Expertise, our source of energy

URD 2020

# *Universal Registration Document*

# MERSEN

## Universal Registration Document



*This document is a free translation into English for convenience purposes only of the French URD filed with the Autorité des Marchés Financiers on March 15, 2021.*

# 1 Group Profile

# 2020: AN UNPRECEDENTED YEAR

After several years of growth, the Covid-19 pandemic hit the global economy hard in 2020, with many countries introducing travel restrictions, lockdown measures and quarantines to slow the spread of the pandemic. These restrictions began in January and February in China and then reached Europe in early March and America at the end of March.

Although some countries eased their lockdowns after the first wave of the pandemic, business only began to pick up gradually during the summer. Then as we moved out of summer new restrictions had to be applied, albeit not as strict, due to the start of a second wave of the pandemic.

As nations faced this unprecedented situation, many governments put in place financial support measures such as short-time working and furlough schemes, subsidies and government-backed loans.

Mersen's operations were classified as essential by the authorities in most of the countries where lockdowns were imposed. This meant that most of its sites were able to stay open, with at least 85% of them operational in April and May 2020 when the first wave of the pandemic peaked. However, some sites had to be temporarily shut for health and safety reasons (for example for deep cleans or precautionary measures due to confirmed Covid cases), or due to supply-chain issues, such as supply stoppages.

The Group generated sales of €847 million, down 11.4% on an organic basis. The Group's business was above all affected by lower demand, although the picture was extremely mixed across its various markets and geographies. While aeronautics, chemicals and process industries all fell dramatically, down nearly 20%, sustainable development markets, which now account for approximately 56% of the Group's total sales, held up extremely well and on the whole remained stable over the year.

In order to adapt to the lower business volumes, the Group significantly reduced its budgeted operating costs and capital expenditure, except for programs related to the environment, health & safety and growth markets.

Mersen also received government aid (primarily in China) and made use of schemes covering the costs of short-time working and furloughs for its employees. At the height of the crisis, in April/May 2020, up to 10% of the Group's workforce was furloughed or on short-time working arrangements. However, the Group did not apply for any government-backed loans.

The additional direct costs caused by Covid-19 (purchase of masks, cleaning costs, exceptional transportation, etc.) were recorded but were for the most part offset by decreased spending as a result of slower business activity (especially reduced travel expenses).

All in all, the Group demonstrated its resilience and ability to adapt its expenditure, delivering operating margin of 8.1% of sales.

In addition to these cost-reduction measures, targeted plans had to be drawn up to adapt businesses that will be lastingly impacted by the crisis, primarily those serving the chemicals and aeronautics industries. Restructurings were therefore carried out at some manufacturing sites, including two in France. Mersen also continued to review operational efficiency in its Electrical Power segment, regrouping or relocating some facilities. The Group recorded impairment losses on property, plant, and equipment and on intangible assets, mainly as a result of a morose chemicals market and the fact that certain production equipment is not being used to full capacity on markets that are structurally weak. This resulted in a net loss of €8.8 million.

Mersen has a solid financial structure, with over €160 million in undrawn credit lines and more than €110 million in cash at December 31, 2020, meaning that the Group will be able to cover its debt repayments at least until 2023. The leverage ratio (net debt/EBITDA) of 1.65x and gearing ratio (debt/equity) of 33% are well within its banking covenants.

During this unprecedented year, the Group's priority has been to ensure the health and safety of its employees throughout the world. Shared best practices and support for solidarity efforts have also been encouraged. Moreover, in line with this solidarity approach, the Board of Directors decided that at the Annual General Meeting it would not recommend a dividend payment or seek authorization to allocate free shares to executives and managers. Finally, the Group's corporate officers (Chairman of the Board of Directors and Chief Executive Officer) decided to reduce their fixed compensation by 12.5% for the year order to contribute to the collective effort required by the economic context.

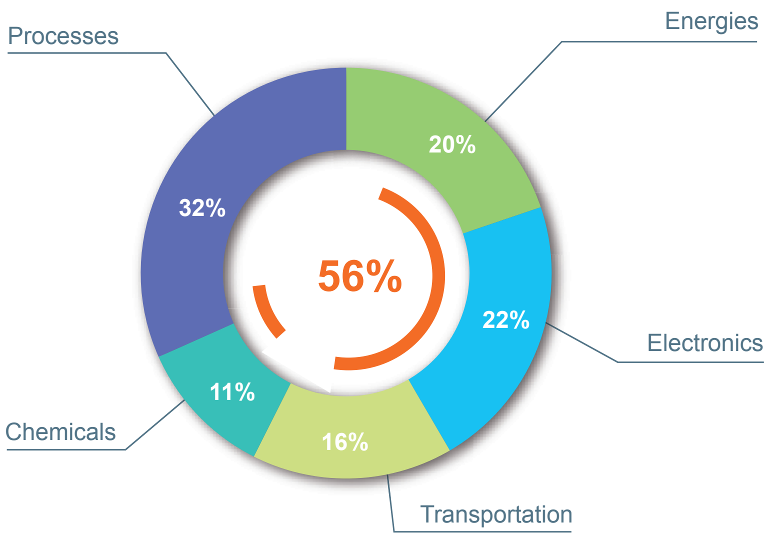
Looking ahead to the future and building on the performance of this year like no other, when the resilience of the Mersen model truly came through, the Board of Directors will be proposing a dividend of €0.65 per share at the General Meeting of Shareholders for the 2020 financial year.

# 2020 Key Figures

## Sales

**€847m**
- 11.4% vs 2019

## Breakdown by markets




56% of sales
for sustainable
development markets

## Results

**€123m**
EBITDA

**€69m**
operating income
before non-recurring
items

**€(12)m**
net income

## Financial structure

**7.8%**
return on
capital employed

**1.65**
net debt
to EBITDA ratio

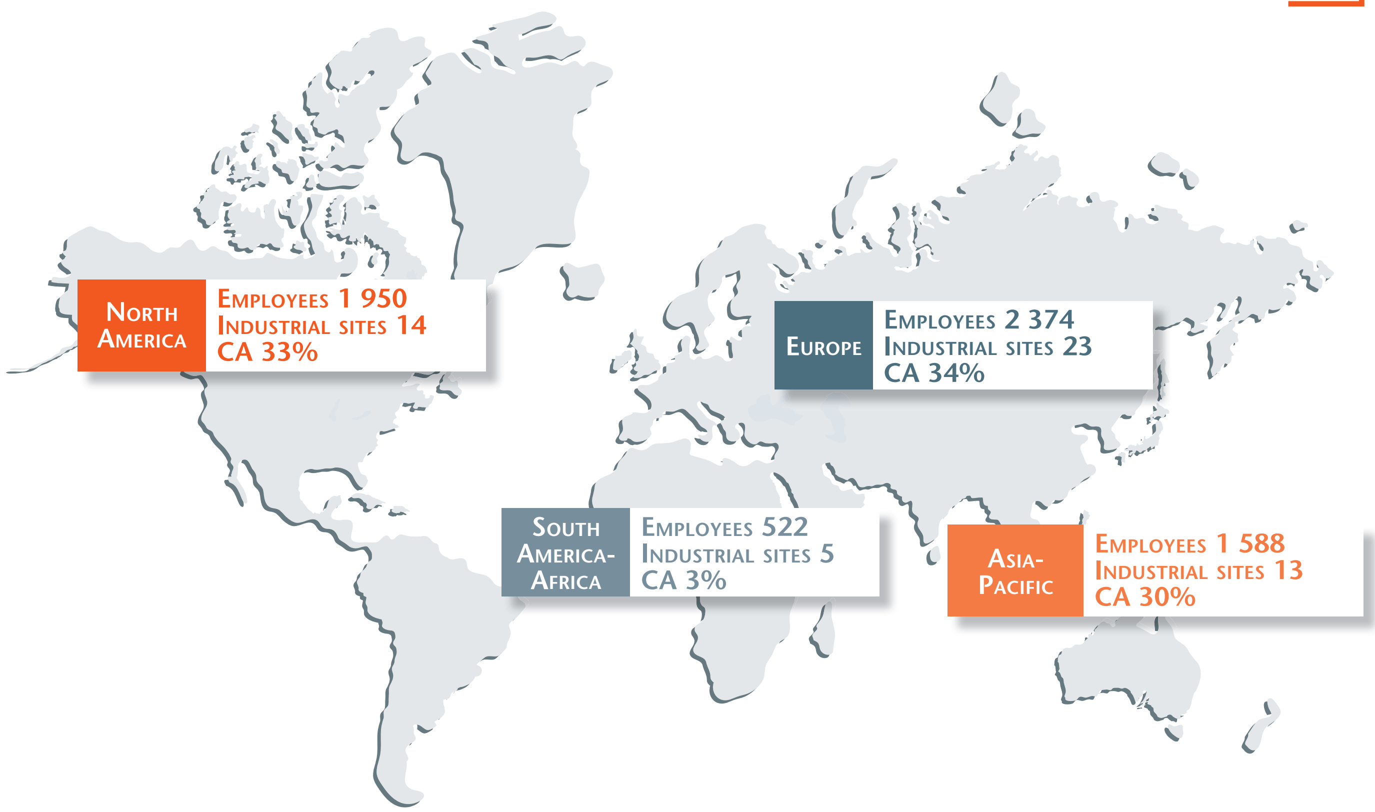
## Dividend per share*

**€0.65**

** Subject to shareholder's approval at the General Meeting.*

## Mersen worldwide

**6,434 employees**




**16**
R&D centers

**92%**
of plant managers recruited locally

**55**
sites in the world (with 15 > 125 employees)

## Commitment

UN GLOBAL COMPACT
WE SUPPORT

A signatory of the United Nations Global Compact since 2009

MSCI
ESG RATINGS
BBB
CCC | B | BB | BBB | A | AA | AAA

SILVER
2020
ecovadis
Sustainability Rating

Silver medal Ecovadis

## MISSION

We provide manufacturers all over the world with innovative

## OUR RESOURCES

HUMAN CAPITAL

**6,400 employees in 35 countries**

SOCIETAL CAPITAL

**Code of ethics**

**Purchasing charter**

**92% of plant managers recruited locally**

INDUSTRIAL CAPITAL

**55 industrials sites**

**€57m in Capex**

INTELLECTUAL CAPITAL

**16 R&D centers**

FINANCIAL CAPITAL

**Net debt/EBITDA = 1.65**

## OUR BUSINESSES

**DESIGN**

**TRANSFORMATION, ASSEMBLY**

including baking, graphitization, purification, brazing

**TREATMENT PROCESS, FINISHING**

Machining, coating

## OUR ASSETS

### 2 EXPERTISES

**Advanced Materials**

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

**Electrical Power**

- Electrical protection & control
- Power management solutions

### 5 VALUES

Excellence
Collaboration
People-Conscious
Agility & Entrepreneurial Spirit
Partnering with our Customers

All data above refer to 2020.

solutions to enhance the performance of their offer

## VALUE CREATION

### SOCIAL

**€252m** in fixed salaries

**€16m** in profit sharing plans

**10.9** hours of training/employee

**91%** of employees proud to belong to the group

Safety / LTIR[(1)] = **1.54**

### SOCIETAL

**€407m** in purchase

**CSR** Commitment (Ecovadis silver medal)

### ENVIRONMENTAL

**56%** of sales geared to sustainable development

**40%** sites certified ISO 14001

**60%** of waste recycled

### ECONOMICAL

**€11m** in income tax

**€8m** in interest paid to banks

## OUR MID-TERM AMBITION

Pursuing the **development of solutions** tailored to our customers' needs by relying on our high value-added expertise

Fostering growth in buoyant markets that contribute to sustainable development by **offering innovative and sustainable solutions**

Continuing to implement its competitiveness and performance program while taking a **socially responsible approach**

Optimizing **human capital development** by providing a motivating work environment

(1) Lost-time injury rate.

# Vision, mission and values

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

Our ambition is to contribute to technological progress across the globe. We are convinced that our products and solutions are essential to progress and technological innovation, which gives the Group a role to play in improving the way we live and in protecting the environment and its resources.

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

## Group strategy

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

1. **Pursuing the development of solutions tailored to our customers' needs by relying on our high value-added expertise**

   Mersen offers a wide range of products, services and solutions in our two areas of expertise – electrical power and advanced materials. To effectively address customers' specific needs, the Group draws on its network of 16 R&D centers located close to its customers across the world. This proximity gives Mersen unique insight into the challenges facing each player and enables the Group to offer custom-designed, innovative solutions backed by state-of-the-art technology. Mersen is also pursuing its policy of targeted acquisitions to provide its customers with an enhanced experience and expand its operations in certain regions.

2. **Fostering growth in buoyant markets that contribute to sustainable development by offering innovative and sustainable solutions**

   Mersen works closely with major industry players around the world and uses its international sales and manufacturing network to strengthen its leadership positions in each of its markets. It focuses its efforts on markets with significant medium-term growth potential that contribute to the sustainable development of the planet, including from solar energy to electronics, energy storage and green transportation with rail networks and electric vehicles.

3. **Continuing to implement its competitiveness and performance program while taking a socially responsible approach**

   Mersen wants to gain in operational efficiency while constantly improving the security and safety of its plants and the people who work there and strengthening its ties with stakeholders in its host communities. The Group has implemented a global operational excellence initiative for all parts of the company, from operations through to sales, with special emphasis on improving safety and reducing the environmental footprint of its production sites.

4. **Optimizing human capital development by providing a motivating work environment**

   Mersen promotes a culture where people are the bedrock of the Group and its development. It does this by striving to empower employees, develop local leadership and promote equality between men and women in all roles and across segments. This approach is adapted to each country while embracing local specificities and cultures.

## Resources

Mersen works side-by-side with its customers all over the world. The Group draws on its production base of more than 50 sites in some 35 countries, the majority of which are overseen by local managers to facilitate interaction with local stakeholders.

The Group leverages its knowledge of its customers' challenges to offer innovative products and solutions, which are sometimes developed jointly and draws on its network of 16 R&D centers across the world. Its agile strategy and structure means it is able to stay ahead of market and environment trends and seamlessly adapt its products and services to changing needs.

But Mersen's major strength is its 6,400 employees around the world who drive its development according to a strict code of ethics that guides all of the Group's activities and operations.

# Research and development policy

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

Most of this expenditure is financed internally.

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

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

Key results and progress in 2020 include:

- Significant initial sales of carbon felt used as electrodes for vanadium flow batteries. This success rewards many years of R&D efforts by Mersen, conducted in part collaboratively with the University of Strathclyde. Today, Mersen offers an advanced material surpassing that of all known competitors in this market for batteries designed to store large amounts of energy, which are essential components for renewable energy sources.
- Development of fuses specially designed to comply with specifications for electric vehicles and their cost-to-volume ratio. These fuses are divided into two sub-categories: the line-up of MEV50 fuses was developed for battery pack protection with voltages of up to 500 V, while the fuses designed for the protection of auxiliary circuits (all electrical equipment, excluding traction motors) feature voltages of up to 800 V, already on order.
- Improved processes required to produce crucibles in carbon-carbon composites used by China's leading solar cell manufacturers. This enabled Mersen Yantai to successfully transition from the former graphite crucibles to the new products, which are more compatible with the large furnaces that most of our customers are increasingly introducing into their operations.
- Market launch of Nimbus, a new range of lightning rods embedded with communication systems used to test the device remotely and optimize maintenance planning.
- Development of a range of surge protection systems engineered for renewable energy sources such as wind turbines and solar farms.

# Expertise

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

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

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

## 1. Advanced Materials segment (AM)

- Sales of €476 million
- 56% of total sales
- World no. 1-2 [(1)] in graphite anticorrosion equipment
- World no. 1-2 [(1)] in brushes and brush holders for industrial electric motors
- World no. 1-2 [(1)] in high-temperature applications of isostatic graphite

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

### 1.1. Product range and applications

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

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

- Resistance against very high temperatures: Mersen's range includes isostatic graphite equipment, carbon-carbon composites, flexible and rigid felt, and silicon carbide for solar applications, semiconductors and other refractory processes, electrodes for electrical discharge machining, kiln linings, etc. In 2020, the Group boosted its capacity in producing insulation felts with the acquisition of assets from US company Americarb.
- Protection against corrosion: this is provided by equipment using graphite, reactive metals (tantalum, zirconium, titanium, etc.), silicon carbide and fluorinated polymers (PTFE) for the chemical, pharmaceutical and metallurgy industries. In 2020, Mersen strengthened its expertise in anticorrosion solutions by acquiring German company GAB Neumann.
- Electric power transfer: the Group's range provides stable and constant generation, flow and transformation of electrical current in industry (steel, mining, etc.), energy (power plants, wind farms, etc.) and transportation (rail, aeronautics, aerospace and maritime). This function is carried out with brushes, brush holders and slip rings used in generators and motors, and with third-rail current collectors and special collection systems.

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

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

## 2. Electrical Power segment (EP)

- Sales of €371 million
- 44% of total sales
- World no. 1 [(1)] supplier of components for the power electronics market
- World no. 2 [(1)] in industrial fuses
- World no. 1 [(1)] in current collection for the rail market

### 2.1. Product range and applications

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

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

### 2.2. Competition

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

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

Already present in the heavy electric vehicle market (buses, trucks, etc.), Mersen is now expanding into high-end electric vehicles, primarily in the area of high-voltage battery protection.

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

Main competitors (in alphabetic order)

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

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

# Markets

The world continues to evolve, driven by major trends like urbanization, digitalization and the reduction of energy use and its impact on the climate. In 2020, the world was completely shaken by the pandemic. But the solutions that Mersen brings to its markets (renewable and conventional energies, power electronics, semiconductor manufacturing, green transportation, aeronautics, corrosive chemicals and process industries) mean the Group has a key role to play in developing tomorrow's world.

## 1. Energy

Mersen develops solutions for the world's principal energy sources and contributes to the energy transition by developing renewable energies across the globe.

### 1.1. Solar power

Photovoltaic technology is now a major global energy source. Despite the crisis, installed capacity increased slightly, from 115 GW [(1)] in 2019 to 118 GW in 2020. After a wait-and-see first half to the year, capacity installation picked up in the second six months of 2020. Growth is expected to continue in the coming years, especially in China, driven by ease of installation and competitive costs.

Global installed capacity now totals around 760 GW.

Mersen offers solutions for the entire photovoltaic industry.

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

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

### 1.2. Wind power

Installed wind power capacity reached over 700 GW worldwide at the end of 2020, making it a very attractive replacement market for Mersen. Global installed capacity could reach 1,000 GW in 2024.

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

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

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

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

### 1.3. Hydroelectricity

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

*(1) Source: IHS Markit.*

### 1.4. Energy storage

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

For stationary batteries, Mersen operates at every level:

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

### 1.5. Conventional energies

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

## 2. Electronics

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

### 2.1. Semiconductor manufacturing

The semiconductor market is evolving rapidly. In addition to silicon-based semiconductors (microprocessors, chips and memory) used in data networks and computers, demand for compound semiconductors is also on the rise. Their wide range of applications include LED lighting using a gallium nitride (GaN) based active layer and opto electronic components with an indium phosphide (InP) substrate.

For power electronics components (IGBT, MOSFET, JFET, DIODE), manufacturers have traditionally used silicon-based semiconductors but are now turning increasingly to silicon carbide (SiC) semiconductors. These products are more powerful, efficient and compact. The SiC semiconductor market is on the rise and set to accelerate further as of 2023, in line with development in the electric vehicle market.

The silicon-based semiconductor market as a whole contracted slightly in 2020, especially at the beginning of the year. However, demand for power electronics components is increasing.

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

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

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

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

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

### 2.2. Power conversion

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

Each year, the power conversion market grows by an average 4% to 5%, depending on the power range, mainly led by demand for electric vehicles, rail traction systems, renewable energies and speed drives for electric motors in industrial facilities. However, there were fewer projects in 2020 due to the global economic crisis.

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

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

## 3. Transportation

Mersen supports the growing mobility of people and goods around the world. With its solutions for the rail and electric vehicle markets, the Group contributes to the reduction of CO2 emissions.

### 3.1. Rail

Growth and transformation in the rail industry is being driven by global trends, such as globalization, urbanization and sustainable development. For the 2018-2023 period, global rail market growth is expected to be around 2.5% per year (source: UNIFE, World Rail Market Study – Forecast 2018 to 2023), primarily driven by rolling stock and infrastructure.

The retrofit market was considerably stifled in 2020 due to restrictions on movement. However, projects to build new subway and tram lines moved forward, although some were slightly delayed.

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

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

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

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

### 3.2. Aeronautics

In 2020, the aeronautics market was one of the most severely impacted by the health crisis and travel restrictions. After several years of strong growth in commercial aviation, the industry could stall for several more years to come.

Mersen's offer helps to enhance the reliability and efficiency of aircraft with solutions that offer reduced weight, fuel consumption and total operating costs. Its range of products is designed to:

- Optimize aircraft, in particular via a range of carbon-carbon composite braking disks. The Group also supplies key components for auxiliary motors, air conditioning, electrical power generation and distribution systems.
- Improve flight conditions through the use of wear-resistant composite materials and brushes and brush holders designed for aircraft pressure systems.
- Reduce energy consumption thanks to optimal electronics cooling, low-inductance laminated bus bars, turbine blade positioning devices and components with lower friction rates.

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

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

### 3.3. Electric vehicles

The electric vehicle (BEV, HEV or PHEV [(1)]) market is thriving, with both the passenger vehicle and industrial and commercial heavy vehicle segments enjoying robust growth. The market is expected to grow even faster in the future, particularly for vehicles with battery voltages above 400 V, which is Mersen's target market. Growth is estimated to triple between 2020 and 2025.

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

- Its offering for battery modules and packs includes high-speed fuses, bus bars and cooling devices. The Group also develops hybrid solutions to protect passengers by disconnecting high voltage batteries in the event of a shock or proven electrical faults.
- Its offering for power converters includes water cooling solutions that meet thermal management needs, laminated bus bars that provide for the safe flow of electricity between various components and capacitors that filter power conversion signals.

*(1) Plug-in Electric Vehicle.*

- In addition to all the advantages associated with its high-speed fuses, cooling devices, capacitors and laminated bus bars, Mersen's electric vehicle stations are also equipped with surge protection devices, for overall optimal protection.

Mersen's customers include automobile manufacturers, first and second tier subcontractors and battery manufacturers. The market is gradually taking shape and could still experience significant change.

### 3.4. Aerospace

Optical instruments for space exploration and ground-based observatories require precise and stable geometrics that can withstand drastic changes in temperature, rapid acceleration and strong vibrations. Thanks to its unique properties, including lightness and exceptional thermomechanical stability, silicon carbide is widely used in aerospace applications.

Mersen supplies silicon carbide mirrors and structures for telescopes, particularly for use by Airbus Defense and Space in its observation satellites (e.g., Herschel, Gaia and PeruSat), as well as by the French National Space Agency (CNES) in such missions as MicroCarb. Mersen was also chosen to manufacture the final mirror for the Extremely Large Telescope (ELT) project run by the European Southern Observatory (ESO).

## 4. Corrosive chemicals

Tens of thousands of chemical products are present in our day-to-day environment – in PVC construction materials, in polyurethanes used in the automotive industry, in silicones for adhesives and in high-performance plastics used in new technologies. All these chemicals are produced according to procedures using corrosive substances in high-temperature environments.

Industry investments in new capacity were slim in 2020, which affected the Group's business.

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

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

Made from graphite, SiC or reactive metals, its customized solutions:

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

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

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

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

## 5. Process industries

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

Highly dependent on the global economy and GDP growth, these markets slowed significantly in 2020.

Mersen's expertise covers the following areas:

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

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

# Value creation

Mersen is convinced that its medium and long-term development can only be achieved through a combination of business, financial and nonfinancial performance and through respect for all of its stakeholders – starting with customers, who have always played a central role in the Group's strategy.

Mersen therefore aims to approach its value creation model from several angles:

- Social: for the benefit of employees and their families.
- Societal: through its contribution to host communities (using local suppliers, paying local taxes, supporting community initiatives, etc.).
- Environmental: through its contribution to the development of environmentally responsible activities, such as renewable energies, electronics, energy efficiency and clean transportation.
- Economic: for the benefit of its shareholders and financial partners.

# 2 CORPORATE GOVERNANCE REPORT

# Administrative and Management Bodies

## 1. Legislative and regulatory environment

### 1.1. Legal provisions

Mersen has been governed by a Board of Directors and an Executive Management team since the General Meeting of May 11, 2016. It was previously governed by a two-tier structure with a Supervisory Board and a Management Board.

In accordance with the provisions of Articles L. 225-37, L. 225-37-4 and L. 22-10-8 to L. 22-10-11 of the French Commercial Code *(Code de commerce)*, the Board of Directors submits a report on corporate governance, which covers in particular the composition, preparation and organization of the Board's work. This report was prepared by the Board of Directors in respect of the fiscal year ended December 31, 2020.

This report was submitted for the opinion of the Governance, Appointments and Remuneration Committee and the Audit and Accounts Committee, which met on March 4, 2021, and for the approval of the Board of Directors on March 10, 2021, in accordance with the aforementioned arrangements.

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

Pursuant to Article L. 22-10-10 of the French Commercial Code, the Mersen group refers to the AFEP-MEDEF Corporate Governance Code for listed companies (as revised in January 2020), and complies with all of its provisions. The AFEP-MEDEF code is available (in French) on the AFEP website: www.afep.com, and on the MEDEF website: www.medef.com

## 2. The Board of Directors

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

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

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

The Internal Charter has been amended twice by the Board since the last Universal Registration Document was published.

At its meeting of May 14, 2020, the Board of Directors revised the Internal Charter to:

- bring it into line with the amended Articles of Association, as approved by the General Meeting of the same day (in particular the possibility to take decisions by written consultation under the conditions defined by law);
- take into account certain legislative developments resulting from French law no. 2019-486 of May 22, 2019, known as the Pacte law (in particular the addition of the annual review of routine related-party agreements entered into on arm's length terms to the powers of the Board of Directors and clarification of the requirement to abstain from voting incumbent on directors with a direct or indirect interest in a regulated related-party agreement);
- take into account the changes resulting from the approval of the new director compensation policy.

At its meeting of March 10, 2021, the Board of Directors amended the Internal Charter in order to replace obsolete references to former articles of the French Commercial Code with the new references resulting from the recodification adopted by Government Order no. 2020-1142 of September 16, 2020 and Decree no. 2020-1742 of December 29, 2020. It also added an Appendix featuring a table describing the selection procedure for independent directors. This table is set out in section 2.9.2 below.

The Internal Charter has seven articles and two appendices:

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

Appendix 1: Policy for preventing the circulation of inside information and Insider status.

Appendix 2: Procedure for the selection of independent directors.

The Internal Charter of the Board of Directors can be downloaded from the Company's website at www.mersen.com, in the section Group / corporate governance.

## 2.2. Assignments and duties of the Board of Directors

The Board of Directors determines the Company's overall strategy, overseen by the Chairman of the Board in close collaboration with Executive Management. As part of this role, it examines and approves the Company's strategic plans and activities. The Chairman may delegate to another member of the Board his powers for organizing the Board's work, preparing Board meetings in advance and leading the discussions during Board meetings. The Chairman, or his delegated representative, is entitled to:

- receive from the Company any documents that he deems useful for carrying out his duties;
- question, in the event of the separation of functions, the Chief Executive Officer and, where applicable, the Deputy Chief Executive Officers, or any other person he feels it may be appropriate to question;
- have any third parties of his choosing (expert, advisor or statutory auditor) attend Committee meetings;
- commission, at the Company's expense and subject to the budgets approved by the Board of Directors, any internal or external specialist studies or research that may help the Board in its discussions.

The Board's main duties are:

- Review of the financial position, cash position and commitments of the Company and its subsidiaries;
- Annual review and approval of the budget;
- Approval of the management report and the corporate governance report;
- Review and approval of the parent company and consolidated financial statements;
- Review of regulated related-party agreements and annual assessment of routine related-party agreements entered into on arm's length terms;
- Prior authorization of related-party agreements and their annual review in order to ensure that they are in the Company's interests;
- Appointment and removal of the Chief Executive Officer and setting of his or her compensation in accordance with the regulations;
- Definition of the compensation policy for corporate officers;
- Review and approval of the succession plan for executive corporate officers;
- Co-optation of members of the Board of Directors;
- Allocation of compensation among the members of the Board of Directors, setting of the Chairman's compensation in accordance with the conditions provided for by the regulations;
- Prior consultation on the content of the interim financial information released to the market;
- Authorizations relating to guarantees and endorsements;
- Proposal of resolutions to be put to the General Meeting of shareholders;
- Setting up of stock option and free share plans.

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

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

## 2.3. Promoting long-term value creation and addressing CSR challenges

In accordance with Article L. 225-35 of the French Commercial Code as amended by French law no. 2019-486 of May 22, 2019, known as the Pacte law, the Board of Directors endeavors to protect the interests of the Company and its shareholders while taking into consideration the social and environmental challenges of the Company's activities for all stakeholders: customers and suppliers, employees, partners and local communities.

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

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

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

## 2.4. Assessment of the Board of Directors

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

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

In 2020, the assessment was conducted by the Governance, Appointments and Remuneration Committee, which issued its report to the Board of Directors in January 2021. The conclusion was that the members of the Board were broadly satisfied with its practices and procedures, its relations with the Group's Executive Management, and the expertise of each of its members. They were particularly pleased that the proposals for improvements put forward last year had been implemented, indicating a commitment to ongoing improvement.

This year, the areas for improvement identified relate more specifically to the monitoring of the shareholder base and, more broadly, relationships with the financial markets, management succession plans, the CSR roadmap and better knowledge of the Group's markets and industrial sites.

## 2.5. Board of Directors' training

In accordance with the prevailing legal provisions, directors who deem it necessary may benefit from additional training in the Company's specific characteristics, business segments, business sector and corporate and social responsibility issues. This training may take the form of visits to the Group's sites.

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

In addition, employee-representative directors receive training on their role on the Board and must be given the necessary time to devote to their directorships.

## 2.6. Diversity policy of the Board of Directors and management bodies

The Board of Directors pays close attention to diversity, particularly in terms of gender and expertise. It ensures that its composition and that of the committees it establishes from among its members is balanced, by ensuring that its tasks and those of its committees are carried out with the necessary independence and objectivity. In particular, it ensures that the composition of the Board allows for the balanced representation of men and women, different nationalities, ages, qualifications, professional experience and expertise.

The Board of Directors has formally described the expertise it deems necessary to carry out its duties. This expertise is described in Section 2.7.2.

The Board of Directors complies with the legal provisions on gender balance, as women represent 57% of its members.

The Board also supports and encourages management in its diversity policy:

- it notes the Group's exemplary position in terms of international diversity, as more than 90% of site managers are local nationals;
- it commends the Group's policy of increasing the proportion of women engineers and managers. This policy, which is built on four pillars (see chapter 4), has made it possible to increase the proportion of women from 22.2% at the end of 2019 to 24.2% at the end of 2020, with a target of 25% to 30% of women engineers and managers by the end of 2022;
- lastly, at its meeting of March 10, 2021, it adopted an ambitious policy aimed at increasing the proportion of women on management bodies, in accordance with the recommendations of the AFEP-MEDEF Code.

The Group has accordingly set the target of gradually increasing the proportion of women senior managers from 19.7% at end-2020 to 25% by end-2025. This target will align the proportion of women among the Group's senior managers with the overall proportion of women among engineers and managers. In its annual Corporate Governance Report, the Board of Directors will report on the progress made during the past year, including, where applicable, the reasons why targets were not met and the corrective measures taken.

## 2.7. Composition of the Board of Directors

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

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

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

Furthermore, no individual person having passed the age of 70 years may be appointed as a member of the Board of Directors if his or her appointment results in over one-third of the members of the Board of Directors having exceeded that age.

As of the date of publication of this Universal Registration Document, the Board of Directors was composed of eight members:

| | | Personal information | | | | | Position within the Board | | | Participation in a Committee | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Duties within the Board | Age | Gender | Nationality | Number of shares | Independence | Date of first appointment | Term ends | Length of service on the Board (years) | Audit and Accounts | Appointments Governance Remuneration |
| Olivier Legrain | Chairman | 68 | M | FR | 1,770 | X | 05/18/2017 | 2021 GM | 4 | | x |
| Isabelle Azemard | Director | 69 | F | FR | 800 | | 05/15/2014 | 2022 GM | 7 | | x |
| Pierre Creusy | Director representing employees | 59 | M | FR | 200 | | 10/12/2017 | Group Committee Post 10/12/21 | 3 | | x |
| Michel Crochon | Director | 69 | M | FR | 800 | X | 05/18/2017 | 2021 GM | 4 | x | |
| Carolle Foissaud | Director | 54 | F | FR | 823 | X | 05/16/2013 | 2021 GM | 8 | x | |
| Bpifrance Investissement Represented by Magali Joessel | Director | 47 | F | FR | 2,242,770 | | 10/30/2013* | 2023 GM | 7 | x | |
| Ulrike Steinhorst | Director | 69 | F | GER | 815 | X | 05/16/2013 | 2021 GM | 8 | | x |
| Denis Thiery | Director | 65 | M | FR | 800 | X | 05/17/2019 | 2023 GM | 2 | x | x |

*Chairman*

### 2.7.1. Changes in the composition of the Board in 2021

Five directorships are due to expire in 2021 (four independent directors and the director representing employees). At its meeting of March 10, 2021, the Board of Directors decided to submit to the General Meeting of May 20, 2021 two proposed amendments to the Articles of Association to allow for a better staggering of terms, and accordingly, to smooth out the replacement of directors, in accordance with the recommendation of the AFEP-MEDEF Code: 1) the possibility of appointing directors for terms of two or three years, in addition to the current four-year term; and 2) the extension of the term of a director who reaches the age limit of 72 years set in the Articles of Association during his or her term until the next General Meeting.

Subject to the approval of these amendments to the Articles of Association by the General Meeting, the Board of Directors has decided to propose to the General Meeting of May 20, 2021 to renew the term of office of Olivier Legrain for four years, the terms of office of Carolle Foissaud and Michel Crochon for three years and that of Ulrike Steinhorst for two years. This staggering will prevent too many directorships from expiring at the same time in subsequent years.

In addition, the Board of Directors has decided to ask the General Meeting of May 20, 2021 to appoint the Chief Executive Officer, Luc Themelin, as a member of the Board of Directors for a term of four years. Having served as Chief Executive Officer for nearly 10 years, Luc Themelin will strengthen the Board of Directors thanks to his extensive knowledge of the Group and his in-depth experience in its businesses. The Internal Charter was amended by the Board of Directors at its meeting of March 10, 2021 to specify that the Chief Executive Officer does not receive any compensation for his or her directorship if he or she is also a member of the Board of Directors.

Subject to the approval of the proposed resolutions, the Board of Directors will be composed of nine directors, including four women, at the close of this General Meeting. Five directors would be independent.

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

The Board of Directors and the Governance, Appointments and Remuneration Committee regularly assess the composition of the Board and its Committees, as well as the skills and experience that each director brings to the Board. They also identify how to achieve the best possible balance of directors' profiles, taking into account both international expertise and diversity – in terms of nationality, gender and experience.

