mersen is positioned on markets whose growth is related to energy efficiency and the energy transition. Thanks to solutions such as furnace insulation and heat recovery systems, the Groups helps to reduce the production and consumption costs associated with its customers' manufacturing processes. We also supply components that are central to speed variation systems and thus optimize the yield of industrial facilities.

Our graphite-based solutions and high-performance materials are also critical to the manufacture of LEDs. Their widespread use for domestic lighting and their growing use for public lighting

dramatically reduce energy consumption, while offering a particularly long service life.

1.3. Non-polluting transportation

Mersen is helping to develop non-polluting urban and rail mass transit in response to the growing demand for mobility of people and goods. We provide equipment for rolling stock and infrastructure to enhance the reliability and performance of their electrical systems.

2. Environmentally-sound practices

Mersen undertakes to:

1. **Comply with the regulations in force**, via legal and other requirements, for existing products and installations;
2. **Identify the potential risks** of installations and products, determine whether the preventive measures in place are sufficient to prevent any accident that could be harmful for persons and for neighboring locations (especially clients, the company's personnel and persons living in the vicinity of the production sites);
3. **Make regular visits to installations** to detect anomalies;
4. **Make use of incidents and good internal and external examples** for a Quality and Continuous Progress approach based on feedback from experience;
5. **Reduce consumption** of water, energy, raw materials and packaging and encourage the recycling or reuse of waste;
6. **Foster improvement** through continuous improvement, in particular via the introduction of an ISO 14001 environmental management system at certain key sites;
7. **Encourage the development of eco-design**, in particular through more extensive use of the dedicated EIME application.

In 2016, Mersen continued its review of the implications of the Grenelle II legislation (law no. 2010-788 of July 12, 2010) on the national commitment to the environment. Audits and verifications performed in connection with this reporting gradually improve the reliability of the data reported.

In addition to the regulatory obligation, staff awareness-raising exercises and the sharing of best practices should encourage lower consumption and energy savings at all the Group's key sites.

3. Minimize environmental impacts

In the field, Mersen's environmental approach translates into a quest to identify best practices and an extremely high level of vigilance. It is intended to help the Group achieve a virtuous circle.

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

3.1. Comply with regulatory provisions

The Group monitors changes in the regulations so that it can take the relevant measures and plan ahead to find alternatives for certain products. To be able to ensure an uninterrupted supply chain, the Group must confirm that the supplier of a substance subject to approval meets all requirements.

The European REACH regulation (Registration, Evaluation, Authorization, and Restriction of Chemicals) assigns industry the responsibility to assess and manage the risks posed by the chemicals they use. To comply with this obligation, in 2010 the Group registered certain products that make up graphite (mainly resins) and, in 2013, those that make up flexible graphite. The Group is preparing for the 2018 deadline for registering chemicals used in quantities below the limits set previously. To this end, it was decided that a working group should be set up to monitor this issue. It will become operational in 2017.

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

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

breaches of the norms in force. However, the Group remains vigilant and continues to take the appropriate measurements to check emission levels at this installation on a regular basis.

Mersen participates actively in monitoring changes in European regulations and directives that could take effect in the coming years. Those include, for example, the Industrial Emissions Directive (IED), intended to prevent and reduce air, water and soil pollution from industrial installations by relying on the best available technology (BAT). The Executive Committee receives regular reports on these matters. The Group is also working with the European Carbon and Graphite Association (ECGA) to contribute to the dialogue with European institutions in areas affecting the graphite industry.

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

3.2. The pursuit of best practice

3.2.1. Circular economy

Mersen is seeking to reduce its environmental footprint by drawing inspiration from the virtues of the circular economy model. Its approach is based on several areas at all stages of the product life cycle: eco-design and use of the best techniques available, lower consumption of energy and raw materials, optimized product manufacturing and lifespan, recycling, etc.

Product design

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

In this context, Mersen has stepped up the implementation of methods and skills to develop products based on an eco-design approach. The environmental impacts of new products are taken into account, from the design stage through to the end of their life cycle.

Research and development teams are trained in eco-design and, most of the time, specifications take into account the objective of reducing environmental impact.

For example, the Electrical Power segment uses an EIME (Évaluation de l'Impact et Management de l'Éco-conception) application to perform environmental impact analyses on the products (water contamination, air pollution, depletion of natural resources, etc.) throughout their life cycle.