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

| | O. Legrain | I. Azemard | P. Creusy | M. Crochon | C. Foissaud | M. Joëssel | U. Steinhorst | D. Thiery |
|---|---|---|---|---|---|---|---|---|
| Executive Management | X | | | X | X | | | X |
| Innovation | | | | | | X | X | |
| Strategy | X | X | | X | | X | X | X |
| Experience in Mersen's business activities | X | | X | X | | | | |
| Industrial expertise | X | X | | | X | | | |
| International/knowledge of a strategic geographic area for Mersen | | X | X | X | | | | X |
| Finance/risk management/knowledge of financial markets/M&A | | | | | X | X | | X |
| CSR/Human capital | X | | X | | X | | X | |

In addition, four directors (i.e., half of the Board) have experience in listed companies, either as Chief Executive Officer or as a director.

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

| | |
|---|---|
| Olivier Legrain<br>68 years<br>French nationality<br>Term ends: 2021<br>Shares held: 1,770 | Chairman of Mersen's Board of Directors – Member of the Governance, Appointments and Remuneration Committee<br>Biography – Professional experience<br>Olivier Legrain began his career with Rhône-Poulenc, where he held executive positions in several business units. He subsequently joined the Lafarge Group as a member of its Executive Committee, in charge of specialty materials and strategy. After organizing the sale of the Lafarge Group's stake in Materis, a group specializing in materials, he became Chairman of Materis until 2015.<br>Main activities exercised outside the Company<br>Olivier Legrain is now a therapist.<br>Current directorships<br>Director of: Kiloutou, Minafin, Astance<br>Member of the Governance Committee of: Balas<br>Member of the Supervisory Board of: Amplegest<br>Directorships that have expired in the past five years<br>Director of: Parot<br>Chairman of the Board of: Parex |
| Isabelle Azemard<br>69 years<br>French nationality<br>Term ends: 2022<br>Shares held: 800 | Member of Mersen's Board of Directors – Member of the Governance, Appointments and Remuneration Committee<br>Biography – Professional experience<br>Isabelle Azemard spent her career at the Thales Group, including 20 years in sales and marketing management positions, primarily at the international level. Since 2013, she has been a consultant to business executives.<br>Main activities exercised outside the Company<br>Since 2013, she has been a consultant to business executives.<br>Current directorships<br>Director of: AXA mutuelle IARD, Mutuelle Vie.<br>Joint Legal Manager of: RTDE<br>Directorships that have expired in the past five years<br>Director of Majencia, Latécoère |
| Pierre Creusy<br>59 years<br>French nationality<br>Term ends: 1st Group Committee post 10/17/21<br>Shares held: 200 | Member of Mersen's Board of Directors representing employees – Member of the Governance, Appointments and Remuneration Committee<br>Biography – Professional experience<br>Pierre Creusy joined Mersen in 1986. After working in Korea, he held positions in production engineering and subsequently in product management before joining Mersen's Corporate Finance team as a financial controller. In 1999, he took on business responsibilities in Asia and then held the position of Director of Strategic Projects within the Electrical Power segment. He is now VP Project Management and Performance Improvement for this segment.<br>Main activities exercised outside the Company<br>N/A<br>Current directorships<br>N/A<br>Directorships that have expired in the past five years<br>N/A |
| Michel Crochon<br>69 years<br>French nationality<br>Term ends: 2021<br>Shares held: 800 | Member of Mersen's Board of Directors – Member of the Audit and Accounts Committee<br>Biography – Professional experience<br>Michel Crochon has spent his entire career at Schneider Electric, where he accumulated years of experience in many different roles. In addition to managing departments and production plants, he has also worked in sales and marketing, held cross-functional roles and managed large units. He was a member of the Executive Committee for 12 consecutive years. During that time, he was Head of the Customers and Markets Division, and later Head of the Industry Business and the Energy and Infrastructure Business, before becoming Head of the Group's Corporate Strategy and Technology. Michel Crochon has experience in working abroad and facing cross-cultural challenges, having traveled and managed teams in a variety of countries. He spent three years in both China and Hong Kong.<br>Main activities exercised outside the Company<br>N/A<br>Current directorships<br>Director of Sphéréa<br>Directorships that have expired in the past five years<br>N/A |

| | |
|---|---|
| Carolle Foissaud<br>54 years<br>French nationality<br>Term ends: 2021<br>Shares held: 823 | Member of Mersen's Board of Directors – Member of the Audit and Accounts Committee<br>Biography – Professional experience<br>Carolle Foissaud has spent the bulk of her career with the Areva Group, primarily in operational positions within the Fuel and Reactors units and in management positions as Chair and Chief Executive Officer of STMI and its subsidiaries in the field of Cleanup and as Chair and Chief Executive Officer of Areva TA, which specializes in naval propulsion reactors and research reactors. She was also a member of the Areva Group's Executive Management Board.<br>Main activities exercised outside the Company<br>Carolle Foissaud has been Chief Executive Officer of the Energy & Industry segment at Bouygues Energies & Services, which employs 2,500 people, since September 1, 2017.<br>Current directorships<br>N/A<br>Directorships that have expired in the past five years<br>Director of Ecole Navale<br>Independent director of GFI |
| Bpifrance Investissement<br>Represented by Magali Joessel<br>47 years<br>French nationality<br>Term ends: 2023<br>Shares held by Bpifrance Investissement:<br>2,242,770 | Member of Mersen's Board of Directors – Member of the Audit and Accounts Committee<br>Biography – Professional experience<br>Magali Joëssel began her career with the Inspectorate General of Finance at the French Ministry of Economic and Financial Affairs, before being named General Interest Investment Manager with Caisse des Dépôts et Consignations. She joined Bpifrance when it was created in mid-2013 and currently holds the position of Strategy Manager.<br>Main activities exercised outside the Company<br>Since September 2014, Magali has been in charge of the Industrial Project Companies (SPI) fund, which invests in the development of innovative industrial activities and projects.<br>Current directorships<br>Director of Yposkesi, RATP<br>Directorships that have expired in the past five years<br>Naval Energies |
| Ulrike Steinhorst<br>69 years<br>German nationality<br>Term ends: 2021<br>Shares held: 815 | Member of Mersen's Board of Directors – Chairwoman of the Governance, Appointments and Remuneration Committee<br>Biography – Professional experience<br>Ulrike Steinhorst began her career in France at the Ministry of European Affairs.<br>She joined EDF's International Division in 1990 before returning to Germany, where she joined the Degussa Group in 1999. She held several positions there, first in Germany and later in France, where she managed Degussa's French subsidiary. She joined EADS in 2007 as Chief of Staff to the CEO before becoming Head of Strategy, Planning and Finance at Airbus Group's Research Directorate in 2012.<br>Main activities exercised outside the Company<br>Chair of SASU Nuria Consultancy<br>Current directorships<br>Member of the Board of Directors of: Valeo, Albioma (listed companies)<br>Member of the Board of École des Mines Paris Tech and of the Franco-German Chamber of Commerce and Industry<br>Directorships that have expired in the past five years<br>Director of Institut des Maladies Génétiques IMAGINE<br>Director of the foundation F21 (UIMM) |
| Denis Thiery<br>65 years<br>French nationality<br>Term ends: 2023<br>Shares held: 800 | Member of Mersen's Board of Directors – Chairman of the Audit and Accounts Committee and member of the Governance, Appointments and Remuneration Committee<br>Biography – Professional experience<br>Denis Thiery worked at Wang France between 1984 and 1991, where he held various different posts, including Chief Financial Officer from 1989. From 1991 through 1997, he served as Chief Financial Officer and then Chief Executive Officer of Moorings, a world leader in pleasure boat charters based in the United States. He then joined the Neopost group as Group Chief Financial Officer in 1998 where he served as Group Chief Executive Officer from 2007 through 2018 and Chairman of the Board of Directors from January 2010 until July 2019.<br>Main activities exercised outside the Company<br>N/A<br>Current directorships<br>N/A<br>Directorships that have expired in the past five years<br>Chairman of Neopost/Quadient |

### 2.7.4. Independent directors

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

- be an employee or executive corporate officer of the Company or the Group, an employee, executive corporate officer or director of a company that the Company consolidates, of the parent company of the Company or of a company consolidated by that parent company;
- be an executive corporate officer of another company in which the Company holds, directly or indirectly, a directorship, or in which an employee appointed as such or an executive corporate officer of the Company (currently in office or having been in office within the past five years) is a director;
- be (or be directly or indirectly linked to) a customer, supplier, commercial banker, financial banker or adviser that is material to the Company or its Group, or for which the Company or its Group accounts for a significant part of its business;
- have close family ties to a corporate officer of the Company or its Group;
- be, or have been in the past five years, a statutory auditor for the Group's financial statements or for the financial statements of a Group company;
- have been a corporate officer of the Company for more than 12 years.

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

Directors representing major shareholders of the Company or its parent company may be considered independent if those shareholders do not control the company within the meaning of Article L. 233-3 of the French Commercial Code. However, where the shareholder owns more than 10% of the capital or voting rights, the Board will systematically review the director's independence based on a report by the Governance, Appointments and Remuneration Committee, taking into account the Company's ownership structure and any potential conflict of interest.

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

At its meeting of February 12, 2021, based on the recommendations of the Governance, Appointments and Remuneration Committee, the Board of Directors reviewed the independence of the Board members and decided that the representatives of Bpifrance Investissement could not be regarded as independent due to the level of their stake in the Company's capital. The director representing employees cannot be regarded as independent either.

| | Non-independent directors | | Independent directors | | | | | Director representing employees |
|---|---|---|---|---|---|---|---|---|
| | I. Azemard | Bpifrance, represented by M. Joessel | O. Legrain | M. Crochon | C. Foissaud | U. Steinhorst | D. Thiery | P. Creusy |
| Employee or corporate officer of the Company in the past five years | X | X | X | X | X | X | X | Y |
| Cross-directorships | X | X | X | X | X | X | X | X |
| Significant business relationships | X | X | X | X | X | X | X | X |
| Close family ties to a senior manager | X | X | X | X | X | X | X | X |
| Statutory Auditor of the Company in the past 5 years | X | X | X | X | X | X | X | X |
| Director of the Company for more than 12 years | X | X | X | X | X | X | X | X |
| Non-executive officer of the Company | X | X | X | X | X | X | X | X |
| Major shareholder | Y | Y | X | X | X | X | X | X |

*X = no; Y = yes*

As of the date of preparation of this Universal Registration Document, independent directors account for 71% of the Board's membership. In accordance with the recommendations of the AFEP-MEDEF Code, the director representing employees is not included in the calculation of this percentage.

### 2.7.5. No convictions or conflicts of interest

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

- there are no family ties between the members of the Board of Directors and Executive Management;
- no members of the Board of Directors or Executive Management have been convicted of fraud for at least the past five years;
- none of the members of the Board of Directors or Executive Management has been involved in bankruptcy, receivership or liquidation proceedings or the placing of companies under administration as a result of having served as a member of an administrative, management or supervisory body for at least the past five years [(1)];
- no official complaint and/or public sanction has been issued by a statutory or regulatory authority (including designated professional bodies) against any member of the Board of Directors or Executive Management for at least five years;
- no members of the Board of Directors or Executive Management have been prevented by a court from acting as a member of an administrative, management or supervisory body or from participating in a company's management or business operations for at least the past five years;
- no conflicts of interest have been identified between the private interests and/or other duties of any of the members of the Board of Directors or Executive Management with respect to Mersen;
- there are no arrangements or agreements between the main shareholders and customers, suppliers or other parties under which any member of the Board of Directors or Executive Management has been appointed as such;
- there is no restriction to which the members of the Board of Directors and Executive Management have agreed concerning the sale of their interest in the Company's share capital, within a given timeframe.

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

### 2.7.6. Procedure for reviewing regulated and routine related-party agreements

At its meeting of December 19, 2019, the Board of Directors approved an internal procedure for the identification of regulated related-party agreements and routine related-party agreements entered into on arm's length terms. This procedure is applied before any agreement that could qualify as a regulated related-party agreement is signed, as well as prior to any amendments, renewals or cancellations of such agreements. It is used in order to assess whether a related-party agreement is deemed to be a "regulated" agreement under French law or if it qualifies as a routine agreement entered into on arm's length terms, in which case it is not regulated.

Pursuant to Article L. 22-10-12 of the French Commercial Code, this procedure also makes it possible to assess on a regular basis whether agreements relating to routine operations and entered into on arm's length terms meet those conditions.

This procedure is available on the Company's website. Pursuant to this procedure, the Audit and Accounts Committee, at its meeting of January 21, 2021, and the Board of Directors, at its meeting of January 27, 2021, noted the absence of any new or existing regulated agreements and reviewed the routine agreements entered into on arm's length terms.

### 2.7.7. Black-out periods

The Board of Directors, the Chief Executive Officer and the Group's key senior managers have undertaken to refrain from using or disclosing any inside information they may have access to for the purpose of buying or selling the Company's shares and to refrain from trading in the shares until such information has been made public. As part of the effort to prevent insider trading, the directors have undertaken to not enter into any share transactions during black-out periods.

For fiscal 2021, the black-out periods are:

- from January 13 through January 28, 2021 inclusive: owing to the announcement of fourth-quarter 2020 sales on January 28, 2021 after the close of trading.
- from February 9 through March 11, 2021 inclusive: owing to the announcement of the 2020 full-year results on March 11, 2021 before trading.
- from April 13 through April 28, 2021 inclusive: owing to the announcement of first-quarter 2021 sales on April 28, 2021, after the close of trading.
- from June 30 through July 30, 2021 inclusive: owing to the announcement of the half-yearly results on July 30, 2021 before trading.
- from October 12 through October 27, 2021 inclusive: owing to the announcement of third-quarter 2021 sales on October 27, 2021, after the close of trading.

The periods specified above are set in accordance with the recommendations of the AMF (AMF Recommendation Position No. 2016-08) and the Market Abuse Regulation of July 16, 2014, and correspond to:

- a period of **30 calendar days** prior to the publication of the annual or interim results; and
- a period of **15 calendar days** prior to the publication of the sales figures for each quarter.

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

*(1) Isabelle Azemard informed Mersen that Majencia – a company in which she held a directorship – was placed into liquidation on April 17, 2019 and has since been taken over as a going concern by Nowy Styl Group, whose registered office is located at ul. Pużaka 49 in Krosno (Poland).*

## 2.8. Work of the Board of Directors

The table below summarizes each Board member's attendance at Board and Committee meetings in 2020:

| Board members | Attendance at Board meetings | Attendance at Audit and Accounts Committee meetings | Attendance at Governance, Appointments and Remuneration Committee meetings |
|---|---|---|---|
| Isabelle Azemard | 100% | N/A | 100% |
| Bpifrance Investissement | 100% | 100% | N/A |
| Pierre Creusy | 100% | N/A | 100% |
| Michel Crochon | 100% | 100% | N/A |
| Carolle Foissaud | 91% | 80% | N/A |
| Olivier Legrain | 100% | N/A | 75% |
| Ulrike Steinhorst | 100% | N/A | 75% |
| Denis Thiery | 82% | 100% | 100% |
| **Average** | **97%** | **95%** | **90%** |

At least once a year, an informal meeting is held without any executive corporate officers being present. As the meetings are informal, no minutes are drawn up.

The Board of Directors met 11 times in 2020, with an average attendance rate of 97%.

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

- Group strategy and development.
  - Approval of strategic plans, business plan and budget.
  - Approval of the acquisition of the insulation assets of Americarb (US) and 100% of the shares of Fusetech (Hungary).
  - Discussions about strategic topics including progress made in the electric vehicle market, the Group's market positioning related to an EP segment product line, progress report on the commissioning of Columbia, Group HR challenges and policy, feedback on the European Sales Excellence Plan, trends in and attractiveness of the Group's main end markets.
- CSR policy.
  - Review of the Group's health and safety performance.
  - Review of the Human Resources roadmap and the talent management policy.
- Group results
  - Regular reviews of the Group's business.
  - Approval of interim and annual financial statements, management forecasts and draft press releases on results and guidance.
- Governance
  - Review of directors' independence.
  - Succession planning.
  - Approval of amendments to the Board's Internal Charter.
  - Implementation of the procedure for assessing routine related-party agreements entered into on arm's length terms.
- Compensation
  - Approval of the Chief Executive Officer's compensation (including setting targets for the current year and validating achievement levels for the previous year) and review of regulated related-party agreements with the Chief Executive Officer (including related to his severance payment, non-compete indemnity and supplementary pension plan).
  - Approval of the compensation policy for the Chairman and members of the Board of Directors.
- Preparation of the Annual General Meeting
  - Approval of resolutions to be put to the Annual General Meeting.
- Other
  - Setting of the annual amount for the authorization of guarantees and deposits issued by Mersen SA.
  - Analysis of the minutes of Board Committee meetings.

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

In its Internal Charter, the Board of Directors has defined the roles, responsibilities, and resources of its two committees: the Audit and Accounts Committee and the Governance, Appointments and Remuneration Committee. As far as possible and depending on the applicable circumstances, all Board decisions that fall within the remit of a Committee must not be taken without prior discussion with the relevant Committee and may be made only after that Committee has issued its recommendations and proposals. A member of the Board of Directors, acting on a *primus inter pares* basis, leads the Board's discussions about strategic issues.

For the purpose of carrying out their duties, each Committee, as well as the Board member responsible for discussions on strategic issues is entitled to:

- receive from the Company any documents that they deem useful for carrying out their duties;
- question, in the event of the separation of functions, the Chief Executive Officer and, where applicable, the Deputy Chief Executive Officers, or any other person he or she feels it may be appropriate to question;
- have any third parties of its choosing (expert, advisor or statutory auditor) attend Committee meetings;
- commission, at the Company's expense and subject to the budgets approved by the Board of Directors, any internal or external specialist studies or research that may help the Board in its discussions.

The consultation of the Committees as described above may not serve to delegate the powers conferred upon the Board of Directors by law or in the Articles of Association or have the effect of reducing or restricting the Chief Executive Officer's powers.

### 2.9.1. Audit and Accounts Committee

The Internal Charter of the Board of Directors states that the Audit and Accounts Committee must comprise at least three and at most six members, two-thirds of them independent. The Internal Charter also stipulates that members of the Audit and Accounts Committee are selected on account of their accounting or statutory audit expertise. Given their training and professional experience, the Committee members satisfy this criterion.

The Audit and Accounts Committee meets at least three times per year and whenever it deems necessary, and prior to meetings of the Board of Directors for which the agenda includes a review of an issue related to its area of expertise. The Committee meets approximately one week before the Board of Directors to review the annual financial statements. The Group's Chief Financial Officer is responsible for making the presentations. He reports at least once a year on the Group's risk exposure, including social and environmental risk. The Director of Risk and Compliance and the Director of Internal Audit attend these meetings at least once a year, as do the Director of Management Control and the Director of Treasury and Financing.

The role of the Audit and Accounts Committee is to:

- monitor the financial reporting process and, where applicable, make recommendations to ensure its integrity;
- monitor the effectiveness of internal control, risk management and, where applicable, internal audit systems, regarding procedures for preparing and processing financial and extra-financial accounting information;
- review the financial statements and ensure the appropriateness and ongoing consistency of the accounting methods used to prepare the Company's consolidated and parent company financial statements; review the statutory audit of the parent company and consolidated financial statements by the Statutory Auditors;
- ensure compliance with the conditions for the Statutory Auditors' independence;
- make a recommendation on the Statutory Auditors nominated for appointment at the Annual General Meeting in accordance with Article L. 823-19 3 of the French Commercial Code. The Committee's recommendations and preferences are brought to the attention of the Annual General Meeting asked to vote on the appointment of the Statutory Auditors;
- approve the provision of non-audit services, provided they are permitted by the regulations. The Committee will make its decision after analyzing the risks related to the independence of the Statutory Auditors and the safeguard measures applied.

The Committee met five times in 2020, with an attendance rate of 95%.

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

- Review and approval of the Group's annual and interim results.
- Review of the Universal Registration Document and approval of the corporate governance report.
- Changes to accounting standards, including an update on the European single electronic format (ESEF-XBRL).
- Review of compliance work, notably in relation to France's "Sapin II" law and the GDPR.
- Review of the progress of the Buzit plan (upgrade of the Group's IT systems).
- Comprehensive review of risk mapping.
- Review of cybersecurity and environmental risks.
- Review and approval of the 2021 audit plan. Review of internal control and audits in 2020.
- Review of the independence of the Statutory Auditors. Review of Statutory Auditors' fees for work other than audit services. Review of the Charter applicable for work carried out by the Statutory Auditors other than audit services.
- Review of routine related-party agreements between Mersen SA and its non-wholly owned subsidiaries.
- Update on the renewal process for the Statutory Auditors.
- Other matters, such as pensions and the financial and accounting impacts of the health crisis.

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

### 2.9.2. Governance, Appointments and Remuneration Committee

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

In accordance with §9.4 of the AFEP-MEDEF Code, the director representing employees is not taken into account in the calculation of the proportion of independent members. A majority of the Committee's members are independent (3/4), in line with the recommendations of the AFEP-MEDEF Code.

The role of the Governance, Appointments and Remuneration Committee is as follows:

- **Governance and appointments**
  - Make proposals on the appointment, removal and re-appointment of the Chief Executive Officer, Chairman of the Board, Committee members and any Deputy Chief Executive Officer(s).
  - Give an opinion on proposed candidates for the above offices in terms of expertise, availability, suitability and complementarity with other members of the Board, taking into account the Board's diversity policy.
  - Conduct the selection process for new independent directors, following the procedure described in the table below; propose any changes to that procedure.
  - Prepare a succession plan for the executive corporate officers and make sure a succession plan is in place for members of the Executive Committee.
  - Be informed in advance about Executive Management's proposals to appoint or remove members of the Executive Committee.
  - Determine which Board members can be regarded as independent.
  - Review and assess the Company's corporate governance practices and, in particular, review and inform the Board about changes in the corporate governance rules to which the Company refers.
  - Periodically review the structure, composition, procedures and practices of the Board of Directors and make recommendations on potential changes.
  - Prepare the assessment of the Board of Directors provided for in its Internal Charter and make recommendations to the Board of Directors on its procedures and practices based on the outcome of the assessment.

In 2020, the Governance, Appointments and Remuneration Committee formalized its policy for the selection of independent directors, which was approved by the Board of Directors on March 10, 2021. This procedure is described in the Internal Charter of the Board of Directors as follows:

| Definition | Identification | Selection | Appointment |
|---|---|---|---|
| Definition by the Governance, Appointments and Remuneration Committee of the profile sought in light of the Board's requirements in terms of expertise and diversity. | Identification of candidates by the Governance, Appointments and Remuneration Committee with the help of a specialized consultant in accordance with market practices. | The short-listed candidates are interviewed by the members of the Governance, Appointments and Remuneration Committee and certain members of Executive Management, each of whom ranks them according to the skills matrix prepared.<br><br>Opinions are then pooled and, after being discussed by the members of the Governance, Appointments and Remuneration Committee, the Governance, Appointments and Remuneration Committee chooses the candidate to be recommended to the Board of Directors. | The Board of Directors approves the final choice of the candidate and proposes his or her appointment to the shareholders at the General Meeting. |

- **Compensation**
  - Propose the compensation of the Chairman and Vice-Chairman of the Board of Directors and put forward to the Board of Directors recommended changes to the aggregate amount of remuneration to be paid to the Board members and/or the allocation of such remuneration, in order for the Board to then submit the proposed changes for shareholder approval at the Annual General Meeting.
  - Make recommendations to the Board about (i) the annual and multi-annual compensation of the Chief Executive Officer and any Deputy Chief Executive Officer(s), (ii) the rules for determining their variable compensation, and (iii) other items of compensation such as supplementary pension plans and benefits in kind.
  - Make recommendations on the compensation and benefits envisaged in the event of the removal from office or the termination of the term of office of the Chairman of the Board of Directors, the Chief Executive Officer and, where applicable, the Deputy Chief Executive Officers.
  - Be informed of the termination benefits proposed by the Chief Executive Officer upon the termination of the employment contract of a member of the Executive Committee, and give an opinion thereon to the Chairman of the Board of Directors.
  - Give advice on the policy for allocating stock options, performance shares or any other type of securities implemented by the Board of Directors for all categories of beneficiary and more particularly for the Chief Executive Officer and the members of the Company's Executive Committee, and make recommendations on the frequency and terms of allocation.
  - Be informed in advance about conditions and changes in the compensation of Executive Committee members.

The Governance, Appointments and Remuneration Committee met three times during the year, with an attendance rate of 90%.

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

- **Compensation**
  - 2020 results and 2021 proposals for the fixed and variable compensation (annual and multi-year variable) of the Chief Executive Officer and all members of the Executive Committee.
  - Compensation policy for members of the Board of Directors.
  - Benchmarking survey of the Chief Executive Officer's compensation.
- **Governance**
  - Self-assessment of the Board, review of the directors' expertise.
  - Review of the attendance rate at Board and Committee meetings.
  - Composition of the Board of Directors, re-appointments.
  - Review of the information published in the Universal Registration Document, in particular ex-post and ex-ante votes and pay ratio.
  - Preparation of the Annual General Meeting: review of governance information.
  - Succession planning for the Chief Executive Officer and members of the Executive Committee.
  - Preparation of procedures for the selection of directors.
  - Preparation of a policy to increase the proportion of women in management bodies.
  - Assessment of the directors' independence.

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

| Members of the Board of Directors | Date of first appointment | Date of re-election as director | End of term of office** |
|---|---|---|---|
| **Isabelle Azemard**<br>Born 02/27/1952<br>Member of the Governance, Appointments and Remuneration Committee<br>Business address:<br>3 bd Pershing – Paris, France | 05/15/2014 | 05/17/2018 | Annual General Meeting called to vote on the 2021 financial statements |
| **Bpifrance Investissement**<br>represented by:<br>**Magali Joessel**<br>Born 10/24/1973<br>Member of the Audit and Accounts Committee<br>Business address:<br>6-8 Boulevard Haussmann – Paris, France | 10/30/2013 (co-opted) | 05/17/2019 | Annual General Meeting called to vote on the 2023 financial statements |
| **Pierre Creusy**<br>Born 09/27/1962<br>Member of the Governance, Appointments and Remuneration Committee<br>Director representing employees<br>Business address:<br>Tour Eqho, 2 avenue Gambetta, 92066 – La Défense, France | 10/12/2017 | | 1st Group Committee after 10/12/2021 |
| **Michel Crochon**<br>Born 10/14/1951<br>Member of the Audit and Accounts Committee<br>Independent director*<br>Business address:<br>Bâtiment Atlantis, 1, avenue Eugène Freyssinet, 78061 Saint Quentin en Yvelines, France | 05/18/2017 | | Annual General Meeting called to vote on the 2020 financial statements |
| **Carolle Foissaud**<br>Born 09/02/1966<br>Member of the Audit and Accounts Committee<br>Independent director*<br>Business address:<br>Bouygues Energies & Services,<br>19 rue Stephenson, Saint Quentin en Yvelines, France | 05/16/2013 | 05/18/2017 | Annual General Meeting called to vote on the 2020 financial statements |
| **Olivier Legrain**<br>Born 09/30/1952<br>Chairman of the Board<br>Member of the Governance, Appointments and Remuneration Committee<br>Independent director*<br>Business address:<br>Tour Eqho, 2 avenue Gambetta, 92066 – La Défense, France | 05/18/2017 | | Annual General Meeting called to vote on the 2020 financial statements |
| **Ulrike Steinhorst**<br>Born 12/02/1951<br>Chair of the Governance, Appointments and Remuneration Committee<br>Independent director*<br>Business address:<br>3, Villa du Coteau – Clamart, France<br>Nationality: German | 05/16/2013 | 05/18/2017 | Annual General Meeting called to vote on the 2020 financial statements |
| Denis THIERY<br>Born 06/26/1955<br>Chairman of the Audit and Accounts Committee<br>Member of the Governance, Appointments and Remuneration Committee<br>Independent director<br>Business address:<br>26 rue de St Germain, Fourqueux, France | 05/17/2019 | | Annual General Meeting called to vote on the 2022 financial statements |

** According to AFEP-MEDEF criteria.*
*** Listed company.*

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

| Number of Mersen shares held | Other positions held |
|---|---|
| 800 | Director of:<br>AXA mutuelle IARD and mutuelle Vie,<br>Joint Legal Manager of: RTDE |
| 2,242,770 | Director of: Naval Energies, Yposkesi, RATP |
| 200 | N/A |
| 800 | Director of: Sphéréa |
| 823 | N/A |
| 1,770 | Director of: Kiloutou, Minafin, Astrance<br>Member of the Governance Committee of: Balas<br>Member of the Supervisory Board of: Amplegest |
| 815 | Member of the Board of Directors and Chair of the Strategy Committee of: Valeo**<br>Member of the Board of Directors and Chair of the Remuneration, Nominations and Governance Committee of: Albioma**<br>Member of the Board of Directors of: École des Mines Paris Tech and of the French-German Chamber of Industry and Commerce |
| 800 | N/A |

# 3. Executive Management

The Company is administered by a Chief Executive Officer, who performs his or her duties under the oversight of the Board of Directors. The Chief Executive Officer is eligible for reappointment. The Chief Executive Officer may not be more than 65 years of age. When he or she reaches the age limit, he or she is deemed to have resigned at the end of the Ordinary General Meeting called to vote on the financial statements for the year in which the age limit is reached. The Chief Executive Officer may be removed by the Board of Directors.

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

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

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

## 3.1. Chief Executive Officer

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

Luc Themelin holds a Ph.D. in ceramic materials science. He began his career at Alliages Frittés Metafram, a subsidiary of the Pechiney Group, in 1988. He joined the Mersen group in 1993 as a Research and Development engineer. He was appointed Director of the Braking Division in 1998 and Director of the High Temperatures Division in 2004. He joined the Executive Committee in 2005, while continuing to manage the Braking Division and overseeing the High Temperatures Division. On July 1, 2008, Luc Themelin was appointed as Supervisor of the Electrical Applications division and a member of the Management Board in May 2009.

He was appointed as Chairman of the Management Board on August 24, 2011. His term of office as Chairman was renewed on May 16, 2013 for a period of four years. He was appointed as Chief Executive Officer on May 11, 2016. On May 14, 2020, the Board of Directors renewed its confidence in the Chief Executive Officer and decided that his term of office would expire on the date of the Board of Directors meeting to be held immediately after the General Meeting called to vote on the financial statements for the year ending December 31, 2023.

| Name | Date of first appointment to the Management Board | Most recent renewal date | Number of Mersen shares held | Other positions held |
|---|---|---|---|---|
| **Luc Themelin**<br>Born 02/23/1961<br>Chief Executive Officer<br>(since May 11, 2016) | 05/19/2009 | 05/14/2020 | 38,544 | Chairman and/or director of several subsidiaries that are controlled by the Company within the meaning of Article L. 233-6 of the French Commercial Code. None of these companies' securities are admitted to trading on a regulated market. |

## 3.2. Executive Committee

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

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

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

# COMPENSATION AND BENEFITS IN KIND

## 1. Compensation policy for corporate officers

The compensation policy for corporate officers is determined by the Board of Directors based on the recommendation of the Governance, Appointments and Remuneration Committee. In accordance with Article L. 22-10-8 of the French Commercial Code, it is submitted to the shareholders for approval.

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

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

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

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

[The terms of office of the directors and the Chief Executive Officer are set out in sections [2 and 3] above.]

### 1.2. Compensation policy for the Chairman of the Board of Directors

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

The compensation of the Chairman of the Board of Directors comprises fixed compensation of €80,000, unchanged since 2010, as well as compensation for his duties as a director, the payment of which is mostly conditional on attendance (see section 1.3).

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

### 1.3. Compensation policy for members of the Board of Directors

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

At its meeting of February 12, 2021, the Board of Directors decided that the compensation policy for members of the Board of Directors as set by the Board of Directors at its meeting of February 14, 2020 and approved by the General Meeting of May 14, 2020 would remain unchanged. This policy is described in section 2.2 below.

### 1.4. Compensation policy for the Chief Executive Officer

#### 1.4.1. Principles

The Board of Directors is responsible for setting and adjusting the compensation of the Chief Executive Officer based on recommendations made by the Governance, Appointments and Remuneration Committee. When carrying out its analyses and drawing up proposals for the Board, the Committee pays particular attention to respecting the recommendations in the AFEP-MEDEF Code. The Chief Executive Officer is not present during discussions on these matters.

The compensation policy for the Chief Executive Officer is in line with the Group's objective of growing its business responsibly and sustainably in order to ensure its longevity and profitable growth and futureproof the resources it needs for its expansion. The Board set this policy taking into account the Group's strategy as described in chapter 1 of this Universal Registration Document.

L'ensemble des éléments de rémunération et avantages de toute nature est analysé de manière exhaustive chaque année avec une approche élément par élément puis une analyse de cohérence globale afin d'aboutir aux meilleurs équilibres entre rémunération fixe et variable, individuelle et collective, à court et long terme.

All of the components of the Chief Executive Officer's compensation and benefits are analyzed exhaustively every year on a component-by-component basis followed by an overall consistency review in order to achieve the best balance between fixed and variable, individual and collective, and short- and long-term compensation.

Benchmarking studies are regularly carried out with the help of specialist consultants to position the Chief Executive Officer's compensation in relation to a panel of peer companies. The criteria used for selecting the panel members are based on business sector, sales, headcount, nationality and inclusion in the SBF 120 index. They are also all companies with a production activity and generate at least 30% of their sales outside France.

The Board of Directors has decided that the Chief Executive Officer's fixed compensation may only be revised at relatively long intervals, in accordance with the AFEP-MEDEF Code. However, it may be revised on an exceptional basis if there is a major change in his duties and responsibilities or if there is a significant gap between his compensation and the market benchmark. Any changes made to his fixed compensation as a result of these specific cases would be publicly disclosed along with the reasons for the changes.

If there is a major change in circumstances affecting how the Group's financial data is calculated (particularly a change in accounting standards), the Board may set the components of the Chief Executive Officer's compensation package excluding any such exceptional external factors.

Additionally, the Board of Directors reserves the right to exercise its discretionary power when setting the Chief Executive Officer's compensation, in compliance with the compensation policy approved in accordance with Article L. 22-10-8 of the French Commercial Code, if specific circumstances arise that represent reasonable grounds for exceptionally adjusting (either upwards or downwards) one or more of the criteria underlying his compensation components in order to ensure that the application of those criteria (as defined below) reflects the individual performance of the Chief Executive Officer and the performance of the Group as a whole. Any such adjustments would be made to the Chief Executive Officer's annual variable compensation by the Board of Directors, acting on the recommendation of the Governance, Appointments and Remuneration Committee, and based on a report by the Board presenting its reasons for the adjustments, it being specified that the adjusted amounts may not exceed the maximum amount originally approved for the Chief Executive Officer's annual variable compensation.

### 1.4.2. Benchmarking survey conducted in 2020 and changes in compensation proposed for 2021

As the fixed compensation of the Chief Executive Officer has remained unchanged since 2015, with the reappointment of the Chief Executive Officer in 2020, Mersen commissioned a leading external firm to conduct a benchmarking survey in the second half of 2020. The survey measured the positioning of the various components of the Chief Executive Officer's compensation in relation to a panel of comparable companies. The survey was presented and discussed twice at meetings of the Governance, Appointments and Remuneration Committee.

The panel of comparable companies was selected on the basis of the following criteria:

Listed French groups in the industrial sector (with several production sites) that generate at least 30% of their sales internationally, and which reported sales ranging from €0.5 billion to €5 billion in 2019. The upper end of the range given on the sales criterion was set at a level significantly higher than Mersen's sales (€950 million in 2019) so as to take into account the Company's complexity, particularly in terms of the technological content of its products, its very numerous application markets, product lines, sites (60) and countries of operation (35) for a group of its size. The median sales of the panel was €1.4 billion.

On the basis of these criteria, 18 companies were selected for the panel: Albioma, Bic, Biomérieux, Boiron, CGG, Elis, Exel industries, Guerbet, Ingenico Group, Ipsen, Manutan, Quadient, Remy Cointreau, Sartorius Stedim, Soitec, Tarkett, Trigano and Vicat.

It was also requested that the benchmarking survey include, for information purposes, a comparison between the compensation of the Chief Executive Officer with that of the Chief Executive Officers of two competing European listed groups (German and British) comparable in size to Mersen: SGL Carbon and Morgan Advanced Materials. However, neither of those two groups was included in the panel because their compensation systems are not comparable to French standards.

The results of the survey show that the compensation of Mersen's Chief Executive Officer is well below the median of the panel. The difference is more pronounced for annual variable compensation and long-term compensation. With regard to annual variable compensation, the range given to compensation for outperformance is low compared with the other companies in the panel: while the target bonus is in line with market practice, the maximum bonus is capped at 112% of the target, whereas the median market practice is a cap of 160%, with outperformance criteria applying to each of the financial criteria.

| EUR | Median | L. Themelin | Comparison vs median |
|---|---|---|---|
| Annual base Salary (ABS) | **586,900** | **440,000** | 75% |
| Bonus - Actual paid amount | 495,000 | 395,560 | 80% |
| Bonus - Actual paid amount (% of ABS) | 89% | 90% | |
| Bonus - Target in % of ABS | 100% | 100% | |
| Bonus - Maximum in % of ABS | 160% | 112% | |
| **Total direct compensation** | **1,196,800** | **835,560** | **75%** |
| LTI - granted amount | 1,326,000 | 184,593 | 14% |
| LTI - granted amount in % of ABS | 144% | 42% | |
| **Grand total** | **1,424,200** | **1,020,153** | **76%** |

*LTI: long-term incentives such as free shares or stock options*

The survey's findings are also confirmed by comparing Mersen with the two non-French listed groups, SGL Carbon and Morgan Advanced Materials.

| EUR | Annual base Salary | Bonus paid | LTI | Total |
|---|---|---|---|---|
| Competitors | 635,000 | 799,000 | 575,000 | 2 009 000 |
| Mersen - Luc Themelin | 440,000 | 395,560 | 184,593 | 1 020 153 |

Following the survey, the Governance, Appointments and Remuneration Committee asked the external firm to conduct an additional survey on the structure of the Chief Executive Officer's variable compensation, comparing it with that of the Chief Executive Officers of SBF 120 industrial companies for which the firm had data.

The follow-up survey highlighted the following points:

- the number of financial criteria is lower at Mersen than in the SBF 120 industrial companies,
- ROCE is used significantly less as a criterion for annual variable compensation, as some groups have used this criterion for their long-term incentives. The rate of use of ROCE as a criterion in executive bonuses fell from 44% in 2010 to 17% in 2019.

In light of the follow-up survey, the Governance, Appointments and Remuneration Committee proposed to the Board of Directors that the Chief Executive Officer's compensation be reviewed in several stages, taking into account the prevailing context:

- As of 2021, a change in the structure of his variable compensation, subject to the ex-ante vote by the May 2021 General Meeting on the compensation policy for the Chief Executive Officer, including:
  - the elimination of ROCE and its replacement by EBITDA and operating margin before non-recurring items to bring the policy in line with that of the Group's executives and managers. ROCE will, however, be included in the performance criteria for long-term incentives,
  - the increase in the size of the maximum bonus to reward financial outperformance. This would be based on minimum target and maximum limits applicable to all financial criteria (accounting for 70% of the bonus). These limits are set by the Board of Directors, based on an ambitious proposal from the Governance, Appointments and Remuneration Committee consistent with the budget. The maximum bonus would therefore be increased to 150% of the base salary, compared with 112% previously;
- From 2022 onwards, an increase in the annual fixed compensation from €440,000 to €500,000, subject to the ex-ante vote by the 2022 General Meeting on the compensation policy for the Chief Executive Officer. Although the fixed compensation is below that of the panel and has remained unchanged since 2015, the Governance, Appointments and Remuneration Committee and the Chief Executive Officer considered that an increase in this compensation as from 2021 was not appropriate in view of the prevailing health crisis.

### 1.4.3. Structure of the compensation package

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

A severance payment upon the termination of his term of office, based on length of service and performance conditions, may also be agreed subject to the provisions of the AFEP-MEDEF Code.

#### Fixed compensation

Fixed compensation may only be reviewed on a multi-annual basis. The fixed compensation has not been changed since January 2015.

Any change may only be agreed after a benchmarking survey has been carried out by a reputable consultant (see previous section on the Principles).

A benchmarking survey carried out in 2020 (see previous section) revealed that the Chief Executive Officer's compensation was relatively low compared with the panel. It also showed that the structure of the components of his compensation is very different from that observed in the reference market, with a discrepancy between the maximum variable compensation and long-term or deferred compensation. On the proposal of the Governance, Appointments and Remuneration Committee, at its meeting of February 12, 2021, the Board of Directors approved the principle of an increase in the Chief Executive Officer's gross annual fixed compensation to €500,000, but decided, in view of the prevailing economic climate stemming from the health crisis, to defer the application of this increase until 2022, subject to approval by the 2022 General Meeting.

## Annual variable compensation

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

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

Financial criteria represent between 70% and 80% of the total. They are based on the main financial indicators used by the Board to assess the Group's financial performance, in particular those reported in the Universal Registration Document, such as operating margin before non-recurring items (in value) and net cash generated by continuing operating activities, as defined in the statement of cash flows.

These criteria have been modified in order to better reflect the Group's short-term performance and streamline objectives within the Group (alignment with those of managers and executives). Consequently, operating margin before non-recurring items and EBITDA have been added as criteria, whereas ROCE has been removed and included in the criteria for multi-annual variable compensation. It is specified that the EBITDA criterion will be measured on a like-for-like basis in relation to the budget. The other criteria will be adjusted for changes in the scope of consolidation (in relation to the budget) in the event of a significant favorable or unfavorable impact on the achievement rate.

If there is a major change in circumstances affecting how the Group's financial data is calculated (particularly a change in accounting standards), the Board may set the components of the Chief Executive Officer's compensation package excluding any such exceptional external factors.

The individual criteria are defined by the Board of Directors in line with the Group's strategy. They are reviewed independently. At least one criterion must be based on a CSR objective.

The Board of Directors has set the following non-financial criteria for 2021:

- CSR/Safety criterion: safety indicators will have to be improved further.
- CSR/Environmental criteria: increase in the waste recycling rate, reduction in CO2 emissions from our activities, rating by specialized agencies.
- Electric vehicle market: implementation of a dedicated organization, launch of production in some of the Group's plants.
- Competitiveness plans: implementation of the measures approved at the end of 2020.
- Succession plans for top management, revisiting the Group's organization and its management teams by 2025.

The breakdown of targets and achievement rates are defined as follows:

| | Target | Maximum |
|---|---|---|
| Operating margin before non recurring items | 30% | 60% |
| Operating cash-flow | 20% | 30% |
| EBITDA | 20% | 30% |
| Non-financial criteria | 30% | |
| **TOTAL** | **100%** | **150%** |
| *of which weight of financial criteria* | *70%* | *80%* |

Achievement rates between each limit are linear.

The limits (target and maximum) are defined by the Board of Directors in line with the budget objectives. Achievement beyond the target rewards financial outperformance.

Additionally, as mentioned in the principles set out in section 1.4.1, the Board may exercise its discretionary power when setting the Chief Executive Officer's compensation if specific circumstances arise that represent reasonable grounds for exceptionally adjusting (either upwards or downwards) one or more of the criteria underlying his compensation components in order to ensure that the application of those criteria (as defined below) reflects the individual performance of the Chief Executive Officer and the performance of the Group as a whole. Any such adjustments would be made to the Chief Executive Officer's annual variable compensation by the Board of Directors, acting on the recommendation of the Governance, Appointments and Remuneration Committee, and based on a report by the Board presenting its reasons for the adjustments, it being specified that the adjusted amounts may not exceed the maximum amount originally approved for the Chief Executive Officer's annual variable compensation.

The payment of variable compensation awarded in respect of the previous year is contingent on the approval by the Ordinary General Meeting of the components of compensation and benefits in kind paid during the previous year or awarded for that year (ex-post vote).

## Long-term compensation

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

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

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

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

### *Free share allocations*

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

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

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

*Stock option allocations*

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

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

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

### Signing bonus

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

### Exceptional compensation

No exceptional compensation may be paid.

### Benefits in kind

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

Payment of variable compensation awarded for 2021 is contingent on the shareholders' approval of the components of the Chief Executive Officer's compensation paid or awarded for that year ("individual" ex-post vote).

### 1.4.4. Commitments given to the Chief Executive Officer

- Severance payment

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

- Non-compete covenant

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

- Retirement

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

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

### 1.4.5. Appointment of Deputy Chief Executive Officers

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

### 1.4.6. Change in governance structure

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

# 2. Compensation paid to directors and corporate officers for 2020

## 2.1. Decisions of the corporate officers in the context of the health crisis

In view of the health crisis and its social and economic consequences, the Company's corporate officers announced measures to reduce their compensation for 2020.

As announced in a press release dated April 6, 2020, the Chairman of the Board of Directors, Olivier Legrain, and the Chief Executive Officer, Luc Themelin, decided to reduce their fixed compensation for April and May 2020 by 25% in order to contribute to the collective effort required by the economic context. They then decided to extend this measure by 4 months.

At the Board of Directors' meeting of May 14, 2020, the directors decided, as a gesture of solidarity, to apply the same rate of reduction to their compensation for 2020 as that applied to the fixed compensation of the Chief Executive Officer and the Chairman of the Board of Directors.

**These decisions resulted in an average reduction of 12.5% applicable to the compensation paid to members of the Board of Directors and to the fixed compensation attributed to the Chairman of the Board of Directors and the Chief Executive Officer for 2020.**

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

The compensation paid to members of the Board of Directors for 2020 was in accordance with the compensation policy approved by the General Meeting of May 14, 2020, with the exception of the voluntary 12.5% reduction mentioned in section 2.1.

It should be noted that, in accordance with the Articles of Association, the director representing employees does not receive any compensation for his duties as director.

The compensation policy for directors provides for:

- a total maximum ceiling of €264,000 on payments, unchanged since 2011;
- rules for allocating compensation in accordance with the recommendations of the AFEP-MEDEF Code in this area, with a predominant portion contingent on attendance (60% of total compensation for an attendance rate of 100%):
  - The annual compensation paid to each director comprises a fixed portion of €12,000. On top of this basic amount, the Chairman of the Audit and Accounts Committee receives an additional €10,000 and the Chairman of the Governance, Appointments and Remuneration Committee receives an additional €8,000.
  - Each director also receives a variable portion of compensation based on their actual attendance at Board and Committee meetings, corresponding to €1,700 per meeting.
  - The director responsible for leading the Board's work on strategic issues receives an additional fixed portion of €5,000.

If the aggregate amount of compensation calculated by applying the above rules is higher than €264,000 (i.e. if more meetings are held than usual), then the compensation of each director will be reduced proportionately.

### 2.2.1. Members of the Board of Directors

The gross compensation for directors awarded for 2020 was paid at the beginning of 2021.

| | | Allocated for 2020* | Paid in 2020 | Allocated for 2019 | Paid in 2019 |
|---|---|---|---|---|---|
| Isabelle Azemard | | 29,315 | 25,664 | 25,664 | 22,550 |
| BpiFrance Investissement | (represented by Magali Joessel) | 32,099 | 29,867 | 29,867 | 22,705 |
| Yann Chareton*** | (representing Ardian) | | 16,743 | 16,743 | 20,402 |
| Pierre Creusy | (employee representative) | | | | |
| Michel Crochon | | 36,194 | 34,553 | 34,553 | 30,241 |
| Catherine Delcroix*** | | | 13,814 | 13,814 | 27,500 |
| Carolle Foissaud | | 29,315 | 26,212 | 26,212 | 21,538 |
| Dominique Gaillard*** | (representing Ardian) | | 22,329 | 22,329 | 19,549 |
| Olivier Legrain | | 27,923 | 25,664 | 25,664 | 26,719 |
| Nobel | | | | | 8,318 |
| Henri-Dominique Petit*** | | | 18,289 | 18,289 | 31,127 |
| Sofina | | | | | 4,494 |
| Ulrike Steinhorst | | 34,474 | 29,732 | 29,732 | 28,857 |
| Denis Thiery** | | 41,680 | 21,134 | 21,134 | |
| | | **231,000** | **264,000** | **264,000** | **264,000** |

** After application of the voluntary 12.5% reduction mentioned in section 2.1. In the absence of this voluntary reduction, the total amount would have been €264,000 due to a higher-than-expected number of Board meetings and a high attendance rate.*
*** Denis Thiery was appointed director on May 17, 2019.*
**** These directors left the Board in 2019 or January 2020.*

The amounts indicated above include the compensation and benefits in kind received by the corporate officers from Mersen and, where applicable, from companies controlled by Mersen within the meaning of Article L. 233-16 of the French Commercial Code.

### 2.2.2. Chairman of the Board of Directors, Olivier Legrain

Upon the change of governance structure on May 18, 2016, the Board of Directors voted to award the Chairman of the Board the same fixed annual compensation of €80,000. This amount is unchanged since 2010. Taking into account the voluntary 12.5% reduction mentioned in section 2.1, the fixed compensation allocated to the Chairman of the Board for 2020 amounts to €70,000.

| *(in euros)* | 2020 | 2019 |
|---|---|---|
| Compensation allocated in respect of the fiscal year (broken down below) | 97,923 | 105,664 |
| Value of multi-year variable compensation allocated during the fiscal year | | |
| Value of options allocated during the fiscal year | | |
| Value of performance shares allocated during the fiscal year | | |
| Value of other long-term incentive plans | | |
| **TOTAL** | **97,923** | **105,664** |

| | 2020 | | 2019 | |
|---|---|---|---|---|
| *(in euros)* | Amounts allocated for 2020 | Amounts paid in 2020 | Amounts allocated for 2019 | Amounts paid in 2019 |
| Directors' compensation | 27,923 | 25,664 | 25,664 | 26,719 |
| Fixed compensation of the Chairman* | 70,000 | 80,000 | 80,000 | 80,000 |
| **TOTAL** | **97,923** | **105,664** | **105,664** | **106,719** |

** The compensation allocated in respect of a given fiscal year is paid in the subsequent year.*

The amounts indicated above include the compensation and benefits in kind received by the corporate officers from Mersen and, where applicable, from companies controlled by Mersen within the meaning of Article L. 233-16 of the French Commercial Code.

## 2.3. Compensation of the Chief Executive Officer

### 2.3.1. Summary of the compensation and benefits, options and shares allocated to the Chief Executive Officer

On February 14, 2020, the Board of Directors decided to maintain the components of Luc Themelin's fixed compensation for 2020 and to define the conditions of the Chief Executive Officer's variable compensation.

| *(in euros)* | 2020 | 2019 |
|---|---|---|
| Compensation allocated in respect of the fiscal year (broken down below) | 672,743 | 891,742 |
| Value of multi-year variable compensation allocated during the fiscal year | | |
| Value of options allocated during the fiscal year | | |
| Value of performance shares allocated during the fiscal year | N/A | 184,593 |
| Value of other long-term incentive plans | | |
| **TOTAL** | **672,743** | **1,076,335** |

| | 2020 | | 2019 | |
|---|---|---|---|---|
| *(in euros)* | Amounts allocated for 2020 | Amounts paid in 2020 | Amounts allocated for 2019 | Amounts paid in 2019 |
| Fixed compensation* | 385,00** | 385,000 | 440,000 | 440,000 |
| Annual variable compensation | 249,040 | 395,560 | 395,560 | 466,400 |
| Multi-annual variable compensation | N/A | N/A | N/A | N/A |
| Exceptional compensation | N/A | N/A | N/A | N/A |
| Incentives | 5,193 | 20,262 | 20,262 | 19,866 |
| Directors' compensation | N/A | N/A | N/A | N/A |
| Benefits in kind** | 33,510 | 33,510 | 35,920 | 35,920 |
| **TOTAL** | **672,743** | **836,742** | **891,742** | **944,174** |

** The decrease in the fixed compensation allocated in respect of 2020 and paid in 2020 compared with that of 2019 results from the voluntary 12.5% reduction in the Chief Executive Officer's fixed compensation.*
*** Benefits in kind include the provision of a company car and, as of 2019, contributions to the corporate officers' unemployment benefit (garantie sociale des chefs d'entreprise).*

The amounts indicated above include the compensation and benefits in kind received by the corporate officers from Mersen and, where applicable, from companies controlled by Mersen within the meaning of Article L. 233-16 of the French Commercial Code.

### 2.3.2. Fixed compensation

Luc Themelin's fixed compensation for 2020 was €385,000, taking into account the voluntary 12.5% reduction mentioned in section 2.1 above.

### 2.3.3. Annual variable compensation

At its meeting of February 12, 2021, the Board of Directors assessed the performance of Luc Themelin and set the overall performance achievement rate at 56.6% for the 2020 variable portion, contingent on the approval of the General Meeting of May 20, 2021 ("individual" ex-post vote). Although the health crisis had an exceptional negative impact, particularly on ROCE, Luc Themelin and the Board of Directors did not consider it appropriate to use these exceptional circumstances to justify modifying the targets during the year.

| 2020 variable compensation | Objectives set | | Min | Max target | Actual |
|---|---|---|---|---|---|
| Financial criteria | Group ROCE[1] | *Indicator value (as a %)* | 9.6 | 11.3 | 7.6 |
| 70% of annual variable | | **% of fixed compensation** | 0 | 35 | 0 |
| | Group operating cash flow | *Indicator value (in €m)* | 83 | 105 | 119.2 |
| | | **% of fixed compensation** | 0 | 35 | 35 |
| | **Total financial criteria** | | **0%** | **70%** | **35%** |
| Non-financial criteria | Safety and Environment | | 0% | 4.5% | 3.0% |
| 30% of annual variable | Electric vehicle market performance | | 0% | 4.5% | 4.5% |
| | Competitiveness plan | | 0% | 4.5% | 4.5% |
| | Product line improvement plan | | 0% | 6% | 2% |
| | Strategic plan | | 0% | 4.5% | 4.5% |
| | Succession plan | | 0% | 6.0% | 3.0% |
| | **Total non-financial criteria** | | **0%** | **30%** | **21.5%** |
| **Total variable as a % of fixed compensation** | | | **0%** | **100%** | **56.6%** |

*(1) Based on recurring operating income before tax*

The achievement rate for these criteria may not exceed 100%.

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

- for 35%, the Group's ROCE objective (calculated on the basis of operating income before non-recurring items before taxes) for the fiscal year;
- for 35%, the Group's operating cash flow generation target;
- for 30%, certain individual objectives set at the beginning of the year by the Board of Directors.

### Financial criteria:

The 2020 financial objectives were based on the Group's annual budget, excluding the impact of the application of IFRS 16.

For the Group's ROCE, the data are as follows (in millions of euros):

| | |
|---|---|
| Reported operating income before non-recurring items: | 68.6 |
| Impact of the application of IFRS 16: | (1.7) |
| Capital employed | 882 |

Group ROCE excluding the impact of IFRS 16 is therefore (68.6-1.7)/882=7.6%.

The achievement rate is therefore 0%. Operating income before non-recurring items was heavily impacted by the decline in activity resulting from the health crisis of 2020, causing ROCE to be significantly below expectations.

For the Group's operating cash flow, the data are as follows (in millions of euros):

| | |
|---|---|
| Reported net cash flow from continuing operating activities: | 132.7 |
| Adjustment for lease payments*: | (13.5) |

** Lease payments are now included in financing activities following the adoption of IFRS 16.*

As a result, adjusted operating cash flow was €119.2 million.

The achievement rate is therefore 100%. The Group generated strong operating cash flow in 2020 thanks in particular to sound inventory management.

### Non-financial criteria:

For 2020, the non-financial objectives were based on the following criteria:

- Safety and environment: On the basis of the Group's CSR roadmap, the objective was to improve key safety indicators (reduction in the Lost Time Injury Rate from 1.4 to 1.2, that with and without lost time from 3.4 to 3 and the Severity Injury Rate from 64 to 60. The results obtained are 1.54, 3.08 and 64 respectively. In addition, a critical risk analysis was expected for 100% of sites; it was performed for 98% of them. Lastly, the Board noted the achievement of the objective of increasing the waste recycling rate from 53% to 60%.

- Monitoring of the Electrical Vehicle (EV) market: This strategic market for the Group is the subject of a monthly review in which the Chief Executive Officer participates. In 2020, the objective was to complete the qualification of fuse devices, to structure a dedicated offer, and to prepare plants for automotive certification. The Board considered that the Chief Executive Officer had successfully met his objectives, notably with the signing of a contract with German group Marquardt.
- Competitiveness plan: The competitiveness plan was rolled out, thereby enabling the Electrical Power segment to contain the decline in operating margin over the year.
- Product line improvement plans: The Board of Directors considered that certain measures had been taken to improve certain product lines of the Solutions for Power Management business, but that they had not resulted in a substantial improvement in the situation.
- Strategy: During the year, the Chief Executive Officer gave the Board of Directors a presentation on the situation, challenges and strategy in two of the Group's growth markets, electric vehicles and SiC semiconductors.
- 5-year succession plan: The Board of Directors considered that the Chief Executive Officer had begun to implement the succession plan defined in 2019, but had not made any recruitments in 2020.

### 2.3.4. Long-term compensation

The Chief Executive Officer was not awarded any free shares in 2020, as the Group decided not to allocate free shares to executives and managers in view of the health crisis (decision made public by a press release dated April 6, 2020).

In 2019, he was allocated 8,850 free shares subject to future performance criteria described in section 12.

### 2.3.5. Pay ratio

In accordance with the provisions of the French PACTE law, Mersen discloses a pay ratio showing the difference between the compensation of executive corporate officers (Chairman and Chief Executive Officer) and the average and median salary of all employees of the French entities (excluding the Chief Executive Officer).

In accordance with the AFEP's recommendations, only employees "continuously present" during a given year are included, i.e. the figures exclude the effects of hires and departures during that year.

The components of compensation taken into account, described below, are the gross components before social security contributions paid during the year:

- Basic salary, regular or special bonuses, overtime and any other components of gross salary
- Variable compensation
- Accounting valuation of the LTI allocated during the year in question
- Incentives and profit-sharing
- Benefits in kind (company car)

The amounts recorded for the parent company are presented below, together with those recorded from the enlarged scope of consolidation, which includes all French subsidiaries. The scope corresponds to companies that formed part of the Group at the year-end, with the exception of Idealec (20 employees), which is not included because it is not integrated into the HRIS.

## PAY RATIO TABLE UNDER L. 6° AND 7° OF ARTICLE L.22-10-9 OF THE COMMERCIAL CODE

| | | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|---|
| | Change (in %) in Chairman's compensation | -1% | 12% | 39% | -36% | 0% |
| | Change (in %) in CEO's compensation | -31% | 7% | 7% | 56% | -28% |
| | **Information on the scope of the listed company** | | | | | |
| | *Change (in %) in average employee compensation* | *-24%* | *6%* | *9%* | *41%* | *-9%* |
| | *Change (in %) in median employee compensation* | *17%* | *-6%* | *-17%* | *-9%* | *-6%* |
| Chairman | Pay out vs average employee compensation | 0.83 | 0.64 | 0.60 | 0.47 | 1.03 |
| Chairman | *Change (in %) compared to previous year* | *30%* | *6%* | *28%* | *-54%* | *10%* |
| Chairman | Pay out vs median employee compensation | 1.13 | 1.33 | 1.12 | 0.67 | 0.94 |
| Chairman | *Change (in %) compared to previous year* | *-15%* | *19%* | *67%* | *-29%* | *7%* |
| CEO | Pay out vs average employee compensation | 6.12 | 6.78 | 6.75 | 6.83 | 6.15 |
| CEO | *Change (in %) compared to previous year* | *-10%* | *0%* | *-1%* | *11%* | |
| CEO | Pay out vs median employee compensation | 8.33 | 14.15 | 12.47 | 9.65 | 5.59 |
| CEO | *Change (in %) compared to previous year* | *-41%* | *13%* | *29%* | *73%* | |
| | **Additional information on representative scope** | | | | | |
| | *Change (in %) in average employee compensation* | *-11%* | *3%* | *3%* | *15%* | *-5%* |
| | *Change (in %) in median employee compensation* | *-5%* | *2%* | *-10%* | *0%* | *-1%* |
| Chairman | Pay out vs average employee compensation | 2.34 | 2.11 | 1.93 | 1.43 | 2.56 |
| Chairman | *Change (in %) compared to previous year* | *11%* | *9%* | *35%* | *-44%* | *5%* |
| Chairman | Pay out vs median employee compensation | 3.22 | 3.10 | 2.81 | 1.83 | 2.84 |
| Chairman | *Change (in %) compared to previous year* | *4%* | *10%* | *54%* | *-36%* | *1%* |
| Dir. Général | Pay out vs average employee compensation | 17.33 | 22.36 | 21.51 | 20.67 | 15.24 |
| Dir. Général | *Change (in %) compared to previous year* | *-22%* | *4%* | *4%* | *36%* | |
| Dir. Général | Pay out vs median employee compensation | 23.86 | 32.96 | 31.44 | 26.39 | 16.89 |
| Dir. Général | *Change (in %) compared to previous year* | *-28%* | *5%* | *19%* | *56%* | |
| | **Group performance (figures published)** | | | | | |
| | Sales (in €m) | 847 | 950 | 879 | 809 | 764 |
| | *Change (in %) compared to previous year* | *-11%* | *8%* | *9%* | *6%* | |
| | Operating margin before non-recurring items (as a % of Sales) | 8.1 | 10.8 | 10.4 | 9.2 | 7.8 |
| | *Change (in %) compared to previous year* | *-25%* | *4%* | *13%* | *18%* | |
| | ROCE (in %) | 7.8 | 11.3 | 11.8 | 9.8 | 7.6 |
| | *Change (in %) compared to previous year* | *-31%* | *-4%* | *20%* | *29%* | |
| | Group's operating cash flow (in %) | 133 | 123 | 92 | 64 | 83 |
| | *Change (in %) compared to previous year* | *8%* | *34%* | *44%* | *-23%* | |

Note 1: Changes in compensation require the accounting valuation of LTIs to be taken into account, which explains the considerable variations. The same is true for the two comparisons (Headquarters and France), but with a much lesser impact given the small number of LTI beneficiaries in relation to the total workforce.

In 2020, ROCE is calculated as operating income before non-recurring items on total of assets excluding right-of-use assets.

The pay ratio was introduced in 2019. From 2020, AFEP-MEDEF recommended that annual rates of changes in compensation also be disclosed. The components of this compensation are identical to those used to establish the ratio. In addition, annual changes are calculated on the basis of samples that change from one year to the next. While it is obvious that only those employees who were present throughout the year in question are used to calculate the ratio, the sample used in a given year is liable to change in subsequent years. Therefore, the changes observed from one year to the next reflect, in addition to the different samples, the inclusion of such items as the accounting valuation of LTIs allocated. This type of data is inherently highly variable, as it is largely based on the share price at the time the shares are allocated and on the criteria used to assess the actual value of the shares allocated.

Subject to these reservations, the changes in the Chief Executive Officer's compensation clearly reflect the Group's performance. Luc Themelin's compensation was significantly reduced in 2020, by approximately 31%, due to the decline in the various performance indicators, compounded by his decision to reduce his fixed compensation by 12.5% over the year. The compensation of the employees included in this analysis followed the same trends, albeit to a lesser extent (particularly for the extended scope).

# 3. Summary of commitments given to corporate officers

| | Employment contract | Supplementary pension plan | Compensation and benefits payable or likely to be payable owing to the termination or change in duties | Indemnity relating to a non-compete clause |
|---|---|---|---|---|
| **Olivier Legrain**<br>Chairman of the Board of Directors since May 18, 2017 (expiration 2021 AGM) | NO | NO | NO | NO |
| **Luc Themelin**<br>Chief Executive Officer since May 11, 2016 (expiration 2024 AGM) | NO | YES(1) | YES(2) | YES |

*(1) Luc Themelin is eligible for a supplementary pension plan pursuant to his employment contract, the terms of which are described in section 5.*
*(2) Compensation and benefits payable or likely to be payable owing to the termination or change of office are described in section 5.*

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

The Chief Executive Officer and the members of the Board of Directors own a total of 2,268,048 shares (of which 2,242,770 are held by Bpifrance, and 38,544 by the Chief Executive Officer), representing a total of 10.9% of the share capital.

In accordance with Article 6 of the Internal Charter, each member of the Board of Directors, with the exception of those representing employees, must hold at least 800 shares throughout their term of office. These shares must be held in registered form.

# 5. Commitments with the Chief Executive Officer (Luc Themelin)

## 5.1. Review of compensation commitments

On February 12, 2021, the Board of Directors re-examined the commitments of Luc Themelin's agreements and decided to leave them unchanged.

## 5.2. Severance payment

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

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

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

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

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

### 5.2.2. Termination of his term of office

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

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

The amount of the Severance Payment is calculated as follows:

I = 0.5 x R x C

where

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

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

- Performance rate (P):

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

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

- Performance condition (C):

If **P** ≥ 100%, C = 100%

If **P** ≥ 90% and < 100%, C = 90%

If **P** ≥ 80% and < 90%, C = 80%

If **P** ≥ 60% and < 80%, C = 60%

If **P** ≥ 50% and < 60%, C = 50%

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

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

#### 5.2.3. Stock options – Performance shares

Should Luc Themelin's term of office as Chief Executive Officer be terminated in any manner and for any reason whatsoever (barring termination following the acquisition of control of the Company, retirement or enforced retirement), he will automatically lose his entitlement to ail the stock options allocated to him prior to the end date of his term of office where the conditions of allocation (condition related to continued presence and performance conditions) have not been satisfied by the end date of his term of office. He will also automatically lose his entitlement to all the shares allocated to him, irrespective of whether they are subject to a performance condition, in accordance with the provisions of Articles L. 225-197-1 to L. 225-197-5, L. 22-10-59 and L. 22-10-60 of the French Commercial Code, prior to the end date of his term of office, where shares allocated have not been definitively allocated by the end date of his term of office.

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

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

### 5.3. Pension plan for Luc Themelin

Luc Themelin benefits from the "Mersen Group defined benefit pension plan". The purpose of this plan is to enable Mersen to reward its Chief Executive Officer for his loyalty.

To date, Luc Themelin has 32 years of seniority with Mersen, including 24 as an employee. The potential future pension rights of Luc Themelin have therefore been capped for more than ten years and can no longer be increased.

Subscribers to and beneficiaries of the supplementary pension plan must: a) belong to the appropriate "*college*" category defined by the collective bargaining agreement for the French chemicals industry: top executives ranked 880 or above; b) effectively end their professional career within the member company at the age of 65, or from the age of 60 if the beneficiary is eligible to claim a full state pension; c) be eligible to claim a state pension; d) have spent at least 10 years in a senior position within the Mersen Group or one of its subsidiaries by the time of retirement; e) have been a member of the Mersen Group Management Committee for at least three years during their career.

The reference compensation when calculating the supplementary pension is the sum of the average fixed compensation for the past three years and 50% of the maximum variable compensation. The retirement coefficient is either 10%, 15% or 20% depending on length of service within the Group.

Given his length of service with the Group, Luc Themelin shall receive a supplementary pension corresponding to 20% of the amount of his reference compensation.

This plan is an important tool in securing the loyalty of the Chief Executive Officer in that it entitles him to a pension at a similar rate to that of the rest of the Company's employees. It does not represent an undue financial burden on the Company. At December 31, 2020, the estimated amount of the annuity under the supplementary pension scheme paid to Luc Themelin is €132,000, before tax and social security contributions.

### 5.4. Other

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

## 6. Employee incentive agreements

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

| *(In € thousands)* | 2020 | 2019 |
|---|---|---|
| Amounts allocated to employees | 3,782 | 3,348 |
| Number of beneficiaries | 1,384 | 1,662 |

## 7. Employee profit-sharing

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

| *(in € thousands)* | 2020 | 2019 |
|---|---|---|
| Amounts allocated to employees | 1,675 | 2,076 |
| Number of beneficiaries | 1,781 | 1,535 |

## 8. Company savings plan

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

The General Meeting of May 14, 2020 delegated its authority to the Board of Directors to increase the share capital on one or more occasions by issuing ordinary shares or securities conferring rights to new shares for subscription by members of one or several company or group savings plans set up by the Company and/or French or foreign related companies, in accordance with Article L. 225-180 of the French Commercial Code and Article L. 3344-1 of the French Labor Code. The aggregate nominal amount of these transactions may not exceed €400,000 and will be deducted from the overall ceiling of €17,000,000 and the sub-ceiling of €8,000,000 on issues of ordinary shares set in the twentieth resolution.

The shares to be issued under this delegation may not be issued at a discount of more than 30% (or 40% in the case of shares subject to a vesting period of at least ten years in accordance with Articles L. 3332-25 and L. 3332-26 of the French Labor Code) on the average of the opening prices quoted for the Company's shares over the 20 trading days preceding the decision to open the subscription period, or at a price in excess of this average.

This delegation of authority is valid for a period of 26 months.

The submission of this resolution to the General Meeting was necessary in order not to render the other resolutions concerning capital increases invalid. However, in line with its press release of April 6, 2020, the Group had stated that it did not intend to use it given the economic and health context of 2020.

## 9. Stock options (2014)

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

All stock option plans are subject to performance conditions.

The total number of stock options still outstanding stands at 55,831, i.e., 0.2% of the share capital.