All the stages in the product's life cycle are taken into account, such as:

- the choice of raw materials, with easily recyclable materials being prioritized;
- the weight of packaging;
- reductions in the number of assembly stages;
- reductions in the volume of waste;
- most effective logistics;
- the product's end of life.

This type of tool also helps to maintain traceability of products from existing lines for comparison purposes when future product lines are developed.

Procurement procedures

With regard to procurement and outsourcing, Mersen's policy takes environmental issues into account. For several years, the Group has been developing an "eco-sustainable-redesign to cost" approach. Based on a functional analysis of a product, this method is intended to replace or reduce the proportion of certain components or raw materials, substituting others that are more environmentally sound without affecting product functionality. After working, on a priority basis, on products for which the proportion of procurement represented a majority share of the price, the process is now being expanded to new products.

The Group also promotes the application of environmental criteria in the purchasing process, including giving priority to the use of recyclable materials, the widespread use of more eco-friendly packaging, and collaboration with local suppliers to reduce transportation costs and greenhouse gas emissions.

We also encourage the adoption of pragmatic initiatives to reduce our environmental footprint, such as improving vehicle occupancy rates, efforts to reduce packaging weight, and the purchase of eco-friendly vehicles.

Last, certain Group facilities have integrated environmental criteria, such as the ISO 14001 certification, in their suppliers selection. Facilities with purchases of more than €4 million/year are starting to monitor more systematically the share of purchasing from ISO 14001-certified suppliers.

Energy consumption

To optimize its resource consumption, each production facility monitors consumption and sets objectives and related action plans. Several examples are presented below. The decision to use renewables as an energy source is left to the initiative of the facilities.

Waste management

Based on their specialty, the Group's facilities follow approaches at multiple levels intended to reduce the environmental impact of their industrial activities:

- Recovery of waste related to industrial production: Mersen's production activities produce manufacturing residues that may be reused to produce other Group products or resold to third parties to be incorporated in other production processes. This is the case, for example, of graphite powder from graphite block drilling, which can be reused to manufacture graphite tubes or resold for reuse in steel production.
- Recycling of used products: Over the last several years, the Group has participated actively in efforts to recycle fuse waste by reusing large amounts of the metal content of used fuses. Similar initiatives are underway in brush manufacturing, with a recovery program introduced to collect used brushes from customers to recycle the reusable metal content.
- Emissions recovery: Certain facilities have set up systems to recover the heat generated by industrial activities. For example, this heat may be reinjected into the heating system or used as an energy source.

3.2.2. Land use and noise pollution

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

The Group continues to closely monitor the risks associated with soil pollution. All the products used by Mersen are subject to constant monitoring, not only by local authorities, but also by Mersen's employees, who are trained in these areas. The risks associated with soil pollution were incorporated in the risk mapping in 2013.

The Group's industrial activities do not generate specific noise pollution that exceeds standards. Controls may be performed pursuant to applicable local regulatory requirements.

3.2.3. Measures to adapt to climate change

The risks associated with weather-related hazards associated with climate change were analyzed in connection with a specific mapping of the risks of natural disasters to which the Group may be exposed. This mapping did not reveal any specific risk.

4. Environmental indicators

The scope of environmental reporting has been extended in comparison to that of 2015, and now covers 21 sites.

4.1. Environmental certifications and training

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

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

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

FOCUS

Creating awareness of best environmental practices among employees

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

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

4.2. Environmental provisions

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

This amount relates to:

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

4.3. Water and energy consumption and CO₂ emissions

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

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

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

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

	Unit	2016	2015
Electricity	MWh	166,239	161,472
Gas	MWh	147,569	158,816
CO ₂ emissions ⁽¹⁾	Tons	102,405	101,325
Water	m ³	497,551	534,312

(1) Tons of CO₂ equivalent relate to reported energy consumption as well as GPL and domestic and diesel fuel.

4.4. Consumption of raw materials and metals

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

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

4.5. Waste

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

The proportion of recycled waste is more or less in line with 2015, falling to 37% from 40% a year earlier. Most sites are making greater efforts as regards recycling, and some are launching

initiatives to find ways of recovering certain types of waste such as graphite and copper powder.

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

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

* Figures including exceptional waste (construction, decommissioning, etc.) for certain sites that had not implemented procedures for identifying waste generated by exceptional work of this kind.