## 9.1. Stock options: previous allocations

| | 2014 plan Tranche 13 |
|---|---|
| Date of Board of Directors'/Management Board meeting | May 21, 2014 |
| Total number of shares available for subscription | 150,000 |
| *- o/w corporate officers:* | |
| *Luc Themelin (not a corporate officer until May 19, 2009)* | *30,000* |
| *- o/w corporate officers at the allocation date, who have since left the Company* | *18,000* |
| *- including corporate officers at the allocation date who were no longer corporate officers on the date of publication* | *54,000* |
| *- o/w top 10 recipients* | *150,000* |
| Subscription price | 22.69 |
| Start of option exercise period | May 2016 |
| Expiration date | May 2021 |
| Total number of shares subscribed at Dec. 31, 2020 | 56,369 |
| Options canceled at Dec. 31, 2020 | 37,800 |
| *- o/w canceled in 2020* | *0* |
| **OPTIONS THAT MAY STILL BE EXERCISED** | **55,831** |

## 9.2. Performance conditions and holding requirements attached to the stock option plan

### 9.2.1. Principles underlying the performance conditions for the 2014 plan

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

- The performance condition is based on earnings per share ("EPS"), adjusted for certain non-recurring items of expense or income (net of tax) with a very significant impact on the Group's results. The Board decided to eliminate these non-recurring items in order to measure the Company's intrinsic performance.
- The target EPS for obtaining 100% is demanding, in keeping with the internal objectives of the Group's strategic plans in a stable or improving economic environment.
- Given the Group's dependence on the economic environment, an alternative EPS criterion has been put in place. The principle is to reward beneficiaries if the Group has not achieved its internal EPS targets due to a deterioration in the economic environment but if the Group has outperformed or comfortably outperformed a panel of French industrial companies. This relative performance is measured by reference to the change in EPS over the relevant period.
- The calculations are based on the Group's financial statements. However, in the event of abnormal positive or negative variations during the period or of significant exceptional transactions (specifically, change of scope by acquisitions or disposals) occurring after the meeting of the Management Board or Board of Directors at which the stock option plans were allocated, the Group's results may be adjusted after analysis by the Governance, Appointments and Remuneration Committee and with the agreement of the Board of Directors (previously the Supervisory Board). In the same spirit, the Governance and Remuneration Committee may withdraw from the panel any companies that have recorded manifestly wild or abnormal fluctuations in EPS over the period.

### 9.2.2. Performance conditions for the 2014 plan

#### Target

The possibility of exercising the options was contingent on growth in the Group's 2013 net earnings per share (adjusted for non-recurring expenses of €55 million, including depreciation of deferred tax assets, recognized in the second half of 2013, i.e., "adjusted 2013 EPS" of 1.27) in relation to the average EPS for 2014 and 2015 (adjusted for costs related to the Transform Plan) (the "adjusted 2014 and 2015 EPS").

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

| Achievement rate | 100% | 30% to 100% | 30% | 0% |
|---|---|---|---|---|
| CRITERION 1 | If average adjusted 2014/2015 EPS is more than or equal to 1.75 | Calculated on a straight-line basis if average adjusted 2014/2015 EPS is between 1.27 and 1.75 | If average adjusted 2014/2015 EPS is equal to 1.27 | If average adjusted 2014/2015 EPS is less than 1.27 |
| **Achievement rate** | **100%** | **50% to 100%** | **50%** | **0%** |
| CRITERION 2 | If Mersen's EPS growth (between adjusted 2013 EPS and average adjusted 2014/2015 EPS) is more than 15 pts higher than the panel's average EPS growth | Percentage achievement calculated on a straight-line basis if Mersen's EPS growth (between adjusted 2013 EPS and average adjusted 2014/2015 EPS) is less than 15 pts higher than the panel's average EPS growth | Mersen's EPS growth (between adjusted 2013 EPS and average adjusted 2014/2015 EPS) is equal to the panel's average EPS growth | If Mersen's EPS growth (between adjusted 2013 EPS and average adjusted 2014/2015 EPS) is less than the panel's average EPS growth |

The panel of comparable companies used to calculate criterion 2 was approved by the Supervisory Board on May 15, 2014, based on the recommendation of the Appointments and Remuneration Committee. This includes the following companies listed on Euronext Paris: Air Liquide, Alstom, ArcelorMittal, Areva, Arkema, Ciments Français, EDF Energies Nouvelles, Essilor, Faiveley, Imerys, Ingenico, Lafarge, Nexans, Rexel, Saft, Saint-Gobain, Schneider, Sechilienne, Soitec, ST Micro, Vicat and Zodiac.

#### Results

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

** Three companies were not included in the panel as they had not published their EPS at the time of the calculation (Alstom, Lafarge and Soitec). In addition, three companies in the panel were excluded (after validation by the Governance and Remuneration Committee) due to an excessive change (positive and/or negative) in their EPS over the period (ST Micro, Manitou and Areva).*
*Excluding those changes, the achievement rate would have been 100%.*

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

### 9.2.3. Holding requirements for the 2014 Plan

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

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

## 9.3. Stock options: executive corporate officers

Options allocated in 2020 to each executive corporate officer:

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

Options exercised in 2020 by each executive corporate officer:

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

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

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

| | Number of options allocated/exercised | Weighted average exercise price |
|---|---|---|
| Options allocated in 2020 to the 10 employees who received the largest number | 0 | |
| Options exercised in 2020 by the 10 employees who received the largest number | 5,100 | €22.69 |

# 10. Free shares (non-executive program)

There was no new free share plan in 2020.

The two free share plans whose definitive allocation dates have not yet expired are those approved in 2018 and 2019.

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

The total number of shares that may be thus allocated may not exceed 84,000, representing around 0.4% of the share capital on the day of the Meeting.

This authorization provided that the Board of Directors would determine the identity and categories of the beneficiaries of the share allocation referred to, as well as the performance and share allocation conditions and criteria. This authorization invalidated the previous authorization allocated by the General Meeting of May 18, 2017. This authorization was valid for 38 months.

At its meeting of May 17, 2018 the Board of Directors made use of this authorization and empowered the Chief Executive Officer to implement the performance-based free share plan and the allocation of said shares.

The Chief Executive Officer implemented this authorization by allocating, at no cost, 67,050 Company shares to 156 Mersen Group employees and managerial staff according to the related performance conditions; i.e., a 2018 EBITDAtosales ratio criterion, or one based on a change in the EBITDA-to-sales ratio between 2017 and 2018, compared to a panel of comparable French companies (whichever is more favorable).

The General Meeting of May 17, 2019 granted two authorizations to the Board of Directors to allocate existing or new shares at no cost to employees, or certain categories of employees, and/or corporate officers of the Company or those of affiliated companies.

The total number of shares that may be thus allocated may not exceed 84,000, representing around 0.4% of the share capital on the day of the Meeting.

This authorization provides that the Board of Directors will determine the identity and categories of the beneficiaries of the share allocation referred to, as well as the performance and share allocation conditions and criteria. This authorization invalidated the previous authorization granted by the General Meeting of May 17, 2018. This authorization is valid for 38 months.

At its meeting of May 17, 2019 the Board of Directors made use of this authorization and empowered the Chief Executive Officer to implement the performance-based free share plan and the allocation of said shares.

The Chief Executive Officer implemented this authorization by allocating 84,000 free shares to 200 employees and managers of the Mersen group. The performance conditions for each plan are described below.

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

## 10.1. Free shares: prior allocations

| | 2018 plan Tranche 12 (with performance conditions) | 2019 plan Tranche 13 (with performance conditions) | Total |
|---|---|---|---|
| Date of allocation decision | May 17, 2018 | May 17, 2019 | |
| Total number of shares allocated | 67,050 | 84,000 | 151,050 |
| *- o/w corporate officers:* | | | |
| *Luc Themelin* | *0* | *0* | *0* |
| *- o/w top 10 recipients* | *9,300* | *10,100* | *19,400* |
| Share price at allocation date (€) | 37.20 | 24.29 | |
| Definitive allocation date (end of the vesting period) | May 17, 2021 | May 17, 2022 | |
| Date of transferability (end of lock-up period) | May 18, 2021 | May 18, 2022 | |
| Allocations canceled at Dec. 31, 2020 | 900 | 0 | 900 |
| *o/w canceled in 2020* | *0* | *0* | *0* |
| Number of shares fully vested, and transferable | 0 | 0 | 0 |
| **BALANCE AT DECEMBER 31, 2020** | **66,150** | **84,000** | **150,150** |

## 10.2. Principles for setting the performance conditions

The Board of Directors decided on the following principles to set the performance conditions for the 2018 and 2019 performance share plans:

- The performance condition is based on the EBITDA margin and an additional criterion based on growth in like-for-like sales. This additional criterion was used in both plans.
- The target EBITDA margin and, for the 2019 plan, the target sales for obtaining 100% are demanding and in keeping with the internal objectives of the Group's strategic plans in a stable or improving economic environment.

Given the Group's dependence on the economic environment, an alternative criterion has been put in place. The principle is to reward beneficiaries if the Group has not achieved its internal targets due to a deterioration in the economic environment but has outperformed or comfortably outperformed a panel of French industrial companies. This relative performance is measured by reference to the change in the average EBITDA margin over the relevant period.

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

## 10.3. 2018 plan

### 10.3.1. Performance conditions

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

The percentage of free shares allocated to each of the beneficiaries will thus be determined based on the most favorable amount of the following two criteria, bearing in mind that criteria 1-A and 1-B are independent and that each accounts for 50% of the achievement rate.

| Achievement rate | 100% | 30% to 100% | 30% | 0% |
|---|---|---|---|---|
| CRITERION 1-A<br>50%<br>CRITERION 1-B<br>50% | If the average 2018-2020 EBITDA(1) margin is more than or equal to 15%<br>Change in like-for-like revenue (average over the 3 years from 2018 to 2020) is more than or equal to 4% | Allocation percentage calculated on a straight-line basis<br>Allocation percentage calculated on a straight-line basis | If the average 2018-2020 EBITDA(1) margin is more than or equal to 14%<br>Change in like-for-like sales (average over the 3 years from 2018 to 2020) is more than or equal to 2% | If the average 2018-2020 EBITDA(1) margin is less than 14%<br>Change in like-for-like sales (average over the 3 years from 2018 to 2020) is less than 2%. |

| Achievement rate | 100% | 35% to 100% | 35% | 0% |
|---|---|---|---|---|
| CRITERION 2 | If the change in EBITDA(1) margin between 2017 and the 2018-2020 average is more than 5 pts higher than the change in the panel's average EBITDA(1) margin | Allocation percentage calculated on a straight-line basis | If the change in EBITDA(1) margin between 2017 and the 2018-2020 average is equal to the change in the panel's average EBITDA(1) margin | If the change in EBITDA(1) margin between 2017 and the 2018-2020 average is less than the change in the panel's average EBITDA(1) margin |

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

#### Criteria calculation method

The calculations will be based on Mersen's published financial statements. However, in the event of abnormal variations during the period or of significant exceptional transactions (specifically, change of scope by acquisitions or disposals) or a change in the accounting standards having an impact on EBITDA or sales occurring after May 17, 2018, the Board of Directors may, after obtaining the opinion of the Governance and Remuneration Committee, adjust the financial statements for these effects when calculating the allocation percentages.

The panel of comparable companies used to calculate criterion 2 was approved by the Board of Directors on May 17, 2018, on the recommendation of the Governance and Remuneration Committee.

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

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

### 10.3.2. Results

The performance achievement on the basis of criterion 1 is 23%.

The results for criterion 2 will only be known after the publication of the financial statements of the panel of comparable companies.

## 10.4. 2019 plan

### 10.4.1. Performance conditions

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

The percentage of free shares allocated to each of the beneficiaries will thus be determined based on the most favorable amount of the following two criteria, bearing in mind that criteria 1-A and 1-B are independent and that each accounts for 50% of the achievement rate.

The Group would like to be able to allocate free shares to certain employees who are not senior executives if (a) criteria 1 and 2 are not achievable due to unfavorable economic conditions, but (ii) the Group performs better than its peers. For the sake of comparison, the impacts relating to the application of IFRS 16 will be restated when calculating EBITDA margins. The Board of Directors may adjust (favorably or not) the EBITDA margins of exceptional components or remove from the panel certain companies whose EBITDA margins show abnormal fluctuations during the period.

| Achievement rate | 100% | 30% to 100% | 30% | 0% |
|---|---|---|---|---|
| CRITERION 1-A 50% | If the average 2019-2021 EBITDA[1] margin is more than or equal to 15.5% | Allocation percentage calculated on a straight-line basis | If the average 2019-2021 EBITDA[1] margin is more than or equal to 14.9% | If the average 2019-2021 EBITDA[1] margin is less than 14.9% |
| CRITERION 1-B 50% | Change in like-for-like sales (average over the 3 years from 2019 to 2021) is more than or equal to 4% | Allocation percentage calculated on a straight-line basis | Change in like-for-like sales (average over the 3 years from 2019 to 2021) is more than or equal to 2% | Change in like-for-like sales (average over the 3 years from 2019 to 2021) is less than 2%. |
| **Achievement rate** | **100%** | **35% to 100%** | **35%** | **0%** |
| CRITERION 2 | If the change in EBITDA[1] margin between 2018 and the 2019-2021 average is more than 5 pts higher than the change in the panel's average EBITDA[1] margin | Allocation percentage calculated on a straight-line basis | If the change in EBITDA[1] margin between 2018 and the 2019-2021 average is equal to the change in the panel's average EBITDA[1] margin | If the change in EBITDA[1] margin between 2018 and the 2019-2021 average is less than the change in the panel's average EBITDA[1] margin |

*(1) EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization*

#### Criteria calculation method

The calculations will be based on Mersen's published financial statements. However, in the event of abnormal variations during the period or of significant exceptional transactions (specifically, change of scope by acquisitions or disposals) or a change in the accounting standards having an impact on EBITDA or sales occurring after May 17, 2019, the Board of Directors may, after obtaining the opinion of the Governance and Remuneration Committee, adjust the financial statements for these effects when calculating the allocation percentages.

The panel of comparable companies used to calculate criterion 2 was approved by the Board of Directors on May 17, 2019, on the recommendation of the Governance and Remuneration Committee.

The panel of comparable companies remains unchanged compared with the 2018 plan and comprises the following companies: Arkema, SA des ciments Vicat, STMicroelectronics NV, SEB, Manitou BF, Nexans, Rexel, Ingenico, Essilor International, Air Liquide, Imerys, Schneider Electric, ArcelorMittal, Saint-Gobain, Tarkett, Lisi, Somfy and Legrand.

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

### 10.4.2. Results

The results will not be known until 2022.

# 11. Free preference shares (2016-2018)

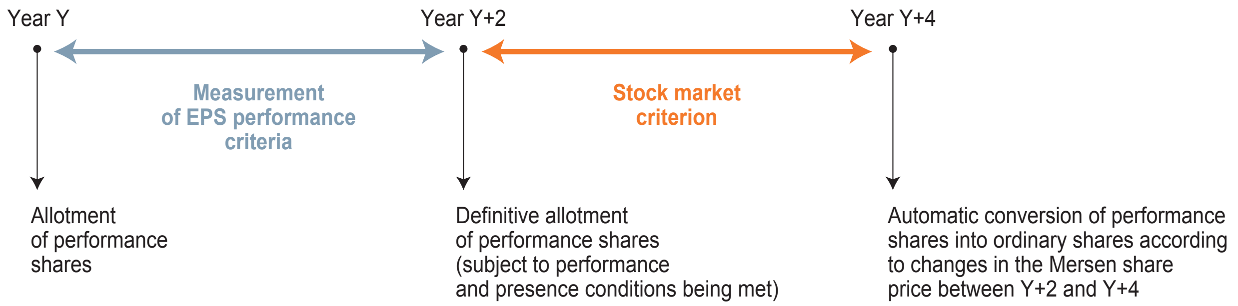
Free shares are shares of a specific category, allocated freely subject to performance conditions. They can be converted into a number of ordinary shares, said number depending on the increase in the share price (on average, over a predetermined period) in relation to the share price expected at the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

Four plans were set up between 2015 and 2018 leading to the creation of four classes of shares (B to E). The Board of Directors has decided not to renew these preference share plans as they are too complex and lack clarity for certain investors. B and C shares were fully converted into ordinary shares in 2019 and 2020 respectively.

### The main characteristics of the free share allocation plans

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

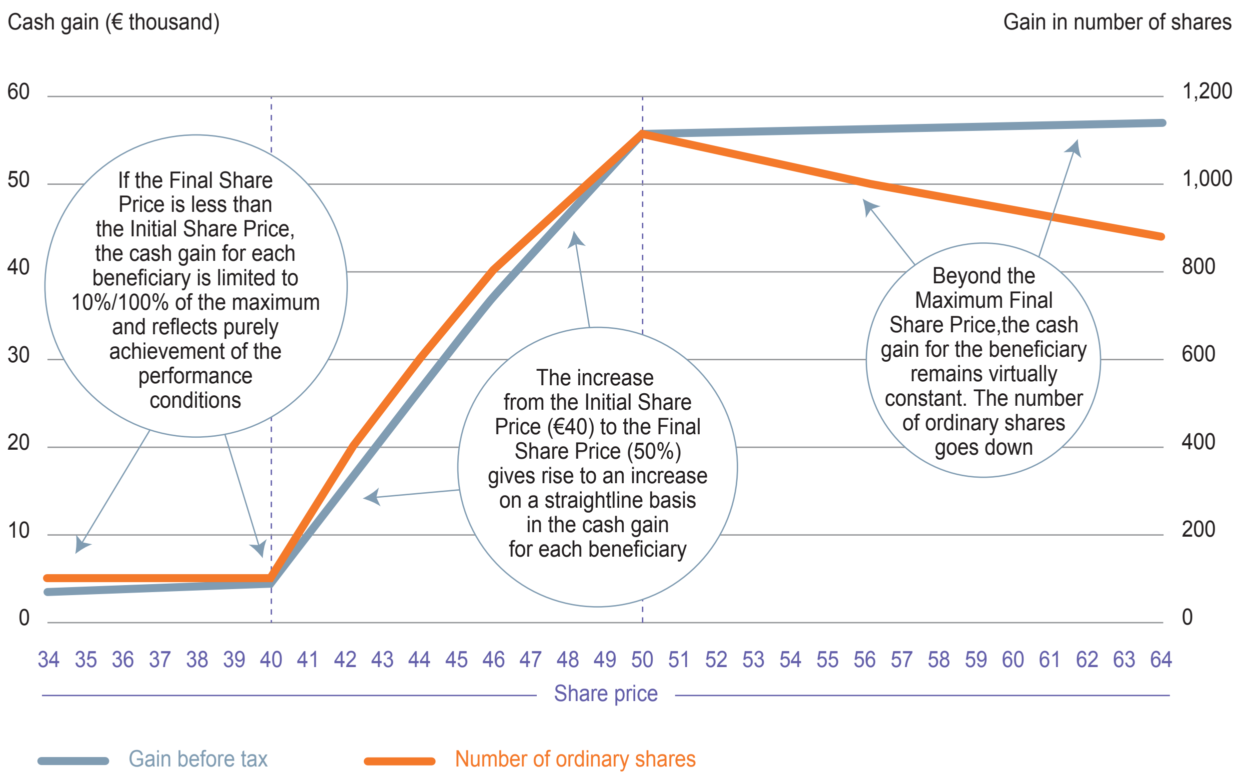
## Timetable for preference shares




- The number of ordinary shares ultimately obtained depends on growth in the average share price over two years ("Final Share Price") relative to the initial share price ("Initial Share Price" = average of the last twenty quoted prices at the time of allocation), if and only if the performance conditions are achieved, based on the following formula:
  - If the Final Share Price is less than the Initial Share Price, the number of ordinary shares obtained is equal to 10/110% of the maximum number of shares.
  - If the Final Share Price is more than the Initial Share Price, beneficiaries will receive a number of ordinary shares which, if sold, would give them a cash gain increasing on a straight-line basis with the Final Share Price, up to a maximum price ("Maximum Final Share Price"), beyond which the cash gain remains virtually constant.

## Example

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




### Performance conditions (principles)

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

- The performance condition is based on earnings per share (EPS), adjusted for certain non-recurring expenses or income (net of tax) with a significant impact on the Group's results. The Board decided to eliminate these non-recurring items in order to measure the Company's intrinsic performance.
- The target EPS for obtaining 100% is demanding, in keeping with the internal objectives of the Group's strategic plans in a stable or improving economic environment.
- Given the Group's dependence on the economic environment, an alternative EPS criterion has been put in place. The principle is to reward beneficiaries if the Group has not achieved its internal EPS targets due to a deterioration in the economic environment but has outperformed or comfortably outperformed a sample of French industrial companies. This relative performance is measured by reference to the change in EPS over the relevant period.
- The calculations are based on the Group's financial statements. However, in the event of abnormal positive or negative variations during the period or of significant exceptional transactions (specifically, change of scope by acquisitions or disposals) occurring after the meeting of the Management Board or Board of Directors at which the free shares are allocated, the Group's results may be adjusted after analysis by the Governance and Remuneration Committee and with the agreement of the Board of Directors (or the Supervisory Board). In the same spirit, the Governance and Remuneration Committee may withdraw from the sample any companies that have recorded manifestly wild or abnormal fluctuations in EPS over the period.

### Holding requirements

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

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

### No hedging

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

### Other characteristics of the free preference share allocation plans

- Preference shares confer the same rights as ordinary shares, except that they pay a lower dividend.
- At the end of the holding period for C, D and E shares (the "Holding Period"), as set forth in the various free share plans determining their allocation, each C, D and E shareholder may convert some or all of the C, D or E shares held into ordinary shares, under the terms and conditions set forth in section II, paragraphs 4 to 5 of Article 15 of the Articles of Association. If the shares have not been converted at the end of the periods set forth in section II, paragraphs 4 to 5 of Article 15 of the Articles of Association, the C, D and E shares will be converted automatically into ordinary shares.
- At the end of the Holding Period, the C, D and E shares will be transferable without restriction by the respective C, D and E shareholders. C, D and E shares may be converted into ordinary shares during a 30-day period, according to the terms and conditions in the plan based on a parity defined as the percentage difference between the Initial Share Price and the Final Share Price. A specific rule shall be defined if the end of the conversion period falls during a period restricting the sale or purchase of Company shares. The Initial Share Price is equal to the volume-weighted average of the opening prices of the ordinary shares for the last 20 trading days prior to the allocation date. By exception to this principle, the Initial Share Price set in 2016 was €17, significantly above the volume-weighted average in order to avoid a windfall effect caused by an abnormally low share price.
- The Final Share Price is equal to the average opening prices of the ordinary shares between the second anniversary of the allocation date (included) and the beginning of the conversion period during which the C, D and E shareholders requested the conversion into ordinary shares.
- The Maximum Final Share Price is set such that the cash gain that would be made by the beneficiaries by selling the ordinary shares obtained upon conversion of the C, D and E shares would be more or less constant. This Maximum Final Share Price has been set at 150% of the Initial Share Price for the C and D shares. Given the very strong growth in the share price from May 2016 to May 2018 (+229%), the Board of Directors considered that the Maximum Final Share Price should be limited to 120% of the Initial Share Price for the 2018 Plan (E shares).
- In the event of a change of control occurring before the performance condition can be observed, the performance condition shall be deemed to have been fully satisfied, thus entitling the holder to delivery of all the C, D and E shares at the end of the vesting period.

## 11.1. 2016 plan

### 11.1.1. Summary

| | 2016 plan | | | |
|---|---|---|---|---|
| | **Preference shares** | **Minimum equivalent ordinary shares(1)** | **Maximum additional equivalent ordinary shares** | **Maximum total equivalent ordinary shares** |
| Date of allocation decision | May 11, 2016 | | | |
| Total number of shares available for subscription | 1,172 | 11,720 | 117,200 | 128,920 |
| *- o/w corporate officer: Luc Themelin* | *188* | *1,880* | *18,800* | *20,680* |
| *- o/w top 10 recipients* | *936* | *9,360* | *93,600* | *102,960* |
| Initial Share Price *(in €)* | 17.00 | | | |
| Maximum Final Share Price *(in €)* | 25.50 | | | |
| Value of preference shares(1) on the allocation date *(in €)* | | 10.92 (French tax residents)(2) | 1.52 (French tax residents)(3) | |
| Definitive allocation date (end of the vesting period) | May 11, 2018 (French tax residents) - May 11, 2020 (non-French tax residents) | | | |
| Date of transferability and convertibility | May 11, 2020 | | | |
| Allocations canceled at May 11, 2020 | 0 | | | |
| *- o/w canceled in 2020* | *0* | | | |
| Number of vested shares | 1,172 | 11,720 | 117,200 | 128,920 |
| *- Number of ordinary shares following conversion (4)* | | *10,470* | *104,700* | *115,170* |
| *- o/w corporate officer: Luc Themelin* | | | | *18,827* |
| *- Number of unvested ordinary shares* | | | | *0* |
| **BALANCE AT DECEMBER 31, 2020** | **0** | **0** | **0** | **0** |

*(1) 10% of preference shares are not linked to share price trends and are thus automatically convertible into ordinary shares, subject to the achievement of performance criteria regarding changes in earnings per share.*
*(2) For beneficiaries who are non-French tax residents, the value is €11.41.*
*(3) For beneficiaries who are non-French tax residents, the value is €1.59.*
*(4) The weighted average Final Share Price for the conversions was €28.88*

### 11.1.2. Description

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

### 11.2.3. Performance conditions (targets)

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

| Achievement rate | 100% | 30% to 100% | 30% | 0% |
|---|---|---|---|---|
| CRITERION 1 | If average 2016/2017 EPS is more than or equal to 1.50 | Percentage achievement calculated on a straight-line basis if average 2016/2017 EPS is between 1.32 and 1.50 | If average 2016/2017 EPS is equal to 1.32 | If average 2016/2017 EPS is less than 1.32 |
| **Achievement rate** | **100%** | **50% to 100%** | **50%** | **0%** |
| CRITERION 2 | If growth in Mersen's EPS (between 2015 EPS and average 2016/2017 EPS) is more than 15 pts higher than the panel's average EPS growth | Percentage achievement calculated on a straight-line basis if growth in Mersen's EPS (between 2015 EPS and average 2016/2017 EPS) is less than 15 pts higher than the panel's average EPS growth | If Mersen's EPS growth (between 2015 EPS and average 2016/2017 EPS) is equal to the panel's average EPS growth | If Mersen's EPS growth (between 2015 EPS and average 2016/2017 EPS) is less than the panel's average EPS growth |

The reference 2015 EPS is the EPS published by the Group adjusted for non-recurring expenses, i.e., an adjusted 2015 EPS of 1.32.

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

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

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

The panel of comparable companies comprises the following companies: Arkema, SA Vicat STMicroelectronics NV, SEB SA, Manitou BF, Zodiac Aerospace, Nexans SA, Rexel SA, SAFT Groupe SA, Ingenico, Essilor International, Air Liquide SA, Imerys SA, Schneider Electric SA, Arcelor Mittal, Saint-Gobain, Tarkett, Lisi, Somfy, Legrand, Faiveley. Among those companies, STMicroelectronics, Nexans, Faiveley and Saft were added in order to increase the number of groups in the panel.

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

### 11.2.4. Performance conditions (results)

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

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

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

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

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

### 11.2.5. Conversion terms

The Initial Share Price is 17 euros: it corresponds to the higher amount of either (i) 17 (seventeen) euros or (ii) the volume-weighted average of the opening prices of the ordinary shares over a period preceding the allocation date by twenty (20) trading days.

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

The conversion parity will be equal to:

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

Where:

- "N" is the number of A shares to which each C share is entitled, it being specified that in the case of a fraction (or decimal quotient), the number of A shares allocated to a C shareholder will be rounded down to the lower unit; "CF" is the Final Share Price; "CI" is the Initial Share Price; and, "CFMax" is the Maximum Final Share Price.
- If the Final Share Price is greater than the Maximum Final Share Price: N = 10 + (CFMax x 100)/CF
- If the Final Share Price is less than the Initial Share Price: N = 10

The C preference shares were converted into ordinary shares in June and November 2020.

## 11.3. 2017 plan

### 11.3.1. Summary

| | 2017 plan | | | |
|---|---|---|---|---|
| | **Preference shares** | **Minimum equivalent ordinary shares(1)** | **Maximum additional equivalent ordinary shares** | **Maximum total equivalent ordinary shares** |
| Date of allocation decision | May 18, 2017 | | | |
| Total number of shares available for subscription | 1,172 | 11,720 | 117,200 | 128,920 |
| *- o/w corporate officers: Luc Themelin* | *189* | *1,890* | *18,900* | *20,790* |
| *- o/w top 10 recipients* | *936* | *9,360* | *93,600* | *102,960* |
| Initial Share Price *(in €)* | | 26.06 | | |
| Maximum Final Share Price *(in €)* | | 39.09 | | |
| Value of preference shares(1) on the allocation date *(in €)* | | 21.35 (French tax residents)(2) | 6.44 (French tax residents)(3) | |
| Definitive allocation date (end of the vesting period) | | May 18, 2019 (French tax residents) - May 18, 2020 (non-French tax residents) | | |
| Date of transferability and convertibility | | May 19, 2021 | | |
| Allocation canceled at Dec. 31, 2020 | 0 | | | |
| Number of shares fully vested, non-transferable | 1,172 | | | |
| **BALANCE AT DECEMBER 31, 2020** | **0** | **11,720** | **117,200** | **128,920** |

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

### 11.3.2. Description

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

### 11.3.3. Performance conditions

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

| **Achievement rate** | **100%** | **30% to 100%** | **30%** | **0%** |
|---|---|---|---|---|
| CRITERION 1 | If average 2017/2018 EPS is more than or equal to 1.8 | Percentage achievement calculated on a straight-line basis if average 2017/2018 EPS is between 1.4 and 1.8 | If average 2017/2018 EPS is equal to 1.4 | If average 2017/2018 EPS is less than 1.4 |
| **Achievement rate** | **100%** | **50% to 100%** | **50%** | **0%** |
| CRITERION 2 | If Mersen's EPS growth (between 2016 EPS and average 2017/2018 EPS) is more than 15 pts higher than the panel's average EPS growth | Percentage achievement calculated on a straight-line basis if Mersen's EPS growth (between 2016 EPS and average 2017/2018 EPS) is less than 15 pts higher than the panel's average EPS growth | If Mersen's EPS growth (between 2016 EPS and average 2017/2018 EPS) is equal to the panel's average EPS growth | If Mersen's EPS growth (between 2016 EPS and average 2017/2018 EPS) is less than the panel's average EPS growth |

The adjusted 2016 EPS is the EPS published by the Group, adjusted for non-recurring expenses, or 1.41.

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

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

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

### 11.3.4. Performance conditions

| | | | **% allocation in respect of criterion 1** | **% allocation in respect of criterion 2** |
|---|---|---|---|---|
| CRITERION 1 | Average adjusted 2017/2018 EPS achieved | 2.29 | **100%** | |
| CRITERION 2 | Criterion 1 having been fully met, the calculation was not carried out for criterion 2. | | | |

The performance conditions were fully met.

### 11.3.5. Conversion terms

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

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

The conversion parity will be equal to:

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

Where:

- "N" is the number of A shares to which each D share is entitled, it being specified that in the case of a fraction (or decimal quotient), the number of A shares allocated to a D shareholder will be rounded down to the lower unit; "CF" is the Final Share Price; "CI" is the Initial Share Price; and, "CFMax" is the Maximum Final Share Price.
- If the Final Share Price is greater than the Maximum Final Share Price: N = 10 + (CFMax x 100)/CF
- If the Final Share Price is less than the Initial Share Price: N = 10

The conversion of preference shares into ordinary shares will take place from May 18, 2021 within the framework of the conversion windows laid out in Article 15-II of the Company's Articles of Association.

## 11.4. 2018 plan

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

- Given the very favorable trend in share price from May 18, 2017 to May 17, 2018 (+57%), the maximum number of ordinary shares was reduced by about 22% compared to the authorization given by the shareholders and compared to the 2017 plan.
- The Board of Directors reduced the Maximum Final Share Price to 120% of the Initial Share Price (compared with 150% for the 2016 and 2017 plans). The reason behind this decision was to take into account the very favorable trend in share price (+229% between May 17, 2016 and May 17, 2018), while maintaining an incentivizing target for the beneficiaries and in the interest of investors. Conversely, for the 2016 plan, the Board had set an initial share price of €17, well above the average of the 20 preceding trading days in order to avoid a windfall effect for the beneficiaries.
- Furthermore, at his request, the Chief Executive Officer was allocated the same maximum equivalent number of preference shares as the Executive Committee members, i.e., 77.

### 11.4.1. Summary

| | 2018 plan | | | |
|---|---|---|---|---|
| | **Preference shares** | **Minimum equivalent ordinary shares[1]** | **Maximum additional equivalent ordinary shares** | **Maximum total equivalent ordinary shares** |
| Date of allocation decision | May 17, 2018 | | | |
| Total number of shares available for subscription | 940 | 9,400 | 94,000 | 103,400 |
| *- o/w corporate officers: Luc Themelin* | *77* | *770* | *7,700* | *8,470* |
| *- o/w top 10 recipients* | *736* | *7,360* | *73,600* | *80,960* |
| Initial Share Price *(in €)* | 39.27 | | | |
| Maximum Final Share Price *(in €)* | 47.12 | | | |
| Value of preference shares[1] on the allocation date *(in €)* | 33.53 (French tax residents)[2] | 12.41 (French tax residents)[3] | | |
| Definitive allocation date (end of the vesting period) | May 17, 2020 (French tax residents)[4] | | | |
| Date of transferability (automatic conversion of preference shares into ordinary shares) | May 17, 2022 | | | |
| Allocations canceled at Dec. 31, 2020 | 0 | | | |
| Number of shares fully vested, non-transferable | 737 | | | |
| **BALANCE AT DECEMBER 31, 2020** | **203** | **9,400** | **94,000** | **103,400** |

*(1) 10% of preference shares are not linked to share price trends and are thus automatically convertible into ordinary shares, subject to the achievement of performance criteria regarding changes in earnings per share.*
*(2) For beneficiaries who are non-French tax residents, the value is €12.41.*
*(3) For beneficiaries who are non-French tax residents, the value is €12.97.*
*(4) For beneficiaries who are non-French tax residents, there is an additional period of two years.*

### 11.4.2. Description

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

### 11.4.3. Performance conditions (targets)

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

| Achievement rate | 100% | 30% to 100% | 30% | 0% |
|---|---|---|---|---|
| CRITERION 1 | If average 2018/2019 EPS is more than or equal to 2.2 | Percentage achievement calculated on a straight-line basis if average 2018/2019 EPS is between 1.88 and 2.2 | If average 2018/2019 EPS is equal to 1.88 | If average 2018/2019 EPS is less than 1.88 |
| **Achievement rate** | **100%** | **50% to 100%** | **50%** | **0%** |
| CRITERION 2 | If Mersen's EPS growth (between 2017 EPS and average 2018/2019 EPS) is more than 15 pts higher than the panel's average EPS growth | Percentage achievement calculated on a straight-line basis if Mersen's EPS growth (between 2017 EPS and average 2018/2019 EPS) is less than 15 pts higher than the panel's average EPS growth | If Mersen's EPS growth (between 2017 EPS and average 2018/2019 EPS) is equal to the panel's average EPS growth | If Mersen's EPS growth (between 2017 EPS and average 2018/2019 EPS) is less than the panel's average EPS growth |

The adjusted 2017 EPS is the EPS published by the Group, adjusted for non-recurring expenses, or 1.88.

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

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

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

### 11.4.4. Performance conditions (results)

The performance conditions were fully met

| | | | % allocation in respect of criterion 1 | % allocation in respect of criterion 2 |
|---|---|---|---|---|
| CRITERION 1 | Average adjusted 2018/2019 EPS achieved | 2.76 | 100% | |
| CRITERION 2 | Criterion 1 having been fully met, the calculation was not carried out for criterion 2. | | | |

### 11.4.5. Conversion terms

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

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

The conversion parity will be equal to:

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

Where:

- "N" is the number of A shares to which each E share is entitled, it being specified that in the case of a fraction (or decimal quotient), the number of A shares allocated to a E shareholder will be rounded down to the lower unit; "CF" is the Final Share Price; "CI" is the Initial Share Price; and, "CFMax" is the Maximum Final Share Price.
- If the Final Share Price is greater than the Maximum Final Share Price: N = 10 + (CFMax x 100)/CF
- If the Final Share Price is less than the Initial Share Price: N = 10

The preference shares will be converted into ordinary shares as of May 17, 2022 within the framework of the conversion periods stipulated in Article 15-III of the company's Articles of Association.

# 12. Free shares (program for senior executives)

In view of the context, the Board of Directors decided not to propose a plan in 2020.

In 2019, the Board adopted a plan covering the members of the Executive Committee, including the Chief Executive Officer and the Vice-Presidents of the Group's five business lines, i.e., a total of 14 people. The objective of the plan is to incentivize the senior executives by giving them a long-term stake in the growth of the share price, an increase in the Group's profitability and improvement in non-financial indicators.

### Description of the 2019 free share plan

Duration of continued presence and performance conditions

- Duration of 3 years
- Subject to achieving the performance conditions, Luc Themelin may be eligible for free shares on a pro rata basis should his term of office be terminated.

Performance conditions

- Each criterion is independent
- The stock market criterion is assessed based on an external comparable (growth in the Eurostoxx 600)
- The financial criterion is recurring operating income per share
- Multiple CSR criterion (each sub-criterion is independent) in line with the Group's CSR commitments described in the 2018 Reference Document

### Total number of free shares and portion allocated to the Chief Executive Officer

A maximum of 63,000 free shares may be allocated under the plan. This number cannot be compared with previous years given the change to the plan structure.

The portion allocated to the Chief Executive Officer may not exceed 15% of the plan approved under this resolution, i.e., approximately 6.5% of all plans set up (senior executives and other employees) under the fourteenth and fifteenth resolutions. This portion has increased since 2018 as the Chief Executive Officer decided he wanted to allocate the same number of shares to the Executive Committee in 2018, including himself.

### Holding requirements for the Chief Executive Officer

The Chief Executive Officer is required to retain 30% of the shares vested until he holds an amount at least equivalent to one years' fixed salary (gross).

## 12.1. Management free share allocations: previous allocations

| | **2019 plan Tranche 1 (with performance conditions)** | **Total** |
|---|---|---|
| Date of allocation decision | May 17, 2019 | |
| Total number of shares allocated | 59,000 | 59,000 |
| *- o/w corporate officers:* | *8,850* | *8,850* |
| *Luc Themelin* | *8,850* | *8,850* |
| *- o/w top 10 recipients* | *47,200* | *47,200* |
| Share price at allocation date *(€)* | 20.86 | |
| Definitive allocation date (end of the vesting period) | May 17, 2022 | |
| Date of transferability *(end of lock-up period)* | May 18, 2022 | |
| Allocations canceled at Dec. 31, 2020 | 0 | 0 |
| *o/w canceled in 2020* | *0* | *0* |
| Number of shares fully vested, and transferable | 0 | 0 |
| **BALANCE AT DECEMBER 31, 2020** | **59,000** | **59,000** |

## 12.2. Principles for setting the performance conditions

The Board of Directors decided on the following principles to set the performance conditions for the performance share plans reserved for executives, issued in 2019: subject to achieving the continued presence conditions, the shares will vest, where applicable partially, according to the following criteria approved by the Board of Directors on the recommendation of the Governance and Remuneration Committee:

- **Stock market criterion (33%)**

Growth in the Mersen share price ("G") will be compared to that of the Eurostoxx 600 (Industrial goods and services) or to the SBF 120 were Eurostoxx 600 no longer available ("the index"). Growth in the share price will be compared over three years, starting from the first working day of the month of the 2019 General Meeting, i.e., from May 2, 2019 to April 29, 2022.

The percentage achievement will be calculated as follows:

| | Achievement |
|---|---|
| G < index growth | 0% |
| G = index growth | 50% |
| G ≥ 10 percentage points above index growth | 100% |

Achievement rates between the lower and upper limits will be calculated on a straight-line basis.

- **Profitability criterion (34%)**

Profitability will be measured based on recurring operating income per share. The principles applied by the Board of Directors include (i) measuring performance over a period of three years, i.e., 2019, 2020, 2021, (ii) making share allocations conditional, at minimum, on maintaining operating income before non recurring items per share at the level published in 2018 (€4.41) and (iii) setting tight limits "in line" with internal medium-term objectives.

| | Achievement |
|---|---|
| Operating income before non recurring items per share < €4.41 | 0% |
| Operating income non recurring items per share = €4.41 | 30% |
| Operating income non recurring items per share ≥ €5 | 100% |

Achievement rates between the lower and upper limits will be calculated on a straight-line basis.

- **Quantifiable CSR objectives (33%) made up of four independent criteria with the same weighting (8.5% each).**
  - Lost Time Injury Rate (LTIR) in the Group at December 2021 for employees and temporary staff

The Board of Directors has decided to take into account the low level already achieved due to a policy that has been in place for several years. In 2018, Mersen had an LTIR indicator of 1.5, outperforming peer industrial groups.

The 100% achievement rate corresponds to the objectives that the Group has set for 2021 (see chapter 4 of this document), i.e., an LTIR less than or equal to 1.4.

| | Achievement |
|---|---|
| LTIR ≥ 1.7 | 0% |
| LTIR = 1.69 | 30% |
| LTIR = 1.49 | 80% |
| LTIR ≤ 1.4 | 100% |

Achievement rates between the lower and upper limits will be calculated on a straight-line basis.

  - Severity rate (Severity Injury Rate) of accidents in the Group at December 2021 for employees and temporary staff

The Board of Directors has decided to take into account the low level already achieved due to a policy that has been in place for several years. In 2018, Mersen had an SIR indicator of 71, outperforming peer industrial groups.

The 100% achievement rate corresponds to the objectives set by the Group for 2021 (see chapter 4 of this document), i.e., an SIR less than or equal to 60.

| | Achievement |
|---|---|
| SIR > 80 | 0% |
| SIR = 80 | 30% |
| SIR = 70 | 80% |
| SIR ≤ 60 | 100% |

Achievement rates between the lower and upper limits will be calculated on a straight-line basis.

  - Human capital development: Percentage of women engineers and managers in the Group in December 2021

The indicator will be measured based on employees on sites included in the Group's HRIS at December 31, 2018 (approximately 94% of Group employees). Acquisitions made after December 2018 will be excluded from the calculation of this criterion.

The Group has set itself the objective of reaching a ratio between 25% and 30% by 2022 (see chapter 4 of this document).

As this criterion will be measured for the purpose of the free share plan in December 2021, i.e., a year earlier than the Group's objective, the achievement rates have been adapted. The lower limit (0% achievement) corresponds to the percentage of women engineers and managers in December 2018.

| % of women engineers and professionals | Achievement |
|---|---|
| < 20% | 0% |
| = 22.5% | 70% |
| > 25% | 100% |

Achievement rates between the lower and upper limits will be calculated on a straight-line basis.

- Environmental footprint of our sites: Percentage of waste recycled in comparison with the total amount of waste generated by the Group's operations

This criterion will be measured in 2021 based on the environmental reporting scope. The Group has set itself the objective of increasing the percentage of waste recycled or recovered by 15 percentage points from 41% in 2018 to 56% in 2021 (see chapter 4 of this document).

The 100% achievement rate corresponds to the objective set for 2021. The lower limit (0% achievement) corresponds to the percentage reported in 2018.

| Percentage of waste recycled or recovered | Achievement |
|---|---|
| < 42% | 0% |
| = 50% | 50% |
| ≥ 56% | 100% |

Achievement rates between the lower and upper limits will be calculated on a straight-line basis.

### 12.3. Results

The results will not be known until May 17, 2022.

## 13. Free shares allocated to the executive corporate officers

No new free shares were allocated in 2020. However, certain shares allocated in previous years vested or were converted in 2020.

| | Shares for which the free allocation to each executive director vested in 2020 | | | | | |
|---|---|---|---|---|---|---|
| **Beneficiary** | **No. and date of plan** | **Number of shares allocated during the fiscal year** | **Valuation of shares according to the method used in the consolidated financial statements** | **Definitive vesting date** | **Availability date** | **Performance conditions** |
| Luc Themelin Chief Executive Officer | 2018 preference share plan | 77 (free preference shares) allocated in 2018, vested in 2020 (equivalent to at least 770 ordinary shares and at most 8,470 ordinary shares). | €121,375 | May 17, 2020 | May 18, 2022 | See section 12.4.3. |

| | Free shares allocated that vested in 2020 for each executive corporate officer | | |
|---|---|---|---|
| **Beneficiary** | **No. and date of plan** | **Number of shares that vested during the fiscal year** | **Vesting conditions** |
| Luc Themelin Chief Executive Officer | 2016 preference share plan | 18,827 shares resulting from the conversion of C shares after performance criteria (100% of preference shares converted into ordinary shares: 91% of the maximum possible on the basis of a stock market criterion) | |

As described in sections 1.2 and 2.2.2, the Chairman of the Board of Directors does not receive free shares.

# 14. Components of compensation paid or allocated to Luc Themelin (Chief Executive Officer) in respect of the fiscal year ended December 31, 2020 submitted to the vote of the General Meeting of May 20, 2021

With regard to the fifteenth resolution submitted to the General Meeting of May 20, 2021, we invite you to vote on the following fixed, variable and exceptional components making up the total compensation and benefits in kind paid or allocated to Luc Themelin, Chief Executive Officer, as presented below:

| | **Amount paid in 2020** | **Amount allocated in 2020** | **Observations** |
|---|---|---|---|
| Fixed compensation | €385,000 | €385,000 | In view of the health crisis, Luc Themelin decided to reduce his fixed compensation in order to contribute to the collective effort required by the economic context. Part of this sum was donated to national solidarity efforts in aid of hospital services. This resulted in a 12.5% reduction in his fixed compensation for 2020 compared with 2019. |
| Annual variable compensation | €395,560 | €249,040 | The variable portion is between 0% and 100% of the fixed compensation. The maximum threshold of 100% may be increased to 112% in the event that the Group's operating margin outperforms the maximum target approved by the Board.<br>The variable portion is composed of financial objectives for 70% (35% based on the Group's ROCE, calculated on the basis of recurring operating income after taxes, and 35% on operating cash flow) and individual objectives for 30%.<br>The 2020 financial objectives were based on the Group's annual budget. They were not modified during the year despite the exceptional context of the health crisis.<br>The financial and non-financial objectives are reviewed every year by the Governance, Appointments and Remuneration Committee, based on the Group's strategic priorities.<br>The non-financial objectives are determined as follows:<br>• Safety and recycling: improvement of safety indicators. Critical site risk analysis. Increase in the waste recycling rate: Achievement rate: 66%<br>• Monitoring of the Electrical Vehicle market. Qualification, offer, preparation of plants. Achievement rate: 100%.<br>• Competitiveness plan: Achievement rate: 100%<br>• Product line improvement plan: achievement rate: 34%<br>• Strategy: presentation of key markets for the Group. Achievement rate: 100%<br>• Work on the 5-year succession plan. Achievement rate: 50%<br>The variable compensation for 2020 represents 57% of the fixed compensation (allocated) and breaks down as follows: the portion linked to financial targets amounted to 100% of the Group's operating cash flow and 0% of the Group's ROCE;<br>The proportion of non-financial objectives, taking into account the weightings applied to each criterion, amounted to 72%.<br>In view of the Group's results, the outperformance clause linked to the Group's operating margin before non-recurring items did not apply in 2020. |
| Deferred variable compensation | N/A | N/A | There is no deferred variable compensation mechanism. |
| Multi-annual variable compensation | N/A | N/A | There is no multi-annual variable compensation mechanism. |
| Exceptional compensation | N/A | N/A | No exceptional compensation was allocated for 2020. |

| | Amount paid in 2020 | Amount allocated in 2020 | Observations |
|---|---|---|---|
| Incentives | €20,262 | €5,193 | |
| Stock options, performance shares or any other long-term item of compensation | N/A | | To contribute to the collective effort required by the economic context in 2020, it was decided not to present the resolution on the implementation of a long-term incentive (LTI) plan at the AGM of May 17, 2020. |
| Directors' compensation | N/A | N/A | Luc Themelin is not member of the Board. |
| Benefits in kind | €35,920 | €33,510 | Benefits in kind include the use of a company car, an annual medical examination and contributions paid to an external organization in respect of unemployment insurance for company executives. |
| Severance payment | €0 | €0 | No amount is due in respect of 2020. By a decision dated March 7, 2017, the Board of Directors decided that the benefits to which Luc Themelin is entitled will be maintained should his term as Chief Executive Officer end. |
| Non-compete indemnity | €0 | €0 | No amount is due in respect of 2020. At its May 11, 2016 meeting, the Board of Directors decided that Luc Themelin would be entitled to the same non-compete payment as that allocated to him for his previous term of office. |
| Supplementary pension plan | €0 | €0 | No amount is due in respect of 2020. Luc Themelin is eligible for a defined benefit supplementary pension plan if he is present and ends his career with the Mersen group on the date on which he can claim his French state social security pension. Under this scheme, Luc Themelin would receive a supplementary pension, based on length of service and calculated on the average of all basic salaries over the past three years' employment leading up to retirement, plus 50% of the maximum bonus amount. His pension shall not exceed 20% of the sum of these two items. The percentage is capped, given Luc Themelin's length of service (30 years).<br>The theoretical calculation of the annuity paid to Luc Themelin would amount to €132,000, before tax and social charges. |
| Compensation, indemnities or benefits for taking up office | N/A | N/A | |
| Components of compensation and benefits in kind in respect of his term of office as Chief Executive Officer pursuant to agreements entered into with the Company, any company controlled by the Company, any company that controls the Company or any other company under the same control as the Company | N/A | N/A | |
| Other components of compensation allocated in respect of his term of office as Chief Executive Officer | N/A | N/A | |

## 15. Components of compensation paid or allocated to Olivier Legrain (Chairman of the Board) in respect of the fiscal year ended December 31, 2020 submitted to the vote of the General Meeting of May 20, 2021

With regard to the fourteenth resolution submitted to the General Meeting of May 20, 2021, we invite you to vote on the following fixed, variable and exceptional components making up the total compensation and benefits in kind paid or allocated to Olivier Legrain, Chairman of the Board since May 18, 2017, in respect of the past fiscal year, as presented below. In a press release dated April 6, 2020, Olivier Legrain announced his decision to reduce his fixed compensation by 25% for the months of April and May 2020 in order to contribute to the collective effort required by the economic context. This measure was extended for an additional 4 months.

| | Amount paid in 2020 | Amount allocated in respect of 2020 | Observations on the amounts allocated |
|---|---|---|---|
| Gross fixed compensation | €80,000 | €70,000 | The compensation allocated for a given year is paid in the subsequent year. In view of the 12.5% reduction mentioned above, the amount allocated for 2020 is reduced to €70,000 |
| Directors' compensation (gross amount) | €25,664 | €27,923 | This amount also takes into account the 12.5% reduction mentioned above. |
| Benefits in kind | 0 | 0 | |

# Other disclosures

## 1. Summary of valid delegations and authorizations regarding increases in share capital and their use

| Type of delegation/ authorization | Date of the General Meeting | Duration | Initial limit | Use in FY 2020 |
|---|---|---|---|---|
| Delegation to increase the share capital through the capitalization of reserves, profits and/or premiums(1) | 5/14/2020 *Thirteenth resolution* | 26 months | Maximum nominal amount of capital increases: €50 million | None |
| Delegation to increase the share capital with preferential subscription rights for shareholders(1) | 5/14/2020 *Fourteenth resolution* | 26 months | Maximum nominal amount of capital increases: €17 million(2) Maximum nominal amount of debt securities: €300 million(5) | None |
| Delegation to increase the share capital without preferential subscription rights for shareholders by way of a public offer with a mandatory priority period and/or as consideration for securities in the context of a public exchange offer(1) | 5/14/2020 *Fifteenth resolution* | 26 months | Maximum nominal amount of capital increases: €8 million(3) Maximum nominal amount of debt securities: €300 million(5) | None |
| Delegation to increase the share capital without preferential subscription rights for shareholders by way of a private placement(1) | 5/14/2020 *Sixteenth resolution* | 26 months | Maximum nominal amount of capital increases: €4 million(4) Maximum nominal amount of debt securities: €300 million(5) | None |
| Delegation to increase the share capital as consideration for contributions in kind(1) | 5/14/2020 *Eighteenth resolution* | 26 months | Limited to 10% of the share capital(4) | None |
| Authorization to allocate free preference shares to employees and corporate officers | 5/17/2018 *Twenty fourth resolution* | 38 months | 129,000 shares | Allocation of 940 free preference shares conferring the right to a maximum of 103,400 shares |
| Delegation to increase the share capital for the benefit of employees participating in the Company Investment Plan(1) | 5/14/2020 *Nineteenth resolution* | 26 months | €400,000(3) | None |
| Authorization to allocate free shares to employees | 5/17/2019 *Fourteenth resolution* | 38 months | 84,000 shares | Allocation of 84,000 shares |
| Authorization to allocate free shares to employees and corporate officers | 5/17/2019 *Fifteenth resolution* | 38 months | 68,000 shares | Allocation of 59,000 shares |

*(1) Standstill during the period of a public offer*
*(2) This amount is deducted from the overall ceiling of €17 million set by the General Meeting of May 14, 2020 for share issues (twentieth resolution)*
*(3) This amount is deducted from the overall ceiling of €17 million and the sub-ceiling of €8 million set by the General Meeting of May 14, 2020 (twentieth resolution)*
*(4) This amount is deducted from the overall ceiling of €17 million and the sub-ceilings of €8 million and €4 million set by the General Meeting of May 14, 2020 (twentieth resolution)*
*(5) This amount is deducted from the overall ceiling of €300 million set by the General Meeting of May 14, 2020 (twentieth resolution)*

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

Pursuant to Article L. 22-10-11 of the French Commercial Code, we hereby inform you of the following points which are likely to have an impact in the event of a public offer:

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

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

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

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

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

| Name | Nature | Number | Weighted average price |
|---|---|---|---|
| Christophe Bommier | Acquisition of C shares | 80 | NA |
| Christophe Bommier | Conversion of C shares | 7,711 | NA |
| Didier Muller | Acquisition of C shares | 80 | NA |
| Didier Muller | Conversion of C shares | 7,711 | NA |
| Eric Guajioty | Acquisition of D shares | 76 | NA |
| Eric Guajioty | Conversion of C shares | 7,711 | NA |
| Eric Guajioty | Sale of shares | 7,711 | 18.00 |
| Estelle Legrand | Conversion of C shares | 8,011 | NA |
| Estelle Legrand | Sale of shares | 8,011 | 22.56 |
| Estelle Legrand | Acquisition of D shares | 76 | NA |
| Gilles Boisseau | Conversion of C shares | 7,711 | NA |
| Gilles Boisseau | Sale of shares | 7,711 | 18 |
| Gilles Boisseau | Acquisition of D shares | 76 | NA |
| Gilles Boisseau | Sale of shares | 2,000 | 22.15 |
| Jean-Philippe Fournier | Conversion of C shares | 7,711 | NA |
| Jean-Philippe Fournier | Sale of shares | 7,711 | 25.12 |
| Luc Themelin | Conversion of C shares | 18,827 | NA |
| Luc Themelin | Sale of shares | 18,827 | 22.75 |
| Luc Themelin | Purchase of shares | 18,827 | 22.75 |
| Luc Themelin | Acquisition of D shares | 77 | NA |
| Olivier Legrain | Purchase of shares | 750 | 14.55 |
| Olivier Legrain | Sale of shares | 380 | 22.02 |
| Thomas Baumgartner | Purchase of shares | 6,000 | 21.65 |
| Thomas Baumgartner | Sale of shares | 6,000 | 21.65 |
| Thomas Baumgartner | Conversion of C shares | 12,918 | NA |
| Thomas Baumgartner | Sale of shares | 12,918 | 22.53 |
| Thomas Baumgartner | Acquisition of D shares | 76 | NA |
| Thomas Baumgartner | Purchase of shares | 790 | 18.06 |
| Thomas Farkas | Conversion of C shares | 8,011 | NA |
| Thomas Farkas | Exercice of stock options | 5,100 | 22.69 |
| Thomas Farkas | Sale of shares | 5,100 | 25.15 |
| Thomas Farkas | Acquisition of D shares | 76 | NA |

## 4. Terms of shareholder participation in General Meetings

Subject to any adjustments that may be necessary in the context of the Covid-19 epidemic, the terms of shareholder participation in General Meetings are governed by the applicable regulations.

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

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

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

## 5. Agreements entered into between (i) a corporate officer or a shareholder with more than 10% of the voting rights and (ii) a controlled company within the meaning of Article L. 233-3 of the French Commercial Code

N/A.

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

## Annual General Meeting called to approve the financial statements for the year ended December 31, 2020

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

To the Shareholders of Mersen SA

In our capacity as Statutory Auditors of Mersen SA, we hereby report to you on related-party agreements.

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

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

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

## Agreements to be submitted for the approval of the Annual General Meeting

### Agreements authorized and entered into during the year

We were not informed of any agreement authorized and entered into during the year to be submitted for the approval of the Annual General Meeting pursuant to the provisions of Article L. 225-38 of the French Commercial Code.

## Agreements already approved by the Annual General Meeting

We were not informed of any agreement already approved by the Annual General Meeting which remained in force during the year.

Paris La Défense, March 10, 2021

KPMG Audit

*Département de KPMG S.A.*

Catherine Porta

*Partner*

Paris La Défense, March 10, 2021

Deloitte & Associés

Laurent Odobez

*Partner*

# 3 Management Report



*For the definitions, please refer to the glossaries.*

# CONTEXT

The Covid-19 pandemic hit the global economy hard in 2020, with many countries imposing travel bans, lockdowns and quarantine measures to slow the spread of the virus. These restrictions began in January and February in China and then reached Europe in early March and America at the end of March.

Although some countries eased their lockdowns after the first wave of the pandemic, business only began to pick up gradually during the summer. Then as we moved out of summer new restrictions had to be applied, albeit not as strict, due to the start of a second wave of the pandemic.

As nations faced this unprecedented situation, many governments put in place financial support measures such as short-time working and furlough schemes, subsidies and government-backed loans.

During the year, Mersen received government aid (primarily in China) and made use of schemes covering the costs of furloughing its employees or using short-time working. At the height of the crisis, in April/May 2020, up to 10% of the Group’s workforce was furloughed or on short-time working arrangements. However, the Group did not apply for any government-backed loans.

Mersen’s operations were classified as essential by the authorities in most of the countries where lockdowns were imposed. This meant that most of its sites were able to stay open, with at least 85% of them operational in April and May 2020 when the first wave of the pandemic peaked. However, some sites had to be temporarily shut for health and safety reasons (for example for deep cleans or precautionary measures due to confirmed Covid cases), or due to supply-chain issues, such as supply stoppages.

Thanks to its presence in highly resilient sustainable development markets and its global presence, the Group was able to partially mitigate the effects of the crisis. However, business was overall affected by lower demand, although the picture was extremely mixed across its various markets and geographies. However, Mersen was able to draw on its global footprint to partially mitigate the impacts of the crisis.

In order to adapt to the lower business volumes, the Group significantly reduced its budgeted operating costs and capital expenditure, except for programs related to the environment, health & safety and growth markets.

In addition to these cost-reduction measures, targeted plans had to be drawn up to adapt businesses that will be lastingly impacted by the crisis, primarily those serving the chemicals and aeronautics industries. Restructurings were therefore carried out at some manufacturing sites, including two in France.

During this unprecedented year, our priority was to protect the health and safety of our employees worldwide. We also encouraged the sharing of best practices and supported solidarity efforts. In line with this solidarity approach, the Board of Directors decided that at the Annual General Meeting it would not recommend a dividend payment or seek an authorization to allocate free shares to executives and managers. Lastly, the Group’s corporate officers (the Chairman of the Board of Directors and the Chief Executive Officer) decided to reduce their fixed compensation for 2020 by 12.5% as part of the collective efforts required in view of the economic context.

All of the above actions enabled Mersen to end this year of crisis with a solid financial position and a good set of results given the circumstances. This achievement would not have been possible without the dedication, engagement and agility of all our team members, whether they were working in the Group’s production facilities, offices or from home.

# Business review

Mersen reported consolidated sales of €847 million in 2020, down 11.4% on an organic basis on 2019. Including the negative impacts of exchange rates for more than €18 million and the first-time consolidation of AGM Italy, GAB Neumann and Americab, sales fell by 10.8%.

Overall, the main sustainable development markets (mainly renewable energies, electronics and green transportation which represent 56% of total sales) were very resilient year on year, while other markets (primarily process industries, chemicals and aeronautics) contracted by 19%.

| *In millions of euros* | 2020 | 2019 | Organic growth | Scope effect | Currency effect | Reported growth |
|---|---|---|---|---|---|---|
| Advanced Materials | 476.4 | 545.4 | -14.7% | 4.0% | -2.4% | -12.6% |
| Electrical Power | 370.8 | 404.8 | -7.1% | | -1.4% | -8.4% |
| Europe | 286.6 | 321.2 | -16.4% | 6.1% | -0.6% | -10.8% |
| Asia-Pacific | 253.6 | 262.9 | -2.1% | 0.5% | -1.9% | -3.5% |
| North America | 281.3 | 329.8 | -13.2% | 0.3% | -2.1% | -14.7% |
| Rest of the world | 25.7 | 36.3 | -19.9% | 0.5% | -12.2% | -29.2% |
| **GROUP** | **847.2** | **950.2** | **-11.4%** | **2.3%** | **-1.9%** | **-10.8%** |

## 1. Business by segment

Advanced Materials sales totaled €476 million, down by 14.7% on an organic basis on 2019. As expected, the process industries, aeronautics and chemicals markets contracted sharply. The solar market enjoyed strong growth, driven by demand in China. Activity tied to the SiC semiconductors market was buoyant, particularly in the second half of the year.

Electrical Power sales came in at €371 million for the year, down 7.1% like-for-like on 2019. The decrease in electrical distribution was limited to 5% year on year thanks to a robust performance from the United States, but, overall, process industries declined.

## 2. By geographic area

Mersen reported a steep drop in activity in **Europe** in 2020, particularly in France and Germany, as the aeronautics, chemicals and process industries markets lost all momentum.

In **Asia**, Group sales dipped 2% compared with last year. China boasted solid growth, spurred by the solar power and SiC-based electronics segments. India and South Korea held up well, despite the difficult environment.

In **North America**, Electrical Power sales were buoyed by electrical distribution, outperforming sales for Advanced Materials that were impacted by the sharp slowdown in process industries.

# Results

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

| *In millions of euros* | 2020 | 2019 |
|---|---|---|
| **Operating income before non-recurring items** | **68.6** | **102.1** |
| *As a % of sales* | *8.1%* | *10.8%* |
| Depreciation and amortization | 54.3 | 52.5 |
| **EBITDA** | **122.9** | **154.6** |
| *As a % of sales* | *14.5%* | *16.3%* |

Despite the fact that the Group's sales were weighed down by the Covid-19 crisis and the effects of the pandemic on certain markets, its EBITDA and operating income before non-recurring items held up well, thanks to its excellent cost flexibility. This flexibility was helped by the Group's use of short-time working and furlough schemes at certain sites, and, to a lesser extent, by subsidies (principally in China).

EBITDA stood at €122.9 million, representing 14.5% of sales.

Operating income before non-recurring items came to €68.6 million in 2020. Operating margin before non-recurring items narrowed considerably year on year, to 8.1%, chiefly due to the lower business volumes, although this was partly offset by significant cost reductions (including from shorttime working and furlough schemes).

In addition, productivity gains offset cost inflation, particularly for salaries. In addition, the Group saved costs in areas affected by governmental restrictions (particularly business travel), which more than offset the additional costs directly related to Covid-19 (such as the purchase of PPE).

The Electrical Power segment's operating margin before non-recurring items amounted to 7.5% of sales, versus 9.4% in 2019. The productivity plans launched as of early 2020 and the savings generated from Covid-19 restrictions considerably limited the impact of lower business volumes.

Operating margin before non-recurring items for the Advanced Materials segment stood at 12.1% versus 15.1% in 2019. The majority of the yearon-year decrease stemmed from the lower business volumes (which trimmed 6 points off the margin). Net savings due to Covid-19 restrictions and the segment's productivity plans more than offset cost inflation.

| *In millions of euros* | 2020 | 2019 | Change |
|---|---|---|---|
| Consolidated sales | 847.2 | 950.2 | -10.8% |
| Gross income | 251.6 | 300.2 | -16.2% |
| *As a % of sales* | *29.7%* | *31.6%* | |
| Selling, marketing and other expenses | (73.7) | (82.0) | -10.1% |
| Administrative and research expenses | (107.9) | (114.8) | -6.1% |
| Goodwill amortization | (1.4) | (1.3) | |
| **Operating income before non-recurring items** | **68.6** | **102.1** | **-32.8%** |
| *As a % of sales* | *8.1%* | *10.8%* | |

Mersen's gross margin fell by almost 200 basis points year on year, dragged down by the lower business volumes.

R&D expenses increased by over 7%, illustrating how the Group is preparing for the future by developing new products.

The decline in administrative and selling expenses is attributable to the decrease in sales and the effects of cost-saving plans.

Overall, payroll was down 3% on a like-for-like basis, taking into account a contained level of salary inflation at 2.4%.

## 2. Net income/(loss)

The Group ended 2020 with a net loss of €12 million. This figure includes a high amount of net non-recurring expense, representing over €50 million, as well as impairment losses recognized against deferred tax assets.

| *In millions of euros* | 2020 | 2019 |
|---|---|---|
| **Operating income before non-recurring items** | **68.6** | **102.1** |
| Non-recurring expenses | (51.4) | (11.2) |
| **Operating income** | **17.2** | **90.9** |
| Net financial expense | (12.0) | (13.2) |
| Current and deferred income tax | (14.0) | (17.9) |
| **Net income for the period** | **(8.8)** | **59.8** |
| **Net income attributable to Group equity holders** | **(12.0)** | **57.3** |
| Non-controlling interests | (3.2) | (2.5) |

Non-recurring income and expenses for the year include:

- €17 million in net expenses related to business adaptation plans: (i) the structural adaptation plan launched due to the impacts of the Covid-19 crisis on the aeronautics and chemicals markets, (ii) the adaptation plan related to falls in global business; and iii) productivity plans, particularly for the Electrical Power segment.
- €8 million in impairment losses recognized against property, plant and equipment due to the under-use of certain production facilities in structurally declining markets, such as chemicals and aeronautics.
- €17 million in goodwill impairment losses recognized for the Anticorrosion Equipment business, as the Group considers that the Covid-19 crisis has impacted long-term trends in the chemicals industry (which is this business unit's principal market).
- Around €8 million in other non-recurring expenses, essentially relating to claims and litigation (over €4 million) and the start-up costs of the Columbia plant in the United States.

In 2019, non-recurring expenses stood at €11.2 million and were mainly related to the competitiveness plan and acquisitions.

Mersen's net financial expense was €12 million, representing a decrease compared with 2019. Average debt during the year was €215 million, €5 million lower than in 2019, and the Group benefited from more competitive borrowing rates.

Merson's income tax expense totaled €14.0 million for 2020. The effective tax rate was particularly high (269%) due to the recognition during the year of (i) significant amounts of non-deductible non-recurring expenses, and (ii) impairment losses against deferred tax assets, due to the longer recoverability periods of these assets, notably as a result of markets that have been lastingly affected by the pandemic. In 2019 and 2018, the effective tax rate was 23% and 24% respectively.

Income from non-controlling interests includes mainly Mersen Yantai and Mersen Galaxy (China), in which Mersen holds a 60% stake.

# Cash flow

Despite the health crisis, the Group generated free cash flow from operations after capital expenditure of €76 million, up 26% compared to 2019. This very strong cash generation was achieved thanks to a significant cost flexibility, an adaptation of capital expenditure and a significant reduction in inventories during the second half of 2020.

## 1. Investments

The Mersen group's capital expenditure amounted to €56.7 million in 2020 down approximately 30% from the amount forecasted at the beginning of the year.

The Group has indeed reduced its investment program due to the context and has focused on the following projects:

- in the Advanced Materials segment (which accounts for more than 78% of capital expenditure) the start-up of the Columbia site in the United States for nearly 17 million euros, and investments in new production capacity for insulation felts in Scotland for 7.5 million euros to serve the SiC-based semiconductor market.
- in the Electrical Power segment, the relocation of a plant in China and the work carried out at a site to obtain automotive certification for the automotive market.
- for the environment and safety, the Group has invested around 7 million euros.

Capital spending in France accounted for 18% of the Group's total capex figure, and partly related to sites that serve the European market.

Acquisition-related investments amounted to €13.6 million and concerned (i) the acquisitions of GAB Neumann in Germany and Americarb's insulation business, (ii) earn-out payments on acquisitions carried out in prior periods (primarily AGM Italy), and (iii) property, plant and equipment acquired for the start-up of newly-acquired manufacturing sites (Columbia in the United States and Galaxy in China).

Mersen group's capital expenditure amounted to €62.7 million in 2019, 73% of which was linked to investments outside France. It covered the replacement and modernization of industrial equipment as well as investment in new capacity, notably to serve the SiC semiconductor market. In France, it related to the increase in solid silicon carbide production capacity for the aerospace and laser markets. Acquisition-related investments amounted to €19.4 million and covered the acquisition of AGM Italy, that of the assets of the Columbia site in the United States, and earn-out payments on acquisitions made in 2018 (FT Cap, LGI and the minority shareholders of Spanish company Cirprotec).

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

| | 2020 | 2019 |
|---|---|---|
| Investments in property, plant and equipment | (58.4) | (65.3) |
| Change in fixed asset suppliers | 1.7 | 2.6 |
| **Capital expenditure** | **(56.7)** | **(62.7)** |
| Investments in intangible assets | (5.2) | (4.6) |
| Financial investments | 0.0 | 0.0 |
| Other changes in investment flows (excl. fixed asset suppliers) | 1.1 | (0.2) |
| Acquisition-related investments | (13.6) | (19.4) |
| **TOTAL** | **(74.4)** | **(86.9)** |

Investments in intangible assets in 2020 related to the Group's digital and IT plan. In 2019, these investments corresponded to capitalized development expenses for the development of a new product for the electric vehicles market.