5. Local initiatives

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

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

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

Amiens, France

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

Gennevilliers, France

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

La Mure, France

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

Pagny-sur-Moselle, France

- Investments to replace equipment with higher-yield, more energy-efficient systems (including transformers, compressors and lighting);
- Post-combustion energy recovery;
- Restoration of the plant's aspiration system to improve environmental protection;
- Replacement of the systems used to impregnate and dry graphite blocks by regulated systems that save energy;

- Development of LED lighting, which is more energy-efficient;
- Publication of monthly newsletters dedicated to safety and the environment to raise employee awareness of safety and environmental issues and promote best practices.

Saint-Bonnet-de-Mure, France

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

Holytown, United Kingdom

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

Bay City, United States

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

Greenville, United States

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

St Mary's, United States

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

Juarez, Mexico

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

Sao Paulo, Brazil

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

Toronto, Canada

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

Chongqing, China

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

Songjiang, China

- Awareness-raising on environmental issues.

Xianda, China

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

Yueqing, China

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

REPORTING PROGRAM AND METHODOLOGY

Following publication of the Grenelle 2 legislation in France (law no. 2010-788 of July 12, 2010) instituting a nationwide commitment to the environment, Mersen stepped up its reporting program. As part of this drive, the Group consolidated its unique internal reporting framework formally defining and describing the processes and methods to be used to gather and report data in line with Article 225 of this law. A number of indicators⁽¹⁾ have been added to those traditionally monitored, while the scope of reporting has been extended to include a larger number of Group companies.

1. Reporting scope

The scope of social, environmental and societal reporting encompasses the companies included in the scope of consolidation based on the following principles:

- Corporate and societal reporting; all companies other than companies acquired within the last month⁽²⁾.
- Environmental reporting: all companies whose on-site industrial production generated sales in excess of €15 million during the previous year N-1, excluding companies acquired within the last year. Every company that was included in the scope of reporting and whose production exceeded the threshold of €15 million remains within the scope of the environmental reporting, provided that its sales do not fall below €7.5 million. These thresholds thus restrict environmental reporting to companies' representative of the Group's business activities. In 2016 the Songjiang and MEP (Zhejiang Mingrong Electrical Protection - China) and Salem (United States) sites were included in the scope. In 2016, the companies included in the scope accounted for over 78% of total sales.

In the coming years, Mersen will consider to gradually increase the representativeness of the environmental reporting scope.

Possible exclusions from the scope of reporting may be defined for certain indicators, such as where local legislation does not permit the reporting of relevant data or where sufficient arrangements for the collection of certain types of data have not yet been made. The summary table at the end of this section recapitulates the scope covered by each of the indicators. The "Indicators and specific definitions" paragraph below also provides additional explanation of the definitions and/or the method of calculating certain indicators.

(1) A table summarizing all the indicators is shown at the end of the chapter.

(2) Only the payroll figure includes all companies in the financial consolidation scope.

2. Organization of the reporting and methodology

2.1. Indicator sheets

Data is reported using the indicators described in technical sheets stating in particular the reporting frequency, the indicator's objectives, its scope of application, the definitions needed to understand the indicator and its scope, the calculation methodology and the consistency checks.

2.2. Reporting year

The data reported cover the period from January 1 to December 31, 2016.

2.3. Reporting process participants and their responsibilities

There are three levels of responsibility:

2.3.1. Corporate responsibility

In conjunction with the Human Resources department (for social information) and the Financial Communication department (for societal information), the Risk, Internal Audit and Safety department organizes the reporting with the directors of the companies within the scope. To this end, it:

- defines the framework's indicators;
- distributes the framework and its indicators to companies and ensures that they are clearly understood by providing adequate information and training;
- coordinates data collection;
- ensures that the reporting schedule is adhered to;
- checks the completeness and consistency of the data collected;
- consolidates the data;
- uses and analyzes the data.

2.3.2. Group companies' responsibility

Data reporting is the responsibility of the general manager of each company within the scope that:

- organizes data collection at company level by defining responsibilities and ensuring that the framework and its indicators are clearly understood;
- safeguards data traceability;
- ensures that the reporting schedule is adhered to;
- controls the exhaustiveness and consistency of the data that it reports and implements the requisite checks and verifications by persons not involved in the collection process.

2.3.3. External organization

The audit and verification were performed in 2017, based on 2016 data, by an independent third-party organization, in accordance with the implementing decree of April 24, 2012.