## 2. Condensed statement of cash flows

| *In millions of euros* | 2020 | 2019 |
|---|---|---|
| Cash generated by operating activities before change in working capital requirement | 119.3 | 150.6 |
| Cash flow linked to restructurings | (6.6) | (1.5) |
| Change in working capital requirement | 31.4 | (9.8) |
| Income tax paid | (11.4) | (16.0) |
| Cash used in discontinued operating activities | 0.0 | (0.2) |
| **Net cash generated/(used) by operating and investing activities** | **132.7** | **123.1** |
| Capital expenditure | (56.7) | (62.7) |
| **Cash generated by operating activities after capital expenditure** | **76.0** | **60.4** |
| Acquisition-related investments | (13.6) | (19.4) |
| Investments in intangible assets and other investment flows | (4.1) | (4.8) |
| **Net cash flow before financing operations** | **58.3** | **36.2** |

Net cash generated by operating activities came to almost €133 million in 2020, up more than 8% on the €123 million figure for 2019.

The 2020 total includes:

- A €6.6 million cash inflow from restructurings.
- A cash inflow of over €31 million from the change in working capital requirement, reflecting the decrease in trade receivables as business volumes fell. Despite the pandemic, the Group did not suffer any major payment defaults and did not experience any significant increase in late payments. The Group adapted its inventories during 2020, reducing them by over €21 million (like for like). These inventory reduction measures took place mainly in the second half of the year as the Group built up extra inventory levels in the first six months in response to the Covid crisis. WCR represented 20.5% of sales, down from 2019 level (22%).
- Income tax paid was lower year on year due to the decrease in earnings.

# Net debt

## 1. Financing policy

Mersen group has defined a financing policy, which is coordinated by the Finance and Administration Department. The Group has confirmed credit lines, which have not been drawn down in their entirety.

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

In 2011, the Group finalized a private placement of USD 100 million ("USPP") with USD 50 million maturing in 2021 in order to extend the maturity of its debt and diversify its funding sources.

In 2016, the Group finalized a private placement of €60 million ("*Schuldschein*") maturing in 2023 in order to extend the maturity of its debt. In March 2016, the Group also put in place a commercial paper issuance program for up to €200 million in order to diversify its funding sources.

In 2017, the Group renegotiated its syndicated loan, improving its financial terms and extending its maturity until July 2024 following the exercise of extension options in 2018 and 2019.

In 2019, the Group finalized a private placement of €130 million ("*Schuldschein*") maturing in 2026 in order to extend the maturity of its debt. The Group also refinanced its syndicated loan in China, due to mature in 2021, replacing it with bilateral loans maturing in 2024.

In 2020, the Group set up an NEU CP commercial paper program of up to €200 million in order to diversify its sources of financing.

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

## 2. Statement of financial position

Net debt [1] at end-2020 stood at €180.2 million, significantly lower than the year-earlier figure of €218.2 million. This reflects the fact that the Group's operating cash flow was very high, giving it the resources to finance a large portion of its major acquisition and capex programs.

Operating cash flow in 2020 amounted to €133 million with the Group investing €57 million in capital expenditure and €14 million in acquisitions.

The Group's financial structure remained solid in 2020, with a leverage ratio (net debt/EBITDA) of 1.65x and a 33% gearing ratio (debt/equity).

The Group is in compliance with all its banking covenants.

| | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Total net debt *(in millions of euros)* | 180.2 | 218.2 |
| Net debt/equity | 0.33 | 0.37 |
| Net debt/EBITDA | 1.65 | 1.5 |

# Subsequent events

On February 15, 2021, Mersen announced that it had acquired full control of Fusetech – a company based in Kaposvar, Hungary – by buying out the stake held by the Hager group.

This operation enables Mersen to strengthen its manufacturing efficiency on Europe's electric fuse market, and to integrate a high-performance site for the manufacture of some of its future product ranges in accordance with European standards (IEC).

The transaction is valued at approximately €4 million, excluding any future earn-out payments. The company currently employs a headcount of around 300 people on a site of 6,000 sq.m. In 2020, Fusetech generated sales outside Mersen of approximately €7 million.

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

# Outlook

The Group expects mixed trends in its main markets:

- Momentum should remain strong for the mid-term in the renewable energies market, led by solid growth expected for the solar power segment in 2021 after a good year in 2020.
- The future growth of the electronics market is linked to digitization for silicon semiconductors and the pace of take-up of electric vehicles for SiC semiconductors. The silicon semiconductor market should return to growth in 2021 and the SiC semiconductor market is set to be very buoyant in 2021 and even more so in the following years.
- Power electronics projects are expected to remain stable or increase slightly in 2021 and then return to more pronounced growth driven by robust momentum for energy efficiency projects.
- In the electric vehicles market, Mersen remains well positioned in the premium segment. Growth in this market is continuing and is forecast to accelerate as from 2023. In 2021, the Group will pursue its technical and commercial development plans in order to win new contracts.
- After a year marked by low capacity utilization rates, the rail market should stabilize in 2021 before returning to growth thanks to new capital expenditure programs.
- Sales generated in the chemicals market should remain stable in 2021, as Mersen's customers continue to halt or postpone their capital expenditure projects.
- Having declined sharply in 2020, sales in the aeronautics market will likely continue to decrease in 2021 due to a persistently high comparable base vs first-half 2020 as the slump in sales did not occur until the second half of that year. This market is not expected to return to growth for another three to five years.
- Lastly, sales trends for the process industries are mirroring those for the world's major economies. Due to the current prevailing uncertainty, it is difficult to predict what those trends will be in 2021. However, in view of the indicators for the beginning of the year, the Group estimates that these markets should see at least slight growth on average for 2021 as a whole.

Given the current uncertain climate, and provided the situation caused by the Covid-19 pandemic does not worsen, the Group intends to draw on its solid foundations and is aiming to return to growth in 2021. Consequently, the Group anticipates organic sales growth of between 2% and 6% depending on how quickly the markets pick up in Europe and the United States, particularly in process industries. Operating margin before non-recurring items is expected to represent between 8% and 8.8% of sales, taking into account (i) the positive effects of the adaptation plan, and (ii) the negative impacts of higher depreciation expenses and lower government support measures for furlough schemes. The residual non-recurring costs of the adaptation plan will be in the order of € 5 million; the cash out of the same plan will amount to approximately €17 million, largely resulting from charges already booked in 2020.

The Group will pursue its capital expenditure program with a view to meeting demand and preparing for the future. Altogether, capex is expected to represent a total of between €70 million and €80 million in 2021. Excluding investments for maintenance and productivity, over 40% of capital expenditure in 2021 will be devoted to high growth markets, particularly the SiC semiconductor, electric vehicles and solar power markets, and 35% will be allocated to starting up operations at the Columbia site in the United States.

# Dividend

At the Annual General Meeting to be held on May 20, 2021, the Board of Directors will recommend the payment of a €0.65 per share cash dividend. This would represent a total payout of around €13.5 million, corresponding to 39% of adjusted net income attributable to owners of the parent (€35 million) excluding the expenses directly related to the context of 2020 (restructuring costs, asset impairment losses recognized as a result of steep declines in certain markets and impairment of deferred tax assets), in line with the Group's dividend policy.

# PRINCIPAL INTERNAL CONTROL PROCEDURES FOR THE GROUP

## 1. Definition of internal control

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

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

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

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

## 2. General principles of internal control

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

### 2.1. Internal control organization

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

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

Within the Group's subsidiaries, each local manager is responsible for implementing the internal control policy defined by the Group.

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

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

Mersen's Internal Audit Department follows up on internal control and risk management initiatives. It reports to the Finance and Administration Department and informs the Audit and Accounts Committee of the Board of Directors of its work.

### 2.2. Risk management

Mersen updates its risk mapping (strategic, financial and operational) every year and performs a more extensive review every three years. During 2020, the Group carried out an in-depth review of its risk map, with the assistance of an external consulting firm. The process involved over 30 meetings with Group managers and some members of the Board of Directors and enabled Mersen to review a number of risks and assess the effectiveness of the action plans it has put in place.

Potential risks are ranked by their impact and probability of occurrence, and by the level of control provided by the systems currently in place. A summary of those risks is provided in the "Risk Factors" section of this document.

The updated risk map was approved first by the Group Executive Committee and then by the Audit and Accounts Committee. The results of the risk mapping update were presented in conjunction with the consulting firm, which gave the Audit and Accounts Committee its opinion on the effectiveness of the update process and the quality of the updated risk map. The firm highlighted the quality of the Group's work in comparison with other similar-sized companies.

The risk map update process also involved a review of the related action plans, with new actions included aimed at reducing the impact and/or occurrence of each risk. These action plans are also intended to ensure that the measures currently in place are effective in helping to mitigate potential risks and are in line with the associated risk management criteria. Each risk is assigned a sponsor on the Executive Committee who is responsible for monitoring that risk. This organization illustrates the Group's close involvement in risk management.

The risk management policy is described in chapter 3 on Risk Factors of this document.

## 2.3. Control activity

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

- a description of the background, objectives and resources used in internal control; a description of the internal control organization and reference to the internal control framework adopted by the Group (COSO);
- the definition of Risk and the measurement of the "size" of a risk that the risk mapping tool describes;
- a list of all the fundamental internal controls to be implemented to ensure the efficient operation of the main business processes:
  - sales/customers,
  - purchases/suppliers,
  - logistics,
  - human resources management,
  - investments/fixed assets,
  - quality,
  - information systems,
  - tax,
  - customs risks;
- the fundamental internal controls to be implemented to ensure the reliability of the accounting and reporting systems and financial statements with regard to the following objectives:
  - safeguarding assets,
  - compiling an exhaustive record of accounting transactions,
  - making sure transactions correspond to reality,
  - complying with the dates on which transactions are recorded,
  - correctly valuing assets and liabilities,
  - confidentiality.
- in 2019, a specific follow-up process was implemented for all compliance measures. As part of its control program, the Internal Audit Department performs tests to ensure that the ethics and compliance policy is effectively implemented and respected. Careful consideration is notably given to the following matters:
  - compliance with embargoes,
  - export controls and compliance with OFAC regulations,
  - gifts, invitations and donations,
  - ethics and anti-corruption training,
  - conflicts of interest.

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

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

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

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

## 2.4. Internal control oversight

### Internal Audit Department

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

The underlying aims of the Internal Audit Department's assignments are to:

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

An external firm may be appointed by the Group to perform audits requiring specific expertise.

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

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

### Information systems security

The Risk Department is responsible for overseeing information systems security, specifically:

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

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

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

The Information Systems Security Department audited 30 sites in 2020, with all of these audits carried out remotely.

Information systems security risk mapping was also updated in 2020 to focus on both IT and segment processes. For the last three years, the Information Systems Security manager has reported to the Audit and Accounts Committee on the cyber risk challenges facing the Group and the corresponding policy implemented.

The Information Systems Security manager organizes at least two meetings per year with the Risk and Compliance Department, the Chief Financial Officer and the Group Chief Information Officer to review the security of the Group's information systems.

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

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

### Management control and strategic planning

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

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

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

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

In addition, the Board of Directors regularly examines the policies implemented by the Group on human resources-related issues, such as skills management.

### Human resources procedures

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

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

Lastly, individual and/or collective performance-related bonuses are calculated using clearly defined rules.

### Sustainable development

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

These endeavors are described in greater detail in the "Social responsibility and sustainable development" section of this document. With the help of an external firm, the Group has established a reporting framework for sustainable development indicators. This framework was disseminated to all units and reporting is accredited by the certifying organization.

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

The Group has implemented CSR governance as described in Chapter 4 of this document.

### Operational excellence procedures

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

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

### Compliance procedures

Mersen's Compliance Department was created in 2017. It is tasked with (i) identifying and assessing any risks of non-compliance with laws or regulations which would damage the image, culture or financial stability of the Group, (ii) implementing appropriate procedures and processes to minimize such risks, (iii) informing and raising the awareness of Group employees of the main risks; and (iv) managing the "ethics hotline" (see chapter 4 on Ethics & Compliance).

The Compliance Department reports to the Chief Executive Officer and a Compliance Committee.

Other specific committees have also been set up within the Group to deal with particular areas, such as insider information (the MAR Committee) and health & safety and the environment (the HSE Committee).

# 3. Accounting and financial internal control

## 3.1. General organization

The Mersen group's Finance and Administration Department is responsible for accounting and financial internal control. Its role is to produce and ensure the quality of the financial statements and management accounts, with the support of the finance department of each business unit which works with the finance teams at each site. This organization allows targets to be set and accounting and financial information to be collected and analyzed at different levels of the organization.

## 3.2. Preparation of accounting and financial information

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

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

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

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

## 3.3. Treasury and financing

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

The Group has pursued a major drive to develop its cash management culture, mainly at manager level.

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

## 4. Approach adopted in 2020 and 2021 action plan for internal control

Due to the Covid-19 crisis, only 11 internal control audits could be performed in 2020 out of the 24 that were originally scheduled (excluding audits related to health & safety and information systems security). As the constantly-changing situation with the pandemic made planning very difficult, some audits had to be canceled at the last minute. A number of audits were performed either fully or partially remotely, with a local auditor helping the corporate team. The remote audits were based more on documentation and video conferences and were narrower in scope as it is difficult to audit certain processes remotely. Nonetheless they worked well and helped the Group maintain its high-quality internal control environment.

Out of the 11 audits performed, two revealed internal control weaknesses (one in China and one in Europe), bearing in mind that it was a first-time audit for one of the two sites concerned. Corrective measures were immediately put in place and both sites will be audited again in 2021. An investigation audit was also carried out in 2020 at one of the Group's sites by an external firm. This audit revealed serious internal control issues and possible embezzlement by people who have left the Group.

In addition to its audit work, during 2020 the Internal Audit Department:

- Reinforced the undertakings set out in the annual internal control letters co-signed by the site managers and financial managers.
- Amended the internal control handbook to include compliance controls.
- Created a new format for the integrated report to make it clearer for stakeholders.
- Prepared a training course on advanced investigation methods for internal audit teams and the financial managers of the Group's businesses. This training will be launched in 2021.

The Internal Audit Department reported to the Audit and Accounts Committee on its work in 2020 and its 2021 audit program in December 2020.

The main objective of the Internal Audit Department in 2021 will be to bring the number of audits back up to a satisfactory level (i.e., in line with previous years) despite the ongoing pandemic, carrying them out remotely if necessary. It will also continue to focus on further developing the Group's internal control procedures, in connection with a new Core Model that will deployed in the sites' ERP systems over the coming years. Additionally, certain senior auditors and business unit financial managers will receive training on advanced investigation methods.

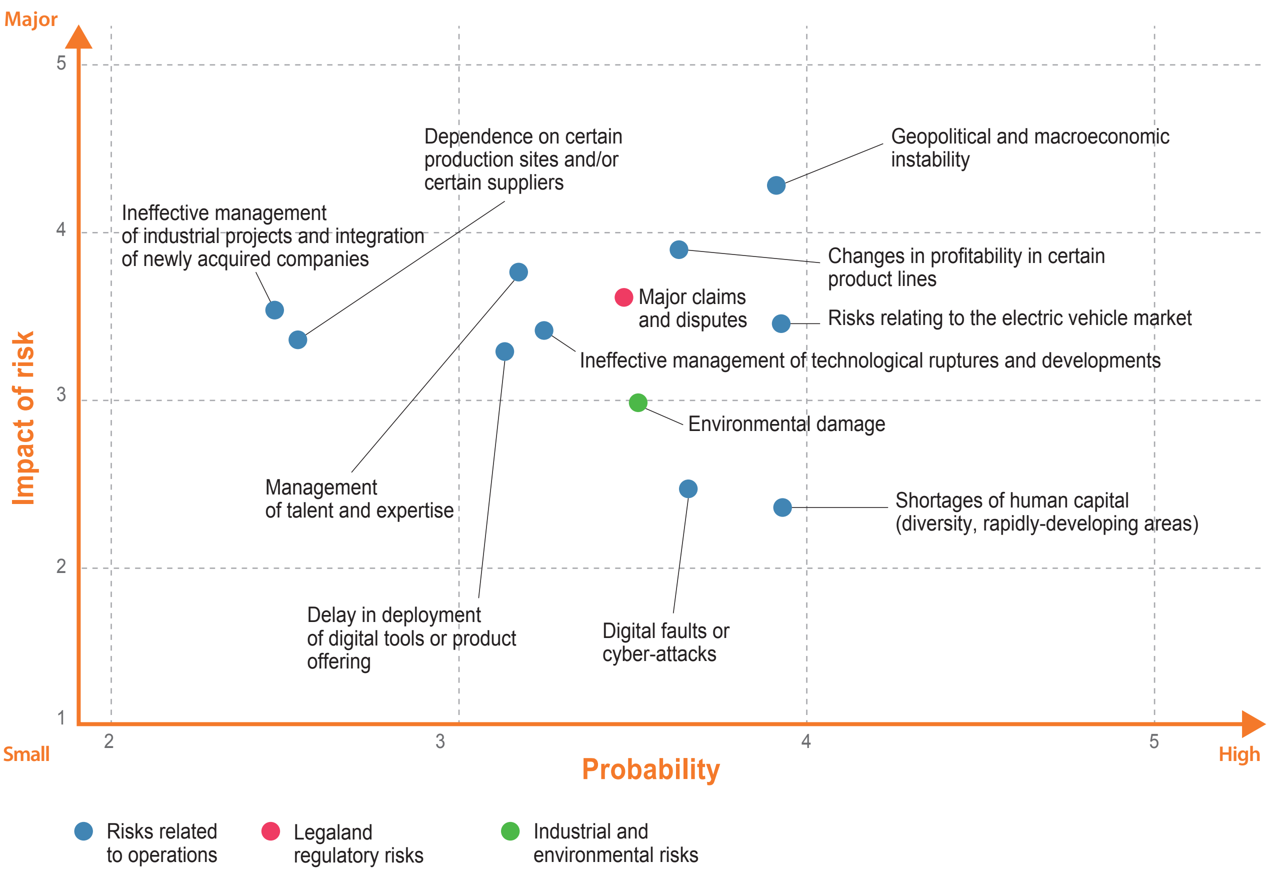
# RISK FACTORS

Since 2001, Mersen has mapped the Group's risks, summarizing them in relation to their materiality, the probability of their occurrence and the related risk management measures. Risk mapping is updated each year and presented to the Audit and Accounts Committee, which draws up a summary for the Board of Directors. It is shown below in simplified form (certain issues grouped together) to provide a clear overview of the risks.

Risks are classified in relation to their potential impact and the probability of their occurrence. For each risk, the description below includes the measures implemented to limit the probability of its occurrence and/or to mitigate its impact.

## PRIORITIZATION OF RISKS

| | |
|---|---|
| Risks related to operations | Geopolitical and macroeconomic instability |
| | Changes in profitability in certain product lines |
| | Risks relating to the electric vehicle market |
| | Ineffective management of technological ruptures and developments |
| | Management of talent and expertise |
| | Ineffective management of industrial projects and integration of newly acquired companies |
| | Delay in deployment of digital tools or product offering |
| | Dependence on certain production sites and/or certain suppliers |
| | Digital faults or cyber-attacks |
| | Shortages of human capital (diversity, rapidly-developing areas) |
| Industrial and environmental risks | Environmental damage |
| Legal and regulatory risks | Major claims and disputes |



# 1. Risks related to operations

## Geopolitical and macroeconomic instability

### Description of risk

The Group conducts business in about 35 countries on five continents and serves many different end-markets. It is therefore exposed to the geopolitical situation of certain countries – in Mexico and Tunisia, for instance, where it has large plants for the Electrical Power segment, and in China, where it has nine manufacturing sites.

The Group is also exposed to industrial GDP growth rates, particularly for process industries (which account for roughly 35% of its total revenue) and/or in some countries, including the United States, China, Germany and France, which together represent over 60% of its total sales.

The current health crisis could potentially affect some geographic regions more than others and therefore either raise or lessen the Group's macro-economic risk depending on the region concerned.

Lastly, although most sites have a local production model, some produce semi-products or components used by plants located in other countries. These intra-group transactions are sensitive to trade barriers in view of today's increasingly protectionist geopolitical context.

The potential impacts on the Group are:

- A sales decline stemming from a global recession, or at least a stoppage of certain capital expenditure projects, which could significantly impact profitability as several Group activities are sensitive to volume effects.
- A sharp drop in Mersen's share price, as the Group is still perceived as cyclical and dependent on the economic environment.
- Major restructuring costs or impairment losses in the event of a prolonged economic downturn.
- To a lesser extent, lower profitability due to higher customs duties if the economic environment prevents increases in these duties from being passed on in selling prices.

### Risk management

The Group is developing in forward-looking growth markets, particularly in the sustainable development markets, which account for around 50% of consolidated revenue (see chapter 4 on corporate social responsibility). This is helping it to reduce its dependence on process industries, which are more sensitive to changes in the economic environment.

The Group has generally held firm in the unprecedented situation of the pandemic, thanks to its geographic footprint and the diversity of its markets.

As the world faces economic hardship caused by Covid, the Group has put in place measures enabling it to swiftly and effectively adapt its cost structure and has accelerated its industrial reorganization projects. It has also been developing an in-house "Sales Excellence" program since 2019 to enhance its commercial efficiency and gain market share in the most profitable segments.

Mersen has a solid financial structure and substantial liquidity, in the form of cash and undrawn credit facilities, which would see it through an erosion in sales, were this to occur (see the "Financial risk management" note in Chapter 6 of this document).

## Changes in profitability in certain product lines

### Description of risk

The Group's profitability is dependent on certain product ranges. For example, in the Electrical Power segment, profitability for the fuses range is much higher in North America than in other regions. And in the Advanced Materials segment, Graphite Specialties has a much higher profitability level than the Group's other activities, but at the same time is dependent on the use of graphite production capacity, particularly due to its capital intensive nature.

The potential impacts on the Group are:

- An erosion in the Group's overall profitability, resulting from uneven supply and demand for its graphite applications and/or a sharp fall in sales for the Electrical Power segment in North America.
- Having to adapt the cost structure to lower profitability levels, which could lead to significant restructuring costs.
- Having to recognize impairment losses for certain under-used assets, especially if there is a persistent imbalance between supply and demand.

### Risk management

In the past, the Group has put in place measures that would enable it to swiftly and effectively adapt its cost structure to market changes, such as productivity plans, excellence programs and restructuring plans. Due to the Covid-19 crisis, the Group stepped up the pace of some of its action plans in 2020, enabling it to swiftly and sustainably decrease the profitability threshold of certain businesses.

It has also developed an in-house "Sales Excellence" program to enhance its commercial efficiency and gain market share in the most profitable segments.

The Group strives to limit the cycle-volume effect of its Graphite Specialties segment by positioning itself in growth markets with strong dynamics, such as solar and electronics.

Lastly, in the Electrical Power segment, it has launched action plans aimed at improving profitability for its lower profit-contributing product lines.

## Risks relating to the electric vehicle market

### Description of risk

For Mersen, the electric vehicle market represents a growth vector in the automotive sector, which is complex and demanding in terms of both risks and opportunities. In 2020, the Group pursued both its technical and business development, notably for fuses and busbars. It also continued to invest in technology and human resources in order to meet the exacting standards of the automotive industry. For instance, the Angers site in France, which specializes in busbars, obtained IATF certification, and a fuse manufacturing site in Mexico is in the process of certification. However, the Group is still in the learning phase in this market and will have to adapt quickly to its standards and procedures.

The potential impacts on the Group are:

- An inability to meet the demands and constraints of the electric vehicle market, especially in terms of price - which could considerably restrict the Group's growth potential in this market - and/or technical specifications, due to fast-changing requirements.
- Poor positioning on fuses or busbars.
- More intense price pressure in this market, which could squeeze the Group's profit margins over the long term.
- Heightened risks of customer disputes (non-compliance, delivery delays, product recalls, etc.).

### Risk management

The Group has set up an Electric Vehicles Committee, chaired by the Chief Executive Officer. This Committee is tasked with (i) tracking developments in the electric vehicles market and the Group's technical and commercial positioning, (ii) identifying the risks associated with this market and drawing up appropriate action plans, and (iii) drawing up a formal strategy for the market. The Group is continuing to invest in dedicated teams and skills sourced from the automotive industry as well as in IATF certification processes. In addition, the Group regularly reviews its insurance program. Following its initial commercial successes in the EV market in 2020, the Group has set up working groups in order to accelerate the development of its EV skills, systems and organizational structures so it can produce on a larger scale for this market as from 2023.

The Group's positioning in the electric vehicle market is regularly presented to the Board of Directors.

## Shortages of human capital (diversity, rapidly-developing areas)

### Description of risk

The Group's international scope as well as the diversity of its products, markets and applications mean that it needs significant resources that the Group cannot always provide as it is smaller than other major multi-national corporations.

Some regions, such as Asia, are rapidly changing, and require constant adaptation due to the emergence of new markets, customers and competitors. Consequently, the Group has made many investments and carried out a large number of industrial reorganizations and acquisitions. This high level of activity can lead to temporary shortfalls in human capital or additional human capital requirements that cannot always be satisfied at competitive rates.

The Group and its subsidiaries also need to deal with the increasing complexity of social, environmental and tax regulations. The increasingly demanding requirements for documentation and formal processes for compliance purposes have created large volumes of additional work, especially for support functions such as finance and HR. Some smaller sites may find it difficult to have effective regulatory watch processes in their particular country.

The Group also needs to make progress in terms of diversity, especially gender diversity and notably in the engineers and managers category where women only account for 24.6% of workforce and 20% of the members of management bodies. Although the Group has a diversity policy, if the proportion of women managers and the number of women on the Group's management bodies rises too slowly, this could harm the Group's image and appeal.

The potential impacts on the Group are:

- Insufficient capacity to adapt quickly enough to changes (in markets, customers, etc.) compared to competitors.
- (Involuntary) non-compliance with regulations which could be prejudicial for the Group.
- Negative effect on the Group's image and/or appeal due to a lack of diversity.

### Risk management

- The Group has had a gender diversity policy in place for several years now, covering managers and executives in particular, and gender diversity is one of Mersen's key CSR priorities. As from 2021 this policy will be reinforced for the Group's management bodies.
- Certain support functions (compliance, legal affairs, environmental affairs, etc.) have been strengthened over the past few years to deal with the growing volume and complexity of regulations.
- Expansion and consolidation of its existing network of regional liaison officers (for HR, finance and audits) who provide support to local sites.

## Ineffective management of technological ruptures and developments

### Description of risk

Mersen designs bespoke products tailored to its customers' specific technical requirements, in terms of both use and performance. In a number of its strategic markets, such as electronics, solar power and electric vehicles, customer requirements change quickly and often. The Group therefore has to constantly monitor changes in technology so it can anticipate new market trends and more effectively meet its customers' future needs.

It cannot be ruled out that alternative technologies will emerge, for instance in relation to manufacturing procedures for solar panels or silicon carbide semiconductors, whose production requires a large quantity of graphite.

Developments in more traditional products and markets may be more or less favorable for Mersen. For example, the use of brushless motors could increase to the detriment of brushed motors, or a change in electrical standards could impact the market for the Electrical Power segment.

Lastly, Mersen operates in markets where product offerings are becoming increasingly comprehensive and integrated and distribution methods are becoming more varied (particularly thanks to e-commerce). Mersen has to factor in these trends and adapt its offerings accordingly, mainly in its Electrical Power segment.

The potential impacts for the Group are:

- A possible prolonged decrease in revenue if the Group is unable to respond to changes in a market or in standards, or if a new technology emerges in which Mersen does not have the required expertise.
- Loss of market share in strategic sectors, which could impact the Group's future growth rate.
- Potentially heavy investment to adapt to market requirements and/or specific customer needs.

### Risk management

A technological watch has been set up to help the Group anticipate new market trends. Synergies between R&D and sales teams have been reviewed and strengthened by the Technology Department. Capital expenditure and/or R&D budgets have been increased for markets and/or applications with high technological content and/or fast-paced change. In addition, steps have been taken to forge even closer ties with strategic customers.

The strategy adopted for certain product ranges has been reviewed in order to propose a broader and more comprehensive offering, notably by developing connected products. At the same time, the Group has invested in digital in order to track market developments.

Furthermore, it is pursuing its acquisition policy focused on gaining key expertise, which is another way to prevent this risk.

## Management of talent and expertise

### Description of risk

Mersen operates in highly technical and complex markets. Managing the expertise required for these markets - which can be very specific and specialized - is crucial if Mersen is to remain a global leader in its field. The Group's business model therefore draws on this expertise as well as Mersen's century-long experience. Mersen also needs to be able to manage and develop the new expertise brought into the Group through acquisitions.

To remain competitive, continue to grow over the long term and rise to future challenges, Mersen has to attract a wide range of talent. Its ability to attract this talent is key to its success and its expertise could be eroded over time if it does not have a proper talent management strategy.

The Group is complex in terms of its size and the diversity of its products, markets and geographic footprint. To effectively manage this complexity it needs talented people with a varied range of expert skills and in-depth knowledge of the Group, its customers and its manufacturing facilities. Knowledge transfer and the replacement of talent and experts who are coming to the end of their careers are vital for the Group's future.

The potential impacts on the Group of the loss or attrition of talent and/or experts are as follows:

- Loss of key expertise that could affect the Group's ability to meet customers' requirements, which would impact its growth potential and/or existing revenue.
- Less control over manufacturing processes, which could lead to (i) additional costs, which would reduce the Group's competitiveness for some products, (ii) product quality problems which could affect relations with major customers, and (iii) safety or environmental problems arising from complex processes.
- Poor strategic decisions due to insufficient knowledge about the Group, its culture or its markets.

### Risk management

The Group has created a dedicated organizational structure to manage talent and expertise risk, including:

- Setting up a "specialists" unit, with a specific policy for succession planning, retaining and sharing expertise, and enhancing talent retention measures.
- Systematically putting in place succession plans for major sites and management committees (including the Group Executive Committee).
- Putting in place a career management policy, particularly for experts and young talent.
- Creating an "employer brand" working group tasked with relaying and promoting the Group's reputation and appeal among job candidates and therefore attracting new talent.
- Broadening the beneficiary population of long-term incentive plans to include specialist/high potential employees (currently in planning phase).

## Digital faults or cyber attacks

### Description of risk

All of the Group's management, planning and invoicing systems are dependent on IT. The reliability and availability of the Group's IT systems are determining factors for meeting customer deadlines,and are indispensable for certain activities such as electricity distribution.

In addition, some equipment that is essential for the Group's business and/or is potentially dangerous is controlled via software.

Lastly, certain confidential data, notably relating to plans (both the Group's and its customers'), product offers and personal data are stored on servers.

The potential impacts on the Group are:

- A stoppage of important equipment, which could temporarily affect production and therefore make it impossible for the Group to deliver one or possibly many order(s), which in turn could impact its profitability and potentially its future relations with some customers.
- Theft of confidential data, which could lead to penalties and/or legal disputes and could harm the Group's image.
- An accident due to the loss of control of dangerous equipment.

### Risk management

The Group has an overall IT security policy, which is regularly presented to the Audit and Accounts Committee. This policy is regularly updated in order to have an up-to-date, efficient IT system that is synchronized Group-wide.

A specific IT risk map has been in place for several years and internal audits are performed to verify that the relevant rules and procedures are respected. Awareness-raising sessions are also organized, particularly about phishing, in order to enhance the Group's cyber-risk culture. Moreover, Mersen uses external service providers to assess the effectiveness of some of the Group's risk strategies. IT governance projects have been redefined and the IT teams have been strengthened in order to manage IT risks more effectively, especially cybersecurity risks.

## Delayed rollout of digital tools and/or product offering for certain markets

### Description of risk

A growing part of the Group's activity involves the development of e-commerce and tools to assist in the implementation of technical solutions using Mersen products.

This development is particularly important for the standard products and solutions of the fuse range. This digital turn must be taken in order to continue to provide our customers with a wide and comprehensive offer. The implementation of this type of tool should also allow us to expand more widely in countries not yet covered.

The potential impacts on the Group are:

- Loss of revenue opportunity.
- Falling behind our competitors with loss of market share.
- Impact on the Group's image and its ability to innovate.

### Risk management

The Group has made available to its clients and partners:

- digital data in specific formats by region and/or country,
- tools that allow our customers to configure our products in their solutions. These types of tool, along with others, are currently being developed in order to facilitate the ordering process and offer customers suitable technical solutions.
- application tools such as the one set up for product recognition. You just have to scan the product in the application to instantly see all of its characteristics and place an order if needed.

A digital offer is in place on the North American market. This digital offer must now be extended to other continents. A study was conducted in order to implement a Group strategy.

This study helped define a digital roadmap with significant investments planned for the coming years.

## Ineffective management of industrial projects and the integration of newly-acquired companies

### Description of risk

The Group is continuing to grow by meeting the needs of its customers and expanding its product range, while remaining cost efficient. This means it has to constantly adapt its offerings and processes, which notably entails carrying out major industrial projects such as extending or relocating production facilities or transferring operations.

These projects can be complex for technical, regulatory, commercial or HR reasons. They can therefore be more costly or take longer than initially planned or can even negatively impact future business if they lead to a loss of customers and/or skills.

The Group has carried out numerous acquisitions in recent years, mostly of family-owned companies with strong local expertise. The integration of these acquired businesses – from a technical, commercial and, above all, human relations perspective – is a key factor in making each acquisition a success.

For example, the Group acquired a manufacturing facility in Columbia, USA, which has given it additional production capacity for isostatic and extruded graphite. However this acquisition necessitated major investment to get the plant back up and running, and at the same time the Group had to master the process for manufacturing high-quality extruded graphite. It is a complex, strategic project for the Group, covering several years and requiring sizeable resources.

The potential impacts on the Group if one or several major projects were to fail are:

- Poorly managed production transfers or site relocations, which could impact sales and/or profitability.
- A longer timeframe and cost overruns for the Columbia project.
- Difficulties in hiring or retaining the necessary expertise for re-starting the Columbia plant and/or manufacturing extruded graphite.
- The need for additional financial investments or costs in order to bring acquired companies or assets up to the required standards.

### Risk management

Industrial projects and acquisitions are managed by dedicated groups supervised by a governance body tasked with ensuring the projects and acquisitions are carried out in line with the original roadmap. The largest industrial projects are tracked monthly by the Operational Excellence Department which reports on them to the Executive Committee.

The Columbia project is subject to a specific monitoring process, with regular presentations given to the Board of Directors. Specialists in extruded graphite manufacturing have been recruited.

For relocations of plants, precautions are taken for minimizing the impact of any delays, such as constituting back-up inventories.

Due diligences (covering operational, IT, legal, environmental and financial issues) are performed for all acquisitions and a tailored integration plan is drawn up and regularly monitored by the members of the Executive Committee.

## Dependence on certain production sites and/or certain suppliers

### Description of risk

When the Advanced Materials segment manufactures graphite products, it first prepares the raw material and then makes graphite blocks which are subsequently processed and machined. The manufacture of these blocks, and some of the processing operations involved, require heavy and/or complex machines which cannot be easily installed in more than a certain number of sites. The production sites for these blocks are based in China and the United States. Complex transformation sites are also located in those countries, as well as in South Korea and France. In addition, there are unique production sites in France and the United Kingdom.