3. Information regarding the collection of social data

Social information is collected through an HR information system used in all the Group's consolidated companies, with the exception of a few entities that recently entered the scope of consolidation and are being incorporated gradually, based on an implementation schedule defined by the Group's senior management. Only the workforce indicator is available for the latter companies (scope not included in the human resources information system, HRIS), which represented less than 2.6% of the workforce in 2016.

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

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

4. Information regarding certain indicators and specific definitions

Absenteeism

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

Accident with lost time

An accident resulting in time off work. An accident affecting several people is recognized as a single accident. Only the causative event is taken into account. The accidents taken into account are those considered to be directly work-related following investigation by the health and safety managers and for which the Group may be able to take preventive action. Certain events, such as non-work related conditions or commuting accidents, are excluded, even if the relevant authorities have declared them to be workplace accidents.

Agreement

All arrangements made and accepted by the management of an operating company, division or the Group and one or more employee representatives.

Biodiversity

The Group has not identified any specific concerns in terms of issues related to the preservation of biodiversity and its operations. Thus, no specific measures are taken to monitor this indicator.

Consumer safety

Mersen produces and sells components and equipment to its industrial customers in compliance with safety and quality requirements. In this regard, the Group's activity has no direct impact on the safety of the end consumer.

Corporate governance bodies

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

Disabled employees

As the Group has a presence in a large number of countries, it is subject to the various local laws. Accordingly, this information is provided only for France. This involves employees whose disability has been recognized by an organization or institution and under the conditions set by current French regulations.

Employees suffering from an occupational disease (operations in France)

Because the concept of occupational disease varies significantly from country to country, this information is provided only for France. A disease is recognized as “occupational” if it appears on one of the tables appended to the French Social Security Code or Rural Code. Under certain conditions, diseases that do not appear on the tables may also be included:

- diseases designated in a table of occupational diseases, but for which one or more conditions have not been met (with regard to the time limit on claims, the length of exposure or the exhaustive list of jobs), when it has been established that the victim’s regular work is the direct cause of the disease; and,
- diseases not designated in a table of occupational diseases when it has been established that they are caused, mainly and directly, by the victim’s regular work and that they lead to permanent disability at a rate at least equal to 25% or are the cause of the victim’s death.

Environmental, health and safety (EHS) manager

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

Environmental protection training

This indicator recognizes the total number of training hours provided whose title and/or main topic is linked directly to environmental protection issues.

Food wastage

The Group has not identified any material issues relating to food wastage from its business. We have no indicator in place to monitor this issue. For this fiscal year, we were unable to identify actions implemented locally by sites with company restaurants or with service providers in charge of staff catering.

Greenhouse gases

In the future, the Group plans to analyze the sources of scope 3 emissions contributing to scope 1 and 2 emissions data, for which the Group has a leverage.

Hiring

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

Impact of collective agreements

The Group is currently considering how to implement the recent regulations concerning the impact of collective agreements on economic performance and employee working conditions.

Local nationality

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

Managers

An employee is considered to be a manager when he or she holds a functional management (including engineer, project manager or technical expert) or team management position, with the exception of first-level management (supervisor).

Organization of working time and social Dialogue

Because these concepts vary significantly by country, this information is provided only for France.

Policy

A policy is an organized general framework, disseminated and deployed by the Group’s top management throughout all the companies or targeted groups of companies. This framework is formalized as an official, signed document.

Senior employees

Employees over 55 years of age.

Training

Training activities recognized as such are those organized and paid for by the Group and that are designed to:

- improve performance and help the employee adapt to changes in his/her job;
- develop the employee’s talents and help him/her acquire new skills.

The HRIS model used is based on monthly data collection. Because training is not provided systematically on a monthly basis, they are subject to manual reprocessing at the end of the fiscal year.

They do not include training provided through the Group’s e-learning platform, Mersen Academy.

Workforce and distribution by gender, age and geographic area

Employees included in the workforce at the end of the fiscal year, under open-ended or fixed-term contracts, excluding temporary workers, interns and sub-contractors.

OVERVIEW OF INDICATORS

To facilitate the monitoring of the social, environmental and societal data in Mersen's reporting framework, the following table recapitulates the list of indicators, their scope, their nature (i.e.

qualitative or quantitative) and a reference to the page on which the indicator is presented. It also presents the relationship with the specific Global Reporting Initiative indicators (version 3.1).

Article R. 225-105-1 of the French Commercial Code Grenelle 2 topics	Qualitative and quantitative information	Scope/Comments	GRI 3.1	Page
SCOPE				
Scope	-	Reporting program and methodology	3.5 to 3.11	44
SOCIAL INFORMATION				
EMPLOYMENT				
Total workforce broken down by gender	Quantitative	Restricted	LA1	28
Total workforce broken down by age	Quantitative	Restricted		29
Total workforce broken down by geographical area	Quantitative	Restricted	LA1	28
Headcount broken down by category	Quantitative	Restricted		29
Number of new hires	Quantitative	Restricted	LA2	28
Number of dismissals	Quantitative	Restricted	LA2	28
Compensation policy and their development	Qualitative	Standard		27
ORGANIZATION OF WORK				
Policy on the organization of working time	Qualitative	Restricted/France		30
Percentage of the workforce working part-time	Quantitative	Restricted/France ⁽¹⁾		30
Absenteeism rate	Quantitative	Restricted (93% of the Group's workforce)	LA7	20, 30
LABOR RELATIONS				
Structure of the labor dialog	Qualitative	Restricted/Europe	LA4	21
Collective bargaining agreements	Qualitative	Restricted/France	LA5	21
HEALTH & SAFETY				
Safety policy	Qualitative	Standard	LA6 & LA8	31
List of occupational health and safety agreements	Qualitative	Restricted/France ⁽¹⁾	LA9	20
Number of safety visits	Quantitative	Standard		32
Frequency rate of occupational accidents with lost time (TF1)	Quantitative	Standard	LA7	33
Frequency rate of occupational accidents with and without lost time (TF2)	Quantitative	Standard	LA7	34
Severity rate (TFG) of occupational accidents	Quantitative	Standard	LA7	34
Number of occupational accidents with lost time concerning temporary staffing agency employees	Quantitative	Restricted/France ⁽¹⁾	LA7	34
Number of employees suffering from an occupational disease	Quantitative	Restricted/France ⁽¹⁾	LA7	34

(1) For the next fiscal years, Mersen will endeavor to gradually extend this scope to certain other Group entities if the indicator is relevant in the country concerned and local legislation so permits.

* The concept of the "Standard" scope refers to the definition given in the section "Scope of reporting" at the end of this chapter. Where the scope is "Restricted", the restrictions are stipulated either in each reporting table or in the "Comments" column above.

Article R. 225-105-1 of the French Commercial Code Grenelle 2 topics	Qualitative and quantitative information	Scope/Comments	GRI 3.1	Page
TRAINING POLICY				
Training policies implemented	Qualitative	Standard	LA11	24
Number of hours of training	Quantitative	Restricted (94% of the Group's workforce)	LA10	24
DIVERSITY AND EQUAL OPPORTUNITY				
Diversity policy	Qualitative	Standard	LA13 & EC7	21
Percentage of women managers	Quantitative	Standard	LA13	21
Percentage of women on corporate governance bodies	Quantitative	Standard	LA13	21
Percentage of disabled employees in the workforce	Quantitative	Restricted/France	LA13	30
Percentage of senior employees in the workforce	Quantitative	Standard	LA13	28
Percentage of site managers of local nationality	Quantitative	Standard	EC7	21
PROMOTION OF AND COMPLIANCE WITH ILO CONVENTIONS (human rights)				
Conformity with the provisions of the ILO's key conventions	Qualitative	Standard	HR	35
ENVIRONMENTAL INFORMATION				
GENERAL ENVIRONMENTAL POLICY				
Organization of the company to take environmental concerns into account	Qualitative	Standard/Group policy	Managerial approach	37
ISO 14001 certification rate	Quantitative	Standard		40
Percentage of companies with a dedicated EHS manager	Quantitative	Standard		31
Number of hours of environmental protection training	Quantitative	Restricted (78% of the Group's workforce)		40
Resources dedicated to environmental risk prevention	Qualitative	Standard	EN30	38
Amount of significant provisions for environmental risks	Quantitative	Standard	EN28 & EC2	40
Circular economy	Qualitative	Standard		38
POLLUTION AND WASTE MANAGEMENT				
Recycled ferrous metal	Quantitative	Standard		41
Recycled artificial graphite	Quantitative	Standard		41
Non-hazardous industrial waste	Quantitative	Standard	EN22	41
Hazardous industrial waste	Quantitative	Standard	EN22	41
Measures to mitigate noise pollution and all other types of pollution specific to an activity	Qualitative	Standard		39

* The concept of the "Standard" scope refers to the definition given in the section "Scope of reporting" at the end of this chapter. Where the scope is "Restricted", the restrictions are stipulated either in each reporting table or in the "Comments" column above.