Some products manufactured by the Electrical Power segment require a large amount of labor to produce high volumes at a reasonable cost. The segment's facilities for making those products are therefore concentrated in a small number of plants in China and Mexico. This means that the Group is highly dependent on those plants for the manufacture of certain products.

On a general note, intra-group transactions account for approximately 25% of total billings.

There are some suppliers on which the Group may be dependent. In such a case, any significant delays in deliveries of components or raw materials could cause temporary stoppages or delays in production, which could lead to customer dissatisfaction and/or late delivery penalties. Although no single supplier represents more than 2% of the Group's total purchases, one supplier may be significantly important for a major Group plant.

The potential impacts on the Group are:

- Long stoppages at a major plant, which could lead to lower sales volumes, either directly or indirectly (e.g., production stoppages at other Group sites), with ensuing losses of revenue and profit.
- For some facilities in the Electrical Power segment, several days of stoppages at some plants or distribution centers could lead to a loss of customers.
- For some sites in the Advanced Materials segment, manufacturing delays could lead to substantial late delivery penalties.
- High costs if certain facilities and/or equipment have to be rebuilt or restarted following an accident or other incident at a production site.

### Risk management

Business continuity plans have been drawn up for some sites and alternative production solutions have been tested during the Covid-19 crisis. The Group intends to extend its business continuity plans to cover other production facilities in the coming years.

For almost all strategic suppliers of raw materials and components there is at least a second source. However, it may not always be possible for the second source to rapidly make up any significant supply shortages or to provide supplies within the main supplier's original timeframe.

An external solution could also be used in some cases, such as outsourcing certain processes or purchasing parts from other companies.

# 2. Industrial and environmental risks

## Environmental damage

### Description of risk

The Group was founded over 130 years ago and has a strong industrial heritage, partly built up thanks to acquisitions. Consequently, some of the practices formerly used by the Group, particularly by acquired companies, may have had an adverse impact on the environment, primarily regarding soil pollution. Furthermore, some Group plants - particularly in the Advanced Materials segment - are subject to fast-changing and increasingly strict regulations, particularly in terms of emissions. Lastly, the manufacturing processes of the Advanced Materials segment use energy, mainly electricity, which leads to indirect $CO_2$ emissions.

The potential impacts of this risk - which would be particularly significant if several events were to occur simultaneously - are:

- Costs incurred for researching less energy-hungry production processes, especially if certain regulations change.
- Non-renewal or suspension of an operating license, which could lead to a partial or total production stoppage at a major plant while awaiting an alternative solution.
- Costs related to cleaning up land at a former site and/or to third-party claims or disputes.
- Compliance costs of facilities.

### Risk management

The Group has implemented numerous measures to mitigate the risks described above. In particular, it:

- Has put in place the centralized monitoring of operating permits.
- Has put in place a procedure whereby the Executive Committee regularly monitors changes in the main standards that apply to the Group in order to effectively anticipate any required investments.
- Has appointed local environmental officers.
- Has introduced the monitoring of regulatory compliance and depollution work.
- Has set up a system for regularly monitoring waste, with measures implemented to ensure better recycling at all of its industrial sites.
- Systematically carries out environmental due diligence reviews for acquisitions of industrial sites.

# 3. Legal and regulatory risks

## Major claims and disputes

### Description of risk

Mersen operates in complex and technically demanding markets. The products that the Group delivers are key elements for the operation and/or safety of our customers' products and services, notably in the chemicals and energy industries. Claims may be made against the Group for alleged quality problems and/or, to a lesser extent, for not meeting delivery deadlines (a frequent issue in the chemicals industry). These risks have a tendency to rise due to the more litigious nature of relations with certain key customers as well as the Group's international expansion into countries with differing legal systems. This international positioning, combined with the fact that Mersen sells products that can be used for both civil and military purposes, exposes it to sanctions by or disputes with government agencies, especially tax and customs authorities.

The potential impacts on the Group are:

- Government sanctions, which could cause a sharp fall in the Group's sales.
- Potentially high costs for the Group, notably in the event of class actions.
- A deterioration in commercial relations with certain customers, with an ensuing loss of revenue (although the Group's largest customer only represents approximately 3% of its total revenue).

### Risk management

Since the end of the 1990s, the Group has had a quality program in place which ensures that the quality of its products meets its customers' requirements. It also has an Operational Excellence Department, set up in 2015, to improve the monitoring and quality of its products.

Additionally, in 2018 it set up a specific claims management system, which has strengthened the Group's claims prevention procedures and enabled it to be more reactive in terms of dispute resolution. Information sessions have been held with the sales and technical teams about this new system.

The Group has also taken out an insurance policy to limit the financial consequences of customer disputes.

Lastly, since 2018, specific compliance training sessions have been regularly organized for people potentially exposed to compliance risk (notably the sales and technical teams).

# Proceedings in progress

## 1. Tax and customs proceedings

The Group regularly undergoes tax and customs audits carried out by the tax/customs authorities in the countries in which it operates. In the past, the reassessments issued after tax/customs audits have been for non-material amounts. The most material risks relate to Mersen do Brasil and Mersen India Pvt.

The following amounts include interest.

### 1.1. Proceedings involving Mersen do Brasil

Mersen do Brasil received notice in June 2013 of a customs audit covering the period from January 2008 to December 2012. The customs authorities issued a reassessment notice for an initial amount (principal and interest) of BRL 7.5 million, increased each year by applying the interest rate issued by the Central Bank of Brazil. At December 31, 2020, the amount of the revised adjustment was BRL 12.4 million, or approximately €1.9 million at the December 31, 2020 exchange rate. This amount is not covered by a provision in the accounts of Mersen do Brasil, as the risk of losing the dispute is deemed very weak. A first instance ruling was handed down in favor of the Group on February 8, 2018. However, it was the subject of an ex officio appeal to a second instance court by the Brazilian authorities. It is not possible to estimate when the second instance ruling will be delivered. At the time of this report, no changes have been made to these procedures.

Mersen do Brasil is also involved in a number of disputes which are at various stages:

- Reassessment of social security contributions (relating to 2007) calculated on the basis of unverified earnings, representing a total of BRL 4.6 million (approximately €0.7 million). A provision for BRL 133 thousand (approximately €21 thousand) has been set aside in respect of the risk which is considered likely to be paid. This dispute is pending before the Administrative Court;
- Late tax return filing penalties (relating to 2001, 2002 and 2003) representing a total of BRL 4.2 million. A corresponding BRL 4.2 million provision (representing approximately €0.66 million) has therefore been set aside, as the Group considers it highly probable that the penalties will have to be paid. Depending on the year in question, the disputes are pending before the Federal Court, or are in the process of appeal before the Federal Court.
- Penalties (relating to 1998) for errors in calculating social security contributions, representing a total of BRL 2.8 million (approximately €450 thousand). A provision for BRL 0.6 million (approximately €97 thousand) has been set aside for the risk which is considered likely to be paid. This dispute is pending before the Federal Court;
- Three disputes representing a total of BRL 2.3 million (approximately €360 thousand). A BRL 0.55 million provision (representing approximately €87 thousand) has been set aside for the risk for which the Group considers it highly probable it will have to pay. These disputes concern (1) the reassessment of tax credits transferred at the time of relocating the São Paulo site (relating to 2011), which has been appealed to the Administrative Court; (2) penalties (relating to 1995) for differences in the tax base for local tax on industrial products, which is pending before the Federal Court; and (3) penalties (relating to 2007) for irregularities in social security returns, which is pending before the Administrative Court.
- Reassessment of entitlement to benefit from a tax-free zone regime (relating to 2004) for BRL 1.8 million (approximately €276 thousand). No provision has been set aside for this, as the related risk of loss is considered low. This dispute is pending before the Administrative Court.
- Penalties (relating to 2004) for erroneous amounts reported in certain tax returns, representing a total of BRL 1.6 million (approximately €248 thousand). No provision has been set aside in this respect as the related risk of loss is considered low. The case is pending before the Administrative Court.

### 1.2. Proceedings involving Mersen India Pvt

Mersen India Pvt's tax returns are subject to annual tax audits. At the date of this document, the overall risk to which the company is exposed totals €47 thousand. This risk relates to the partial reassessment of certain intra-group expenses that were deducted in fiscal years 2011, 2012 and 2013. This dispute is pending before the Appeal Court. The subsidiary is also exposed to a risk representing €81 thousand for customs duties (relating to 2011, 2014, 2016 and 2020), since certain customs import codes used by Mersen India Pvt have been reassessed by local customs authorities. This dispute is pending a second appeal hearing.

# 2. Administrative proceedings and disputes

## 2.1. Administrative proceedings in France

In 2013, SNCF launched two procedures against Morgan, SGL, Schunk and Mersen, in the Paris Administrative Court and the Paris Commercial Court respectively. SNCF is attempting to secure redress for losses that it allegedly suffered following practices that were sanctioned in December 2003 by the European Commission in connection with brushes for electric motors and products for mechanical applications. In 2014, the Paris Administrative Court rejected all of the claims lodged by SNCF, which appealed the decision. On June 13, 2019, the Paris Administrative Court of Appeal overturned the 2014 Administrative Court ruling. It also decided that it would rule on the case and issued an injunction for an expert appraisal to be carried out in order to determine the amount of the loss allegedly incurred by SNCF.

Mersen and the other defendants, who contest this ruling, referred the case to the French Supreme Court *(Conseil d'Etat)* for it to be set aside due to the incorrect application of the law. On October 12, 2020, the Supreme Court rejected the majority of the grounds put forward for setting aside the ruling.

In addition, the appraiser appointed by the Administrative Appeal Court issued its report in July 2020 and the case is still pending before that court. The Group has set aside a provision reflecting its estimate of the risk incurred in connection with these proceedings.

## 2.2. Criminal proceedings in France

Criminal proceedings that were initiated after the tragic accident on April 7, 2010 at Mersen's site in Gennevilliers are still in progress. On December 22, 2019, a ruling by the examining judge partially dismissed the case and brought Mersen's subsidiary in Gennevilliers ("the Company") and its managing director at that time before the Criminal Court *(Tribunal correctionnel)*. On November 23, 2020, the Nanterre criminal court accepted the arguments of the Company and its managing director at the time and returned the case to the investigation phase due to serious irregularities in the order referring the case to the criminal court. The Company and its managing director at the time of the accident dispute the alleged acts with which they are charged, and will present the case in their defense in the new investigation phase that is now opening.

## 2.3. Investigation by India's competition authority

In July 2019, India's competition authority launched an investigation into the premises of Group subsidiary Mersen (India) Private Limited over allegations of anti-competitive practices in the supply of carbon brushes to Indian railways in 2010-2014. Mersen India, which contests these allegations, is fully cooperating with the competition authority and has provided all requested information. The investigation is ongoing.

The Group is not aware of any other administrative or legal proceedings, including any pending or potential proceedings, that could have or have had in the last 12 months, a material adverse effect on its business activities, financial position or results of operations.

# Insurance

Mersen group has negotiated international insurance programs in the insurance market to cover its main risks. To protect the Group's future, the levels of coverage are set based on the Group's loss record and an assessment of the risks incurred by each Group subsidiary. In a context in which claim levels have remained under control for several years, the Group's insurance programs remained stable in 2020 and the ongoing risk prevention policy has meant that coverage and premium levels are unchanged.

The Group's global insurance programs (implemented in certain countries by local policies) have been put in place with leading insurance companies to cover the main risks of operational Damage/Loss, Professional Third Party Liability, Environment, and Aviation and Transportation Professional Third Party Liability risks. These worldwide programs provide all the Group's subsidiaries with cover and restrictions tailored to their needs. No captive policies have been arranged.

## 1. Civil liability insurance

As part of the Professional Third Party Liability insurance program (operations, pre- and post-delivery), Environmental and Professional risks are covered in particular, subject to the usual excesses, exclusions to and limits on coverage, as are bodily harm, physical and economic loss, disassembly/reassembly costs, collection costs, damage to goods in third party storage and decontamination costs. The international program comprises a master policy in France and local policies in certain countries. The total amount of premiums paid by Mersen group for fiscal 2020 in connection with the Third-Party Liability/Environmental and Professional Third Party Liability/Aviation Third Party Liability program was €861,790 (excluding tax).

In view of the tougher underwriting conditions resulting from the pandemic, when renewing its Third Party Liability program for 2021 the Group decided to launch a broad consultation of insurance companies and to restructure the program in order to maintain a stable level of coverage and a contained level of total premiums.

## 2. Property/Business interruption insurance

The Group's property/business interruption insurance program notably covers bodily injury and physical damage, as well as losses caused by the interruption of business at the Group's main plants as a result of any sudden and accidental events (such as fire, storm, explosion, electrical damage, theft, etc.), subject to the usual deductibles, exclusions and restrictions. The program comprises a master policy and local policies in certain countries. It provides a contractual restriction per event (property/business interruption combined) of €135 million with sub-restrictions for certain events, such as storms, natural disasters or certain specific guarantees, such as machine failures and IT and electrical risks. The total amount of premiums paid by Mersen group for fiscal 2020 in connection with this program was €892,781 (excluding tax and premiums for GAREAT, natural disasters and compulsory local coverage).

## 3. Transportation Insurance

Under the Group's transportation insurance program, Mersen and its subsidiaries are protected by a worldwide policy that provides a guarantee of up to €5 million per shipment for all the Group's goods shipments, irrespective of the means of transportation used. The premium paid by Mersen group for fiscal 2020 was €80,800 (excluding tax).

# Relations between the parent company and its subsidiaries

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

Mersen SA belongs to the Mersen group, which encompasses 93 consolidated and unconsolidated companies in approximately 35 countries. The Group's largest manufacturing facilities are located in France, the United States, China and Mexico.

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

# Parent company results

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

### Context

Mersen SA recorded a net loss of €11.5 million in 2020, in an unprecedented situation caused by the Covid-19 pandemic. The net loss primarily stemmed from (i) lower income received from subsidiaries and (ii) impairment losses (with no cash impact) recognized against equity interests.

The Company's financial structure remained solid however, with shareholders' equity of €373 million at December 31, 2020 and €76 million in net debt. Mersen did not pay any dividends in 2020 due to the lack of visibility for its operating subsidiaries' activities in the second quarter of the year.

### Analysis of results

The parent company, Mersen SA, generated sales and other income of €18.3 million in 2020. These revenues are derived from Mersen SA's activities as a holding company, namely the management of investments in subsidiaries and affiliates, Group financing and invoicing for various services, plus fees for the use of the trademark and other associated intangibles.

The parent company's net operating result, which corresponds to the holding company's operating costs and trademark fee, was a negative €0.3 million.

The Company reported net financial expense of €14.2 million versus €19.0 million in net financial income in 2019. The 2020 figure primarily includes €22.4 million in dividends from subsidiaries (€33.5 million in 2019), €36.2 million in provisions for impairment of equity interests (€15.8 million in 2019) and €2.6 million in provision for contingencies.

Net income before tax and non-recurring items was a negative €14.5 million. The Company posted net non-recurring income of €0.1 million in 2020 versus a €0.3 million net non-recurring expense in 2019. This positive swing is notably due to the lower cost of buying back Mersen S.A. shares under the share repurchase program.

The Company recorded a €2.5 million income tax benefit for 2020, reflecting the tax savings achieved for profit-making French subsidiaries that are part of the tax consolidation group.

After taking these items into account, the Company ended the year with a net loss of €11.5 million, versus net income of €24.3 million in 2019.

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

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

| | Trade payables: invoices received not settled and overdue at the balance sheet date | | | | | | Trade receivables: invoices issued not settled and overdue at the balance sheet date | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *(In € thousands)* | **At due date** | **1 - 30 days** | **31 - 60 days** | **61 - 90 days** | **91 days+** | **Total 1 day or more** | **At due date** | **1 - 30 days** | **31 - 60 days** | **61 - 90 days** | **91 days+** | **Total 1 day or more** |
| **(A) Late payment tranches** | | | | | | | | | | | | |
| Number of invoices | 3 | | | | 1 | 1 | 155 | 1 | | | 42 | 43 |
| Total amount of invoices concerned incl. VAT | 547 | | | | 1 | 1 | 3372 | (4) | | | 455 | 451 |
| % of total amount of purchases for the year, incl. VAT | 13.32% | | | | N/S | N/S | | | | | | |
| as a % of sales for the year, incl. VAT | | | | | | | 18.79% | N/S | | | 2.53% | 2.51% |
| **(B) Invoices excluded from (A) in respect of disputed or unrecognized debts and/or receivables** | | | | | | | | | | | | |
| Number of invoices excluded | | | | | | | | | | | | |
| Total amount of invoices excluding VAT | | | | | | | | | | | | |
| **(C) Reference payment terms used (contractual or legal - Article L. 441-6 or Article L. 443-1 of the French Commercial Code)** | | | | | | | | | | | | |
| Terms of payment used to calculate late payment | Legal terms: 45 days end of month, unless contractual terms are shorter | | | | | | Contractual terms: 30 days end of month for French and other European customers, 60 days end of month for the rest of the world | | | | | |

# 4 SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

# Responsible growth and development

## 1. An ambitious CSR approach

As a major player operating around the world in multiple industrial sectors, Mersen has chosen to conduct its business according to an ambitious responsible development approach. Aware that continually improving its **social and environmental footprint requires permanent measurement, assessment and analysis**, the Group has established a cross-business CSR policy for all its employees and adapted to all levels of the organization.

Mersen's CSR culture is rooted in its values and is the result of decades of commitment to ethical and responsible development at a time when CSR was neither regulated nor prized by companies. The Group has always placed its human capital at the heart of its business, demonstrating a clear desire **for each employee to make the most of their expertise and reach their full potential** and for each country where the Group is active to grow its business, while still respecting local cultures by drawing on the Group's strong fundamentals in human resources, health and safety and ethics.

Mersen is also committed to **reducing its environmental footprint**. For almost 15 years, it has run a number of initiatives to this end, despite the relatively low impact of its business compared to other industries. The Group demonstrates its commitment through its **active involvement in leading sustainable markets** such as wind and solar energy, and clean transit, by inculcating **best practice throughout all its facilities**, and by working hard to reduce waste by enhancing the **performance, quality and efficiency of its products.**

Although Mersen has chosen to **set itself ambitious CSR objectives, they are always quantifiable and achievable**. In this respect, the Board of Directors works alongside the Group's senior management and assists it in defining and monitoring its objectives. The Group has made CSR part of its identity by always seeking to improve its performance across all aspects of CSR and engaging employees and business stakeholders alike. While the Executive Committee is the driving force behind CSR initiatives, individual sites and local teams are given the latitude to implement policies as effectively, collectively and pertinently as possible. Our collaborative CSR approach forms the very foundation of an openly responsible and sustainable business.

## 2. The fundamentals of Mersen's CSR policy

Building on Mersen's fundamentals, and in particular its human capital, to develop and showcase its approach as a **socially responsible Group**.

Strengthening best practices already rolled out across the sites in order to continue to **reduce our environmental footprint.**

Expanding its activity in **sustainable development** markets and focusing development on **high-performance**, innovative products.

Transmitting a **shared CSR** culture throughout the Group and giving sites and teams the autonomy they need to implement this policy and effectively and appropriately adapt it to their region.

## 3. Organization

The Corporate Social Responsibility strategy has been implemented across the Group as follows:

| Top management | |
|---|---|
| The Board of Directors | is dedicated to promoting the Company's long-term value creation by including social and environmental challenges in its activities. It regularly reviews its exposure to social and environmental risks as part of Group strategy and, more specifically, ensures that measures to prevent and detect corruption and influence peddling are implemented. |
| The Executive Committee | proposes and implements the CSR strategy. |

| Group committees | |
|---|---|
| The CSR Committee | comprising senior management, the Human Resources Department, the Finance Department, the Operational Excellence Department, the Compliance Officer and the Financial Communications Department. It meets quarterly to review the Group's medium-term objectives and make sure that progress on CSR issues is properly publicized outside the Group. |
| The HSE Committee | comprising senior management, the Human Resources Department, the Operational Excellence Department and the heads of both the Group's segments. The Committee oversees all environmental and health and safety actions and indicators at Mersen, and meets on a monthly basis. |
| The Compliance Committee | comprising senior management, the Human Resources Department, the Compliance Officer and the Finance Department, this committee meets on a quarterly basis to guide the function, ensure the proper deployment of action plans and analyze and guide actions in the event of an ethics and/or compliance alert. |

| Working groups | |
|---|---|
| | Working groups can be created specifically to monitor progress in certain areas, such as the “Diversity” and “Open Experts” groups, whose members include people from operations teams. |

## 4. Non-financial ratings

The efforts made by the Group over the last decade to formalize, improve and consolidate its approach to sustainable development have been recognized by several independent organizations.

In 2020, MSCI ESG Research assigned Mersen a BBB rating (on a scale of AAA to CCC), versus BB in 2019.

Mersen's environmental, social and governance performance was assessed by ISS in 2020. In terms of the transparency of its environmental and social disclosures, the Group scored 3 on a scale of 1 to 10, where high transparency = 1 and low transparency = 10. For the quality of its governance, it was awarded a score of 2 on a scale of 1 to 10, where low governance risk = 1 and high governance risk = 10.

Also during the year, Mersen was awarded an EcoVadis silver medal for its commitment to sustainable development, scoring 61/100. The Group was among the top 11 companies from its sector assessed by EcoVadis.

For the first time in 2020, the Group reported to the Carbon Disclosure Project, a not-for-profit charity that measures the environmental performance of large companies and their strategy on climate change and water security, supporting corporate investors with more than USD 106 trillion in assets.

In France, the Group is included in the Gaïa Index, which evaluates the non-financial performance of listed mid-cap companies. Of the panel of 230 intermediate size companies and SMEs listed on the Paris stock exchange that feature in this index, Mersen ranked 33rd in 2020, versus 38th in 2019.

# CSR MATERIALITY MATRIX

## 1. Methodology

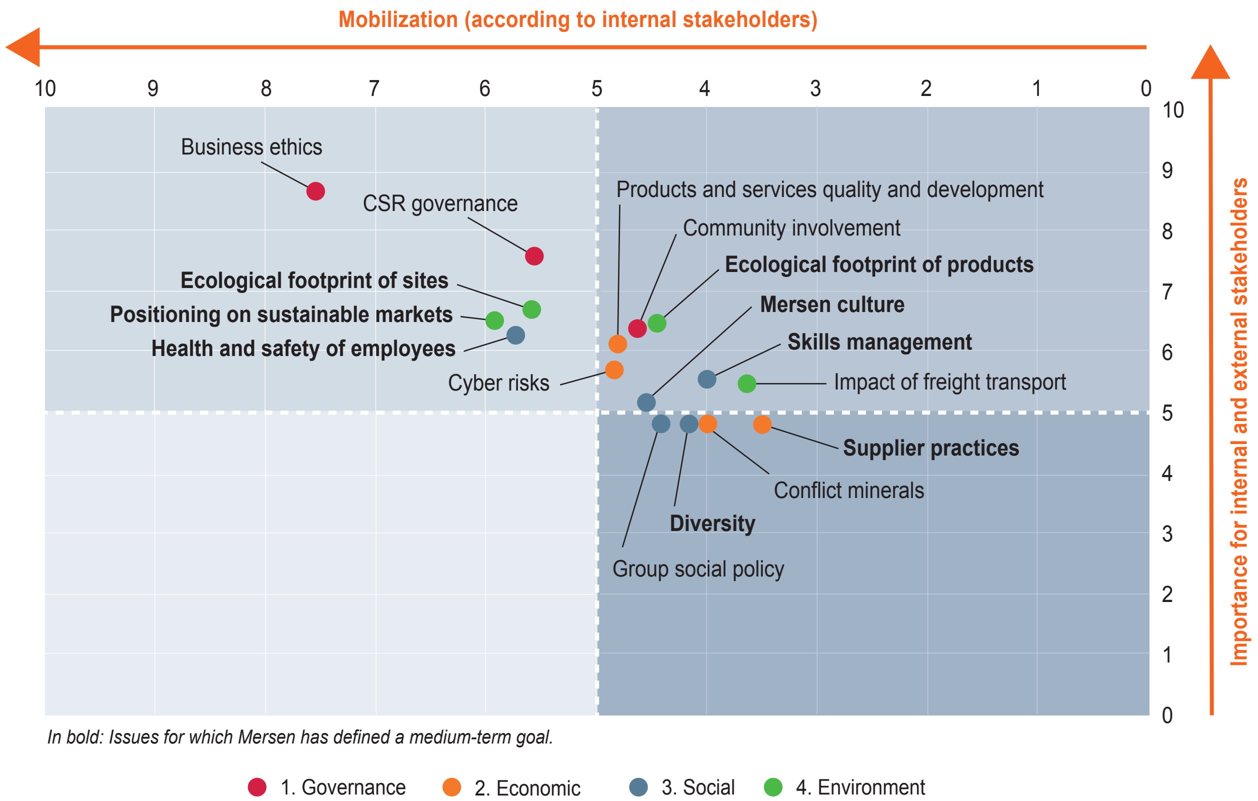
In 2018, Mersen developed its first corporate and social responsibility materiality matrix to **identify the main non-financial risks and opportunities** to which the Group may be exposed due to its businesses, the development of its markets, and its organization.

The matrix complements the risk map monitored by the Group and is based on a series of interviews with the Group's main governance bodies conducted by an external audit firm. The main non-financial risks and opportunities identified were then mapped in the form of a materiality matrix based on a questionnaire that was sent to people representing the various internal and external stakeholders around the world.

In 2018, Mersen collected questionnaires that mostly came from internal stakeholders (members of the Board of Directors and the Executive Committee, site managers, EHS managers and site HR managers).

In 2019, Mersen broadened its analysis and asked external stakeholders (clients and members of the financial community) for their opinions to help it accurately identify the CSR topics that it needs to address. The results of this analysis led the Group to slightly amend and enhance its materiality matrix.

No further changes were made to the matrix in 2020.




*In bold: Issues for which Mersen has defined a medium-term goal.*

| Issues identified | Description | Pages |
|---|---|---|
| Group social responsibility policy | Develop a social responsibility policy in line with international best practices and, if possible, above and beyond local requirements. | 117 |
| Mersen's culture | Build on and promote a Mersen Group culture which draws on local leadership, trust, empowerment and collaboration. | 119 |
| Skills management | Have a forward-looking vision regarding jobs and skills, attract and manage talent, ensure the digital shift and support continuing professional development. | 124 |
| Diversity | Promote hiring women in all Group business lines, and ensure equal treatment in the hiring process and professional development. | 121 |
| Employee health and safety | Ensure the safety of employees and develop health-related preventative measures across all Group facilities. | 129 |
| Positioning on sustainable markets | Develop a proactive environmental policy for the Group, and ensure the compliance of its operations with the environmental regulations in force. | 108 |
| Ecological footprint of facilities | Manage operations-related pollution (emissions into the air, water and soil), consumption of materials (including energy) and prevent risks to which the local communities of all the Group's facilities may be exposed. | 111 |
| Ecological footprint of products | Optimize the ecological footprint of Mersen products by consuming fewer raw materials and producing less waste. | 109 |
| Impact of transportation | Optimize goods transportation (raw materials, intermediate and final goods) and employee travel. | 107 |
| Supplier practices | Pay attention to the social and environmental practices of a targeted scope of suppliers. | 107 |
| Cyber risks | Protect the Group from attacks on its information systems seeking to damage their operation, or manipulate, block or steal data. | 137 |
| Quality and development of products and services | Adapt to customer requirements and expectations, be at the cutting edge of technology, and preempt technological disruption. | 109 |
| Controversial metals | Responsibly manage supplies of metals with potentially negative social and/or environmental impacts. | 108 |
| CSR governance | Ensure the Group's governing bodies take CSR into account and include it in Group strategy. Involve the Company's senior management in developing CSR initiatives. | 103 |
| Business ethics | Promote the Group's rules on ethics and ensure they are adopted by its partners (including rules regarding corruption, fraud, competition, etc.). | 133 |
| Community involvement | Interact with public authorities. Promote and leverage local initiatives for sponsorship, partnership or dialog with the communities and regions where the Group operates. | 120 |

## 2. CSR roadmap

Once the priority issues were clearly identified using the materiality matrix, a CSR roadmap was drafted around five commitments upon which senior management then based a three-year action plan at the end of 2018.

| Priority commitments | Ambition | 2021 objective (unless other date specified in the table) |
|---|---|---|
| Ecological footprint of our products | Develop innovative products that contribute to the ecological transition. | • 55% of Group sales linked to sustainable development. |
| Ecological footprint of our facilities | Reduce the environmental impact of our manufacturing sites by recycling and recovering waste. | • Improve the proportion of waste recycling (by-products included) by 15 points. |
| CSR footprint of suppliers | Improve and secure the social and environmental performance of our supplier base. | • Evaluate our strategic suppliers. |
| Health and safety of our employees | Develop and consolidate the health and safety culture within the Group. | • Increase the number of safety visits by 15%.<br>• LTIR ≤1.40; ISR ≤60. |
| Development of our human capital | Develop and retain our expertise through an organization that promotes collective intelligence. | • 3-point increase in human potential success rate.<br>• 25% to 30% female engineers and professionals by 2022.<br>• 100% of managers completed the “Open Manager” program. |

## 3. 2020 Achievements

Mersen navigated the unprecedented economic environment with agility and resilience in 2020. However, operations at a number of plants were disrupted for several weeks – and in some cases several months – which could happen again in 2021. The Group’s roadmap

remains unchanged, although some of the performances achieved in 2020 do not reflect the full extent of the efforts undertaken due to the impacts of the pandemic.

| Ambition | 2020 Achievements |
|---|---|
| Develop innovative products that contribute to the ecological transition. | • 56% of sales linked to sustainable development. |
| Reduce the environmental impact of our manufacturing sites by recycling and recovering waste. | • Percentage of waste recycled: 60% (+14 points). |
| Improve and secure the social and environmental performance of our supplier base. | • Number of procurement charters sent out: 1,960.<br>• Number of charters signed: 904. |
| Develop and consolidate the health and safety culture within the Group. | • 4,573 safety reviews (MSV: Management Safety visits).<br>• LTIR = 1.54 (Lost-Time Injury Rate).<br>• ISR = 64 (Injury Severity Rate). |
| Develop and retain our expertise through an organization that promotes collective intelligence. | • 24.2% women engineers and professionals (up 4.6 points from 2018).<br>• 69% of managers completed the “Open Manager” program. |

# Developing innovative and sustainable products

## 1. Managing our suppliers

### Our strategy and our commitments

As a global expert in electrical power and advanced materials, Mersen undertakes to be **mindful of the social and environmental practices associated with the development of its products**. This applies not only to our own internal practices, but also to those of our regular suppliers.

Because we are present in 35 countries, we are often required to factor in a number of different legislations and widely varying local realities. This is why we make every effort to make sure our policy in this area is comprehensive. The procurement charter for a sustainable supply chain, which is available in five languages (English, German, Chinese, Spanish and French), formalizes relations and sets the standard for virtuous collaboration.

The Group takes special care to verify the source of minerals that may be used to manufacture its products and equipment, especially those that could come out of conflict zones.

#### Our commitments:

- Determination to improve and secure their social and environmental performance.
- A charter to formalize supplier relations, which would also include a self-assessment grid.
- Special attention paid to conflict minerals and third-party corruption risk.

### Our initiatives

#### Procurement charter

In 2019, Mersen formalized its approach with its **procurement charter for a sustainable supply chain,** which sets out its own requirements and encourages the implementation of best practices – including for social and environmental matters. The procurement charter reaffirms Mersen's commitment to preventing slavery and protecting children's rights throughout the Group's supply chain.

This charter is circulated to our regular suppliers who are invited to sign it. The charter is available on www.mersen.com.

In 2020, the charter was sent out to 1,960 suppliers, 400 of which account for approximately 80% of the Group's materials purchases. Some 46% of suppliers have returned the signed charter.

The Group concentrates its efforts on the suppliers that make up 80% of its materials purchases. In 2019, it finalized a CSR questionnaire with a detailed self-assessment grid that will help to better integrate and evaluate their CSR and Compliance performance. Due to the Covid-19 pandemic, the Group was not able to follow up on these self-assessment questionnaires in 2020.

The Group has also established a procedure to evaluate third-party corruption risk, including suppliers, using an internal database. All new suppliers will be assessed using a risk table, with high-risk suppliers being examined more closely. In 2020, specific assessments were conducted for seven suppliers and the findings did not reveal any particular corruption risks.

In addition, some of the Group's sites work with local suppliers to:

- reduce transportation costs and greenhouse gas emissions (use of recyclable materials, the widespread use of more eco-friendly packaging, etc.);
- reduce environmental impacts through the adoption of pragmatic initiatives: efforts to reduce packaging weight and purchase of eco-friendly vehicles.

In 2020 the Group began work on identifying improvement drivers for reducing the carbon footprint of transporting goods, increasing purchases of renewable energies, and raising the awareness of its main suppliers about the importance of CSR.

**Supply Chain Day**

Since 2016, Mersen Brazil has held a "Supply Chain Day" to communicate with its suppliers about what it expects from them.

In 2020, this event – which was held virtually due to the pandemic – brought together 56 companies, and Mersen chose to focus on social and environmental responsibility.

Representatives from Mersen's sales, financial and manufacturing departments were also invited so they could learn more about the Group's global and local sustainability initiatives.

All of the participants were encouraged to take part in the discussions and share best practices with a view to strengthening everyone's buy-in on the topic.

### Commitment to verifying mineral sourcing (conflict minerals)

Mersen had its suppliers confirm that they and their own suppliers comply with the EU Conflict Minerals Regulation and equivalent US legislation (Article 1502 of the Dodd-Frank Act). These regulations aim to help stem the trade in four minerals – tin, tantalum, tungsten and gold – which sometimes finance armed conflict or are mined using forced labor.

The Group's procurement charter sets out the commitments that suppliers have to make concerning the sourcing of tantalum, tin, tungsten and gold (and any other substances that could be added to the list of conflict minerals in the future) used in products they supply to the Group.

## Summary

| Our goals | 2020 | 2021 |
|---|---|---|
| ■ Improve and Secure the social and environmental performance of our supplier base | ■ Charter sent to 1,960 suppliers<br>■ 904 charters signed (i.e., 46% of the total) | ■ Self-assessment of our strategic suppliers, i.e., those representing at least 80% of the value of our materials purchases |

# 2. Developing innovative products that contribute to sustainable development

## Our strategy and our commitments

Mersen operates in highly innovative sectors, including renewable energies, energy efficiency and clean transit, and as such, **invests in finding ways to help the green industry bloom**.

Our solutions contribute to the progress made in photovoltaic solar energy, and to the manufacture of wind turbine generators. We also work with hydro generator manufacturers, and help to **improve the performance and reliability of the equipment and infrastructure** of new forms of urban mass transit and electric vehicles.

For each of the sectors in which we operate, our Group endeavors to develop innovative products to help make development more sustainable. This drive is reflected in our manufacturing and R&D investments and our overall focus on product performance, the lifespan of consumables and production costs.

### In summary:

- R&D and innovation focused on supporting the green industry and combating global warming.
- A recognized player on high-potential markets.
- Significant investment in manufacturing to strengthen a leading position on sustainable development markets.