Article R. 225-105-1 of the French Commercial Code Grenelle 2 topics	Qualitative and quantitative information	Scope/Comments	GRI 3.1	Page
SUSTAINABLE USE OF RESOURCES				
Volume of water consumed	Quantitative	Standard	EN8	40
Electricity consumption	Quantitative	Standard	EN3 & 4	40
Gas consumption	Quantitative	Standard	EN3 & 4	40
Wood consumption	Quantitative	Standard	EN1	41
Cardboard consumption	Quantitative	Standard	EN1	41
Copper consumption	Quantitative	Standard	EN1	41
Coke consumption	Quantitative	Standard	EN1	41
Recycled timber	Quantitative	Standard	EN2	41
Measures to improve energy efficiency and use of renewable energy sources	Qualitative	Standard	EN6	40
Land use	Qualitative	Standard		39
CLIMATE CHANGE				
CO ₂ emissions	Quantitative	Standard	EN16	40
Measures to adapt to climate change	Qualitative	Standard		39
BIODIVERSITY PROTECTION				
Measures taken to preserve and develop biodiversity	-	Standard	EN11 to 15, EN25	45
SOCIETAL INFORMATION				
REGIONAL, ECONOMIC AND SOCIAL IMPACT OF THE ACTIVITIES				
Local and regional impact of activities on employment and development	Qualitative	Standard	EC8 & EC9	35
RELATIONS WITH STAKEHOLDERS				
Dialogue with stakeholders	Qualitative	Standard	4.14 to 4.17	35
Support, partnership and sponsorship initiatives	Qualitative	Standard	EC1 & 4.11	36
OUTSOURCING AND SUPPLIERS				
Inclusion of social and environmental concerns in purchasing policy	Qualitative	Standard/Group policy	EC6 & HR2	35
FAIR OPERATING PRACTICES				
Measures implemented to prevent all forms of corruption	Qualitative	Standard/Group policy	SO2 to 4, SO7 & SO8	35
Percentage of companies covered by an internal audit in the past 3 years	Quantitative	Standard		35
Managers who have attended the anti-fraud training	Quantitative	Standard	SO3	35
Measures to protect consumer health and safety	Qualitative	Standard	PR1 & PR2	46
Other actions taken in support of human rights	Qualitative	Compliance brought about by implementation of the ethics charter	HR	35

* The concept of the "Standard" scope refers to the definition given in the section "Scope of reporting" at the end of this chapter. Where the scope is "Restricted", the restrictions are stipulated either in each reporting table or in the "Comments" column above.

REPORT BY THE INDEPENDENT THIRD PARTY, ON THE CONSOLIDATED HUMAN RESOURCES, ENVIRONMENTAL AND SOCIAL INFORMATION INCLUDED IN THE MANAGEMENT REPORT FOR THE YEAR ENDED 31TH OF DECEMBER 2016

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

To the Shareholders,

In our capacity as independent third party and certified by COFRAC under number 3-1049 ⁽¹⁾ and member of the KPMG International network of the company's Statutory Auditor, we hereby report to you on the consolidated human resources, environmental and social information for the year ended the 31th of December 2016, included in the management report (hereinafter named "CSR Information"), pursuant to article L.225-102-1 of the French Commercial Code.

Company's responsibility

The Board of Directors is responsible for preparing a company's management report including the CSR Information required by article R.225-105-1 of the French Commercial Code in accordance with the guidelines used by the Company (hereinafter the "Guidelines"), summarised in the management report and available on request from the company's head office.

Independence and quality control

Our independence is defined by regulatory texts, the French Code of ethics of our profession and the requirements of article L.822-11-3 of the French Commercial Code. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements and applicable legal and regulatory requirements.

Independent Third Party's responsibility

On the basis of our work, our responsibility is to:

- attest that the required CSR Information is included in the management report or, in the event of non-disclosure of a part or all of the CSR Information, that an explanation is provided in accordance with the third paragraph of article R.225-105 of the French Commercial Code (Attestation regarding the completeness of CSR Information);
- express a limited assurance conclusion that the CSR Information taken as a whole is, in all material respects, fairly presented in accordance with the Guidelines (Conclusion on the fairness of CSR Information).

Our work involved six persons and was conducted between September 2016 and March 2017 during a five week period. We were assisted in our work by our CSR experts.

We performed our work in accordance with the order dated 13 May 2013 defining the conditions under which the independent third party performs its engagement and with the professional guidance issued by the French Institute of statutory auditors (Compagnie nationale des commissaires aux comptes) relating to this engagement and with ISAE 3000 ⁽²⁾ concerning our conclusion on the fairness of CSR Information.

(1) "whose scope is available at www.cofrac.fr"

(2) ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information

1. Attestation regarding the completeness of CSR Information

Nature and scope of our work

On the basis of interviews with the individuals in charge of the relevant departments, we obtained an understanding of the Company's sustainability strategy regarding human resources and environmental impacts of its activities and its social commitments and, where applicable, any actions or programmes arising from them.

We compared the CSR Information presented in the management report with the list provided in article R.225-105-1 of the French Commercial Code.

For any consolidated information that is not disclosed, we verified that explanations were provided in accordance with article R.225-105, paragraph 3 of the French Commercial Code.

We verified that the CSR Information covers the scope of consolidation, i.e., the Company, its subsidiaries as defined by article L.233-1 and the controlled entities as defined by article L.233-3 of the French Commercial Code within the limitations set out in the methodological note, presented in chapter 2 of the registration document including the management report.

Conclusion

Based on the work performed and given the limitations mentioned above, we attest that the required CSR Information has been disclosed in the management report.

2. Conclusion on the fairness of CSR Information

Nature and scope of our work

We conducted twelve interviews with the persons responsible for preparing the CSR Information in the departments in charge of collecting the information and, where appropriate, responsible for internal control and risk management procedures, in order to:

- assess the suitability of the Guidelines in terms of their relevance, completeness, reliability, neutrality and understandability, and taking into account industry best practices where appropriate;

- verify the implementation of data-collection, compilation, processing and control process to reach completeness and consistency of the CSR Information and obtain an understanding of the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of our tests and procedures based on the nature and importance of the CSR Information with respect to the characteristics of the Company, the human resources and environmental challenges of its activities, its sustainability strategy and industry best practices.

Regarding the CSR Information that we considered to be the most important ⁽¹⁾:

- at parent entity level, we referred to documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions), performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and the consolidation of the data. We also verified that the information was consistent and in agreement with the other information in the management report;
- at the level of a representative sample of sites selected by us ⁽²⁾ on the basis of their activity, their contribution to the consolidated indicators, their location and a risk analysis, we conducted interviews to verify that procedures are properly applied and to identify potential undisclosed data, and we performed tests of details, using sampling techniques, in order to verify the calculations and reconcile the data with the supporting documents. The selected sample represents 25% of headcount and between 15% and 23% of quantitative environmental data disclosed.

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

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

(1) Human resources quantitative information: Active headcount as at December 31, 2016 broken down by gender ; Number of recruitments ; Number of dismissals ; Percentage of female managers ; Absenteeism rate ; Frequency rate of work accidents with lost days ; Severity rate of work accidents ; Number of training hours ; Percentage of employees with disabilities.

Environmental quantitative information: Water consumption ; Electricity consumption ; Gas consumption ; Copper consumption ; Amount of hazardous and non-hazardous industrial waste ; Part of recycled waste ; Emissions of CO₂ related to energy consumptions.

Qualitative information: Remuneration and their evolution ; Organization of social dialogue including information procedures, consultation and negotiation with the employees ; Occupational health and safety conditions ; The organization of the company to integrate environmental issues and, if appropriate, the assessments and certification process regarding environmental issues ; Amount of provisions and guarantees for environmental risks ; Action implemented against corruption.

(2) Juarez (Mexico) ; Gennevilliers (France) ; Saint Sylvain d'Anjou (France) ; Chongqing (China) ; Zhejiang (China).

We believe that the sampling methods and sample sizes we have used, based on our professional judgement, are sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures. Due to the use of sampling techniques and other limitations inherent to information and internal control systems, the risk of not detecting a material misstatement in the CSR information cannot be totally eliminated.

Conclusion

Based on the work performed, no material misstatement has come to our attention that causes us to believe that the CSR Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

Paris-La Défense, March 7th, 2017

KPMG S.A.

Philippe Arnaud
Partner
Sustainability Services

Philippe Cherqui
Partner