## Sustainable development markets

### Renewable energies

For many years, Mersen has been working alongside the leading manufacturers in the renewable energy sector. In addition to providing high-performance and sustainable solutions, we help get the energy produced to the customers.

**Solar**: Mersen supports the entire solar cell production process, from polysilicon manufacturing to silicon ingot pulling, and provides electrical protection for the panels. Our solutions optimize performance in terms of photovoltaic yield and energy efficiency.

**Wind:** Mersen is the leading supplier of the wind power sector, both in generator power distribution systems and yaw motors.

**Hydroelectric**: Mersen is the preferred partner for customers across the hydroelectric industry, from turbine manufacturers to power plant operators.

**Energy storage:** Mersen offers electrical component solutions for the protection and monitoring of industrial lithium-ion batteries which are used in the solar and wind energy sectors.

### Electronics

Mersen offers electronics manufacturers comprehensive solutions to cover their insulation, heat recovery or power conversion needs.

**Semiconductors**: Mersen contributes to the development of semiconductors that are increasingly compact and efficient thanks to its offering of premium graphite and insulation felts. The quality and high-precision machining of our materials and coatings actively optimize manufacturing processes.

**Power electronics**: Mersen's solutions help manufacturers better adapt energy generation to needs, and therefore optimize the energy efficiency of their facilities.

### Energy efficiency

Mersen is positioned on markets whose growth is linked to energy efficiency and the energy transition. Our solutions address both production costs, energy consumption of certain processes, and the final performance of products.

**Manufacturing processes**: Mersen provides optimized solutions for the entire high-temperature process industry. We offer a range of high-performance insulation products providing significant energy savings. Other components are also used for speed drives to optimize the output of industrial equipment. For certain process, such as in mining and chemistry, Mersen's offering includes energy-saving and water consumption reducing units thanks to heat-recovery systems.

**LED**: Mersen provides graphite-based solutions and high-performance materials that are critical in the manufacture of LEDs. The increasing use of these particularly long-lasting bulbs has a considerable impact on electricity consumption.

### Clean transportation

Mersen actively supports the development of clean transportation through its solutions that improve the performance and reliability of equipment and infrastructure.

**Rail and urban mass transit:** Mersen provides equipment for rolling stock and infrastructure electrical systems to enhance the reliability and performance of these popular means of transporting both people and goods.

**Hybrid industrial vehicles and light electric vehicles:** Mersen helps car manufacturers meet the challenges of this booming market. Thanks to our expertise in managing direct current in batteries, we are able to offer solutions for battery management and protection.

In 2020, the main sustainable development markets (renewable energies, electronics and green transportation) were stable compared with 2019 – a remarkable achievement in view of the Covid-19 crisis. Conversely, the process industries, chemicals and aeronautics markets contracted sharply. The proportion of sales generated by sustainable development markets was therefore particularly high in 2020.

| Our goals | 2020 | 2021 |
|---|---|---|
| ■ Develop innovative products that contribute to the ecological transition | ■ 56% of sales in sustainable development markets | ■ 55% of sales in sustainable development markets by 2021 (50% in 2018) |

## 3. Developing products with a reduced environmental footprint, from design to recycling

### Our strategy and our commitments

The Group manufactures products and solutions that are mainly made up of:

- artificial graphite, which is an inert natural material without any special impact on the environment, and steel in the Advanced Materials segment;
- ceramic components and recyclable raw materials (copper, aluminum, zinc and silver) in the Electrical Power segment.

Drawing on circular economy principles, Mersen endeavors to **limit the ecological footprint of its products at every stage of their life cycle** – from design through to production, utilization and the end of life process, including recycling.

**In summary:**

- Products and solutions that have little or no impact on our natural environment.
- Every step of a product's life cycle taken into account.
- Identification of recycling opportunities.

## Our initiatives

Mersen relies on several priorities and initiatives throughout the entire product life cycle to reduce the environmental footprint of its products.

### Product design

In order to provide products with a reduced environmental impact, Mersen uses the **bespoke techniques** to design its new manufacturing lines and products. From the initial design phase, this approach factors in a product's environmental impact throughout its entire life cycle.

**Technology watch:** trained in eco-design, the R&D teams at Mersen integrate environmental impact reduction targets into the specifications of new products.

**Monitoring and measuring impacts:** Mersen uses a suite of tools to monitor and measure the impact of its products in real conditions. The Electrical Power segment uses EIME (Environmental Improvement Made Easy) software **for analyzing products' environmental impact** (water and air pollution, depletion of natural resources, etc.) **at each stage of their life cycle**. When it comes to choice of raw materials, packaging weight, assembly steps, waste volumes and recycling, the software ensures the traceability of existing lines while providing a basis for comparison when developing future product lines.

**Eco-sustainable redesign to cost:** Mersen Group has been developing this approach based on the functional analysis of products. It is intended to replace or reduce the proportion of certain components or raw materials, substituting others that are more environmentally sound without affecting product functionality. This approach will be systematically applied to new products.

In line with this, in 2019 the Group launched the next generation of Modulostar fuse holders, a flagship Mersen product. The product has been redesigned to reduce its environmental footprint without affecting its functionality.

### Recycling end-of-life products

The products that Mersen sells are integrated into complex systems by its customers, most of which are OEMs (Original Equipment Manufacturers). Consequently, it is generally our customers who take the decision to recycle those products, based on their own recycling procedures, and the Group acts as a long-term partner in the overall recycling process.

The Group's products can be split into two main categories:

- Electronic products, which may be subject to the E.U.'s WEEE directive and are recycled via programs organized by the OEMs.

  For example:

  - Schneider Electric makes it easier for its customers to recycle its products (and in turn the Mersen fuses included in those products) by offering, on a country-by-country basis, a product collection and waste treatment service.
  - ABB provides its customers with recycling support and instructions.

- Graphite-based products, because graphite powder and waste is used for making artificial graphite, graphite recycling forms part of a virtuous circle.

  For example:

  - The Suhl facility in Germany has created a program with one of its customers to recover all of the customer's unused scrap graphite. Some 3.5 tonnes of graphite was recovered in this way in 2020.
  - Some wind turbine brushes are made from silver. One of the Group's customers in Germany returns its used brushes and, depending on the weight of silver recovered, gets a number of new brushes free of charge.

# Reduce the environmental footprint of our manufacturing sites

Mersen is **committed to reducing the environmental impact of its manufacturing sites.** We have pledged to make no compromises when it comes to environmental issues, irrespective of the commercial and financial implications. Over and above complying with the applicable environmental regulations, we have pledged to minimize the footprint of all our production facilities and to ensure that each one preserves its communities and environment.

Our environmental strategy is based on regulatory compliance, responsible use of resources, consideration of climate change, control of all types of emissions, and waste reduction.

### In summary:

- Compliance with environmental regulations.
- Responsible use of resources.
- Consideration of climate change.
- Reduction of emissions and waste.

## 1. Organization: the management system and role of our stakeholders

Created in 2019, Mersen's **environmental management system** (EMS) sets out the organization and framework of the principles put in place at all of the Group's sites. It is based on a written commitment made by the Executive Committee and shared with all employees, and a dedicated system that includes the following components:

- organization, objectives and steering committees;
- compliance with applicable regulations, operational control and emergency procedures;
- using resources responsibly (materials and components, water and energy);
- consideration of climate change caused by greenhouse gas emissions;
- other emissions polluting air, soil and water, and waste.

The **HSE Committee:** comprising the Chief Executive Officer, the Human Resources Department, the Operational Excellence Department and the heads of both the Group's segments. This committee meets monthly and is tasked with overseeing all of Mersen's actions and indicators relating to health, safety and the environment.

The **Group Health and Safety, Environment and Industrial Risks position:** this position is reporting to the Operational Excellence Department, which is responsible for implementing the Group's environmental program across all of its manufacturing sites.

**Site Managers:** Site managers are responsible for implementing an environmental management system that is effective, compliant with regulations and adapted to the local activity. They must appoint an environmental manager to oversee initiatives and report to the Group's Health and Safety, Environment and Industrial Risks Manager.

**Environmental site managers:** Environmental site managers are in charge of monitoring site action plans, coordinating activities and evaluating progress.

**Local Environmental Correspondents:** Local environmental correspondents are in charge of monitoring regulatory developments in their respective operating regions (Europe, North America and China) and report their findings to the Executive Committee twice a year.

### Environmentally-aware employees

Since 2018, the Group has stepped up the environmental training it gives to its employees. This training drive was continued in 2020, although the number of sessions decreased by 7% compared with 2019 due to the Covid-19 pandemic. Also in 2020, the "Discover Safety & Environment by Mersen" module – which explains the Group's health, safety and environmental procedures – was extensively reworked and now includes a compulsory individual online training program for all employees comprising videos, presentations and quizzes. Altogether, this program represents 2,206 hours of training, split into 1,654 hours on health and safety and 552 hours on the environment.

| Environmental training hours | 2020 | 2019 | Difference |
|---|---|---|---|
| Hours | 6,390 | 6,840 | -6.6% |

**ISO 14001 certification:** At end-2020, 40% of the Group's sites of the environmental scope had obtained ISO 14001 certification – the recognized global standard for environmental management systems – compared with 39% in 2019.

## 2. Environmental compliance and investment

Compliance with environmental laws and regulations is the foundation of the environmental management system.

**Compliance with environmental regulations:** Mersen identifies environmental legislation at both local and national levels, including permits and authorizations, codes applicable to the Group and voluntary measures, and then shares them across all of its manufacturing sites. For each manufacturing site, Mersen ensures that site management's action plan takes these requirements into account, the potential impacts are analyzed and updated information is shared with site employees and throughout the Group.

Mersen identifies the impacts that changes in environmental regulations will have on each of its sites and applies a forward-looking approach to decision-making. The Group is a member of the European Carbon and Graphite Association (ECGA), which contributes to dialog with European institutions on matters affecting the graphite industry.

**Directive 2010/75/EU of November 24, 2010, the Industrial Emissions Directive (IED):** four of our sites in France (Amiens, Gennevilliers and Pagny-Sur-Moselle) and the United Kingdom (Holytown) are affected by this regulation. Adopted in 2010, it aims to prevent and reduce air, water and soil pollution caused by industrial facilities by relying on the Best Available Techniques (BAT). These sites were contacted by their respective regulatory authorities for a review of their operations on the basis of the best available techniques.

**Directive 2012/18/EU of July 4, 2012, known as the Seveso 3 directive:** none of our European sites are subject to this regulation.

**Regulation (EC) No 1907/2006 – Registration, Evaluation, Authorisation and Restriction of CHemicals (REACH),** which Mersen complies with. This regulation makes manufacturers responsible for assessing and managing the risks associated with the chemicals they use. Since 2010, the Group has registered several products that make up graphite (primarily resins) and felt. Coal tar pitch is considered to be an intermediary product in the manufacturing processes and is excluded from the REACH registration as it is untraceable in the graphite end product. At the May 31, 2018 deadline to register chemicals representing an annual quantity of between 1 and 100 tonnes, the Group did not report any chemicals meeting this criterion.

**Operational control and emergency procedure:** operations identified as having significant environmental impacts, legal requirements and environmental objectives were listed for each site. The most complex operations are managed using documented procedures.

Employees receive regular information on the Group's environmental commitments and environmental management system as well as on their own role in meeting the system's requirements. They are trained on appropriate procedures and are also required to understand the possible consequences of failure to comply. Since 2017, Mersen has systematically carried out an environmental audit when purchasing or selling industrial real estate.

Despite Mersen's best efforts, it is impossible to totally rule out the possibility of an environmental incident or other emergency situation arising. An appropriate response and the development of emergency procedures, can reduce injury rates, prevent or minimize environmental impacts, protect lives and minimize the loss of assets.

The Group performs an environmental impact assessment (EIA) at the outset of all significant capital expenditure projects in order to evaluate the potential environmental consequences of the project and anticipate any environmental risks. For example, in 2020 it carried out an EIA for the project to design equipment for reducing sulfur dioxide emissions at its plant in Pagny-sur-Moselle in France. This EIA – which was presented to the regulatory authorities – included, among other things, information about the project's carbon footprint (amount of capex, energy used, purchases of consumables, waste).

Mersen makes some of the investments in areas related to the environment, such as:

- compliance with environmental regulations;
- reduction of water and energy consumption;
- improvement in the rate of waste recycling and recovery;
- renewal of operating licenses and authorizations.

For the first time in this report, the Group has separated out environmental investments from investments related to health and safety. In 2020, Mersen devoted €1.6 million to environmental measures.

At December 31, 2020, the amount of environmental risk provisions totaled €4.8 million, unchanged from end-2019. They mainly comprised €3.7 million for the Columbia site in Tennessee in the United States, and €1.0 million for the leased site in Saint-Loup-de-Naud, France. Operations at the Columbia site were stopped by its previous owner in 2015 and the site was acquired by Mersen in 2019. At the time of the acquisition, an environmental audit was carried out (without soil or groundwater sampling), following which Mersen decided to set aside a provision for pollution risks. No environmental incidents occurred at the site in 2020. A minor risk of pollution was identified at the Saint-Loup-de-Naud site as a result of industrial practices carried out there before it was part of the Group. After performing on-site surveys, Mersen recorded a provision for soil decontamination and has now obtained the required permits from the relevant authorities to begin the decontamination works as from 2021.

In 2020, the Group received four minor notifications from environmental authorities.

| Environmental expenditure in €m | 2020 | 2019 |
|---|---|---|
| Environmental investments | 1.6 | N/A |
| Provisions for environmental risks | 4.8 | 4.8 |
| Fines for non-compliance with environmental regulations | 0 | 0 |
| Notifications from environmental authorities (number) | 4 | 0 |

# 3. Use of resources

The Group is committed to using resources – including energy, water and raw materials – in a responsible and sustainable way. To this end, since 2018 it has deployed a system at all of its manufacturing sites to measure its consumption of resources per local production unit, starting with the most resource-hungry sites. Having put in place intensity indicators, the sites are currently in the process of developing suitable action plans that do not impact production volumes.

## Responsible energy use

The Group's two main sources of energy are natural gas and electricity. The largest use of these resources is by the Advanced Materials segment's graphite and felt manufacturing sites. Both of these types of energy are notably used in high-temperature furnaces.

In 2020, the Group updated its method for measuring greenhouse gas emissions (see the "Climate change" section below). Details on the proportion of renewable energy used by the Group are therefore now provided in the report on greenhouse gas emissions rather than in this chapter of the Universal Registration Document.

25% of the environmental initiatives carried out in 2019 and 2020 related to energy consumption and were mostly focused on the energy efficiency of manufacturing processes. For example, the installation of a new brazing furnace at the Shanghai Songjiang facility in China led to a 40% reduction in electricity consumption per production unit. At Bommasandra in India, hydraulic actuators have been replaced with electric versions, enabling the plant to drastically decrease electricity consumption thanks to smaller engines. At Pagny-sur-Moselle in France, using thermal insulation on the weak points of a gas heating system for the site's impregnation tanks led to a 15% decrease in energy consumption per production unit.

In 2020, the Group's total energy consumption fell 12.5% year on year to 360.6 GWh, reflecting the 10.8% decrease in sales. The energy intensity ratio improved again in 2020, down 1.9% thanks to the aforementioned projects carried out at production facilities.

| Energy in GWh | 2020 | 2019 | Difference |
|---|---|---|---|
| Electricity purchased | 204.5 | 229.0 | -10.7% |
| Natural gas | 151.6 | 176.9 | -14.3% |
| Liquefied petroleum gas (LPG) | 2.0 | 3.1 | -34.0% |
| Fuel oil, propane, butane | 2.4 | 3.1 | -23.8% |
| **TOTAL** | **360.6** | **412.2** | **-12.5%** |
| **Energy intensity in GWh/€m of sales** | | | |
| *Energy intensity ratio* | *0.426* | *0.434* | *-1.9%* |

## Water consumption

The Group uses water primarily to cool equipment used in heating processes (firing, graphitization and impregnation of graphite), ensuring water quality before disposal. The table on water consumption below includes a breakdown of the sources of the water used by the Group in 2020.

19% of the environmental initiatives carried out in 2019 and 2020 related to water consumption. For example, the Bommasandra facility installed a wastewater treatment plant and a filtration system enabling water to be reused for sanitation purposes. It also put in place a rainwater and surface water collection system, generating water savings that are particularly useful in a region where the water supply is interrupted relatively frequently.

In 2020, the Group's total water consumption fell 11.5% year on year to 605,128 m3, reflecting the 10.8% decrease in sales. The water consumption intensity ratio was stable compared with 2019 (down 0.7%).

| Water consumption ($m^3$) | 2020 | 2019 | Difference |
|---|---|---|---|
| Total water consumption | 605,128 | 683,478 | -11.5% |
| *o/w sourced from water suppliers* | *482,388* | *N/A* | |
| *o/w sourced from surface water* | *1,145* | *N/A* | |
| *o/w sourced from underground water* | *113,645* | *N/A* | |
| *o/w sourced from seawater* | *0* | *N/A* | |
| *o/w sourced from water produced* | *7,950* | *N/A* | |
| ***Water consumption intensity in $m^3$/€m sales*** | | | |
| *Water consumption intensity ratio* | *714* | *719* | *-0.7%* |

## Raw materials consumption

The Group has drawn up a list of the main raw materials it uses to manufacture its graphite, insulation, copper and aluminum products. However, as the consumption of these raw materials differs from facility to facility, it is not meaningful to calculate an intensity ratio based on raw materials consumption to sales.

**Graphite:** The main raw materials used to manufacture graphite blocks, plates and tubes are pitch, coke and artificial graphite. Some of the residue from manufacturing graphite can be reused without additional processing in other production processes within the Group or by external units. These residues are called by-products.

**Insulation:** The main raw materials used to manufacture insulation products (rigid and flexible felts) are viscose fiber and phenolic resin. These materials have been added to this report in 2020 due to the forecast increase in business volumes in the coming years for this product line.

The consumption of raw materials required to manufacture graphite and insulation products is measured based on volumes of finished products, converted using coefficients based on the product manufacturing recipes.

| Raw materials in tonnes | 2020 | 2019 | Difference |
|---|---|---|---|
| Pitch | 5,564 | 7,314 | -23.9% |
| Coke | 6,021 | 7,720 | -22.0% |
| Artificial graphite | 2,748 | 3,607 | -23.8% |
| Other materials | 478 | 955 | -49.9% |
| Viscose fiber | 429 | N/A | |
| Phenolic resin | 40 | N/A | |

**Copper and aluminum:** copper is an important material used for the manufacture of brushes, fuses, switches and busbars. Aluminum is used in the manufacture of cooling devices and fuses.

| Copper and aluminum in tonnes | 2020 | 2019 | Difference |
|---|---|---|---|
| Copper | 3,694 | 3,825 | -3.4% |
| Aluminum | 1,638 | 1,474 | +11.1% |

The year-on-year increase in aluminum consumption is due to higher demand for cooling devices.

19% of the environmental initiatives carried out in 2019 and 2020 related to consumption of raw materials and components. For example, in 2020 the Shanghai Songjiang facility in China and the Saint-Sylvain-d'Anjou facility in France used specific software for optimizing the positioning of parts in order to reduce the amount of scrap copper resulting from the punching process.

### Use of packaging materials

**Timber and cardboard** are used for outbound logistics to Mersen subsidiaries (transport between entities) and customers. The consumption of these resources is also monitored by the Group.

| Timber and cardboard in tonnes | 2020 | 2019 | Difference |
|---|---|---|---|
| Timber | 2,229 | 2,687 | -17.0% |
| Cardboard | 1,635 | 1,506 | +8.6% |

## 4. Climate change

### Measuring greenhouse gas emissions

Since 2018, Mersen has abided by the **standards for quantifying greenhouse gases** as per the principles of the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI) GHG Protocol: A Corporate Accounting and Reporting Standard. Unless otherwise specified, the Group uses this protocol for all of its definitions, assumptions and calculations.

As defined in the protocol, Mersen uses the control approach (rather than the equity approach) for its Scope 1 and 2 emissions at sites over which it has operational control.

The selected emissions sources for 2020 are as follows:

**SCOPE 1: direct GHG emissions**

- Emissions resulting from the combustion of natural gas, LPG, fuel oil, propane and butane.
- Emissions from company vehicles.
- Direct emissions resulting from graphite and felt production processes, namely the baking and graphitization of blocks, plates and tubes at the St. Marys, Chongqing, Amiens, Pagny-sur-Moselle, Bommasandra, Harbin, Bay City and Holytown sites.
- Emissions from other manufacturing processes were considered negligible.

**SCOPE 2: indirect GHG emissions**

- Emissions resulting from the consumption of purchased electricity.

**SCOPE 3: indirect GHG emissions**

- Emissions related to the procurement of goods and services.
- Emissions related to industrial investments.
- Emissions related to sea, air and road transportation.
- Emissions related to business travel and commuting.
- Emissions related to waste.
- Emissions related to the use and end-of-life processes of products are excluded because Mersen's products are integrated into its customers' systems.

The emission factors used are taken from the carbon data base published by the ADEME (France's national environmental and energy management agency). In line with the commitment it made in 2019, in 2020 the Group carried out an analysis to identify the most relevant emission factors related to the purchase of graphite and felt raw materials.

The business data used includes data for the manufacturing sites for Scopes 1 and 2 and central data for Scope 3. As defined in the GHG Protocol, data for the 2019 base year was recalculated in 2020 to take into account changes in methods and in the scope of reporting:

- all emission factors relating to energy, apart from electricity, were updated using the ADEME carbon data base;
- the emission factors relating to the purchase of graphite raw materials have been identified, which are more relevant than those for steel that were used in 2019;
- the Malonno site acquired in 2019 was not included in the emissions reporting scope in 2019. Its data has been added for 2019 and 2020;
- the emissions of joint ventures that were calculated separately in 2019 have been eliminated because they are already included in Scopes 1, 2 and 3;
- newly-acquired sites (Maulburg): the 2019 Scope 1 and 2 emissions have been added;
- transferred production activities (Yueqing to Changxing, Frankfurt to Amiens): no changes have been made to the 2019 Scope 1 and 2 emissions.

| GHG emissions in tonnes of $CO_2$ equivalent | 2020 | 2019 | Difference |
|---|---|---|---|
| Direct emissions from burning gas and oil fuel | 38,312 | 45,572 | -16% |
| Direct emissions from company cars | 1,174 | 1,368 | -14% |
| Direct industrial process emissions | 13,095 | 16,778 | -22% |
| **Scope 1 emissions subtotal** | **52,581** | **63,718** | **-17%** |
| Indirect emissions related to electricity consumption | 93,915 | 112,275 | -16% |
| **Scope 2 emissions subtotal** | **93,915** | **112,275** | **-16%** |
| Indirect emissions related to the purchase of goods and services | 74,968 | 100,985 | -26% |
| Emissions related to capital expenditure | 43,331 | 40,600 | +7% |
| Indirect emissions related to sea, air and road transportation | 14,946 | 39,013 | -62% |
| Emissions related to business travel | 1,589 | 5,646 | -72% |
| Emissions related to commuting | 3,625 | 3,986 | -9% |
| Emissions related to waste | 4,229 | 4,478 | -6% |
| **Scope 3 emissions subtotal** | **142,687** | **194,708*** | **-27%** |
| **TOTAL EMISSIONS** | **289,184** | **370,700*** | **-22%** |

** The Scope 3 emissions disclosed in 2019 include 2018 data.*

## Reducing Mersen's impact

In the face of climate change and global warming, the Group is committed to reducing the carbon footprint of its manufacturing sites, and has set two main strategic focuses for achieving this objective:

- Coordinating and developing on a cross-business unit basis to improve manufacturing processes and reduce greenhouse gas emissions.
- Controlling certain Scope 3 emissions in order to reduce their impact.

At the beginning of 2021, the Group communicated an **objective of a 20% reduction in its greenhouse gas emissions intensity** by 2025 compared to 2018.

The HSE Committee monitors the implementation of mid- and long-term actions in this area at its monthly meetings.

In 2020, Scope 1 and 2 emissions decreased by 17% and 16% respectively compared with 2019. More than 90% of these emissions are generated by the operations of the Advanced Materials segment that use energy-consuming processes. The sales and tonnage of sites that manufacture semi-finished graphite and felt products contracted during 2020, in correlation with the decrease in the segment's production volumes.

**Measures to reduce indirect emissions related to the purchase of electricity** were launched during the year, with the start-up of two power purchase agreements (PPAs) with renewable energy certificates at Holytown in the UK and Boonton in the USA. In 2020, emissions related to the purchase of electricity totaled 96,953 $tCO_2$ using a location-based calculation taking into account the emission factors of the average mix of each country concerned. Using a market-based calculation, taking into account emission factors related to PPAs with renewable energy certificates, the figure was 93,915 $tCO_2$. In 2021, the Group plans to continue to seek out opportunities for putting in place similar PPAs for all its sites that have significant Scope 2 emissions.

Other energy efficiency projects were also carried during the year at a large number of sites (see the "Responsible energy use" section above), as part of the Group's ongoing drive to raise employee awareness and increase their engagement concerning the impact of energy on its carbon footprint.

In 2020, Scope 3 emissions were 27% lower than in 2019. The most significant differences can be analyzed as follows:

- Emissions related to purchases of goods, transportation, business travel and commuting decreased due to lower business volumes caused by the pandemic. Business levels fell sharply in 2020 for significant periods that varied country by country.
- Emissions related to capital expenditure rose 7% year on year in line with the increase in the corresponding budget.

**Impact of climate change on operations:** In 2018, Mersen undertook to identify the main risks related to climate-change factors near its production sites including flooding, heatwaves, freezing temperatures, hurricanes and storms, and disruptions to water supply.

In line with this commitment, in 2021 the Group will perform a more in-depth assessment of these risks and will draw up an appropriate response plan wherever necessary. The assessment will particularly focus on sites located in water-stressed regions.

**Impact of transportation:**

Emissions generated by the transportation of materials and goods by sea, air and road amounted to 14,946 tonnes of $CO_2$ equivalent in 2020 versus 39,013 tonnes in 2018. Transportation volumes were not representative in 2020, given the slump in business levels caused by the Covid-19 crisis. The proportion of air freight was much lower, which impacted total emissions. The Group has set up an information system with its transportation providers that gives information on $CO_2$ emissions as well as data for each business in tonnes/km or monetary units. This system – which is being used in particular with a number of air freight providers – has enabled the Group to lay the foundations for setting up a monitoring process and subsequently creating an overall management system for its transportation operations.

# 5. Emissions and waste

Air, soil, and water polluting emissions and waste from our facilities have been identified as an environmental challenge for minimizing our manufacturing sites' impact on the environment. Reducing them is both a regulatory requirement and an environmental performance goal.

## Emissions

**Air: to preserve air quality** around its sites, Mersen intends to systematically measure the level of atmospheric emissions (gas and particulate) and implement the appropriate solutions to limit each type of emission.

Our **gas emissions** are essentially due to pyrolysis of raw materials to obtain graphite. These processes include gas emission processing systems to eliminate toxic products, sulfur dioxide ($SO_2$) and volatile organic compounds (VOCs). Such systems capture an average minimum of 95% of these pollutants. Nine sites emit $SO_x$ and $NO_x$ and these sites closely monitor their emissions and comply with local regulatory requirements.

**Particulate emissions** are due primarily to processes for crushing raw materials and manufacturing graphite products as well as the silication used in fuse manufacturing processes. Each process includes a system to filter and capture particulates.

**Soil and water:** in agreement with local regulatory authorities, the Group closely monitors the risks associated with soil and water pollution by its facilities. To this end, certain sites have installed piezometers to monitor groundwater. Since 2017, Mersen has also strengthened its environmental auditing procedure for acquisitions by systematically measuring existing soil and groundwater pollution levels.

## Waste and recycling

Even though the waste generated by the Group's activities are negligible compared to other industries, Mersen has set itself a target to reduce its waste and increase the rate of waste recycling and recovery. Since 2018, each manufacturing site has categorized its waste by type and end use (by-products, recycling, recovery or landfill). By-products are undesirable production residues introduced into external units without additional processing. This includes graphite dust, and graphite and copper scraps. By-products are included in the recycling rate.

In 2018, the Group set itself the objective of **increasing its waste recycling rate by 15 points over three years, i.e., an improvement from 46% to 61% between 2018 and 2021**.

In 2020, the recycling rate was 60%, representing a 7-point increase compared to 2019.

The Group has made particular progress in recycling the residues from manufacturing graphite products, notably increasing the quantities of graphite waste and dust sent to the steel industry for use as additives.

Metal waste has also been transferred to the smelting sector for reuse.

| **Industrial waste in tonnes** *(% of total)* | **2020** | **2019** | **Difference** |
|---|---|---|---|
| Waste | 15,728 | 19,192 | -18.0% |
| *o/w hazardous waste* | *1,725 (11%)* | *2,524 (13%)* | -31.7% |
| *o/w recycled waste and by-products* | *9,487 (60%)* | *10,265 (53%)* | -7.6% |

### Reuse of graphite dust

*Artificial graphite is an inevitable by-product of graphite processes. It results from the dust that is produced when machining blocks and from the offcuts when machining parts from a large block. Because it is too fine to be used in a finished product, the dust is recovered and reused in the manufacturing process, thus significantly reducing purchases of this material.*

## Our goals

- Reduce the environmental footprint of production sites

## 2020

- 14-point increase in the recycling rate for industrial waste (including by-products) compared to 2018

## 2021

- 15-point increase in the recycling rate for industrial waste (including by-products) compared to 2018

# The Group's foundation: Human capital

## 1. A collaboration-oriented Group culture

### Our strategy and our commitments

The men and women at Mersen are at the heart of the Group's culture. Mersen strives to empower employees, develop local leadership and to promote equality between men and women in all roles and across segments. The approach is adapted to each country with due respect for local specificities and cultures.

**In summary:**

- A proactive approach to diversity and equal opportunities.
- Unifying values shared by all employees.
- A strong Group culture that respects the specificities of local cultures.

**The four main pillars of our Human Resources Roadmap**

*In 2020, Mersen drew up its new strategic HR Roadmap for 2021 to 2025, based on four main pillars which comprise programs and objectives related to "Human Capital". Each of these programs is led by one or more members of the Executive Committee and is aimed at strengthening the promotion of a corporate culture whereby people are the bedrock of the Group and its business development.*

*The four major programs are focused on:*

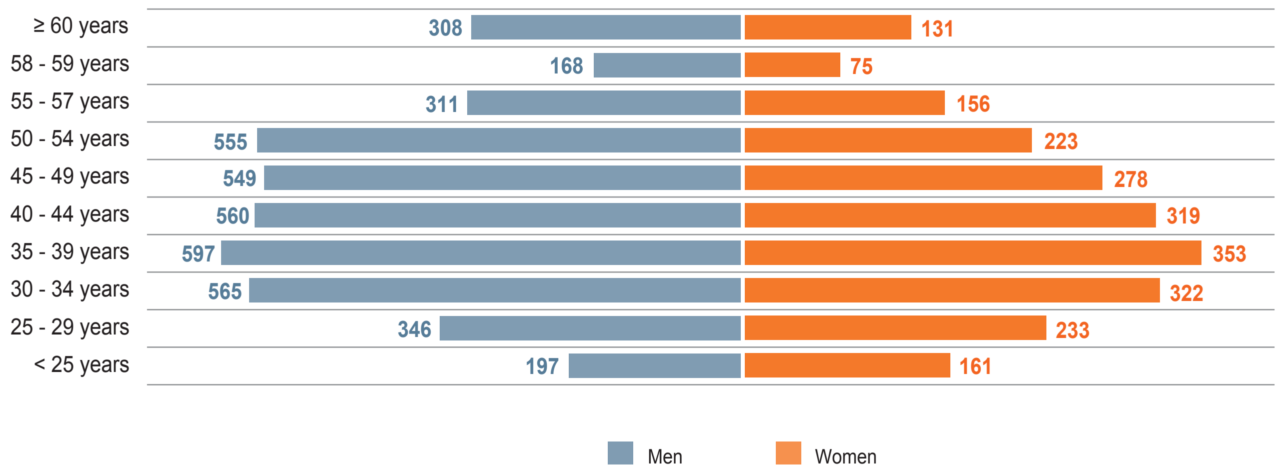
- *Affirming Mersen's identity*
- *Being a learning organization*
- *Enhancing the employee experience*
- *HR excellence & support*

### Workforce mapping

| Workforce | 2020 | | 2019 | Difference |
|---|---|---|---|---|
| Europe | 2,374 | 37% | 2,411 | (37) |
| *o/w France* | *1,333* | *21%* | *1,364* | *(31)* |
| North America (including Mexico) | 1,950 | 30% | 2,033 | (83) |
| Asia-Pacific | 1,588 | 25% | 1,796 | (208) |
| Rest of the world | 522 | 8% | 564 | (42) |
| **TOTAL** | **6,434** | | **6,804** | **(370)** |

| Workforce | 2020 | | 2019 | Difference |
|---|---|---|---|---|
| Engineers and managers | 1,525 | 24% | 1,592 | (67) |
| Technicians and supervisors | 1,384 | 21% | 1,366 | 18 |
| Employees | 236 | 4% | 307 | (71) |
| Operators | 3,289 | 51% | 3,539 | (250) |
| **TOTAL** | **6,434** | | **6,804** | **(370)** |

The age pyramid is well balanced with the average age of Group employees being 42.3. Senior staff (over 55 years of age) represent 18% of the total workforce.




| Workforce | 2020 |
|---|---|
| Permanent work contracts | 5,129 |
| Fixed-term work contracts | 1,305 |
| **TOTAL** | **6,434** |
| Temporary contracts (average annual FTE) | 499 |

These figures do not include people on work-study placements, interns and apprentices, of which there are approximately 100 in the Group.

## Movements during the year

| Workforce, end of 2019 | 6,804 |
|---|---|
| Scope | +44 |
| Hires* | +1,514 |
| Terminations* | -222 |
| Other departures* | -1,865 |
| Adjustments | -159 |
| **WORKFORCE, END OF 2020** | **6,434** |

** HRIS scope*

Hires in 2020 mainly concerned Mexico, which accounted for 57% of the Group's total hires and 33% of "Other departures". Mersen has a high staff turnover rate in Mexico as the local labor force is very volatile. This is also the case for some sites in China.

Terminations mainly concerned the United States (37%) and Mexico (25%).

The voluntary turnover rate – calculated as the average of new arrivals and voluntary departures during the year divided by the average annual workforce – was 7.5% (excluding Mexico and China).

The overall turnover rate – calculated as the average of new arrivals and all departures during the year divided by the average annual workforce – was 11.9% (excluding Mexico and China).

The overall departure rate – calculated as the total number of departures during the year divided by the average annual workforce – was 14.0% (excluding Mexico and China).

The absenteeism rate was 4.4% vs. 3.3% in 2019. This increase was due to absences related to the pandemic.

## Initiatives

### Values shared by all

**Excellence, Collaboration, People-conscious, Agility & Entrepreneurial spirit and Partnering with our customers**: these five values defined in 2016 are the result of a joint effort involving managers and the human resources community. They are the cornerstones of a Group culture that is strong, recognized and appealing because of the level of trust and responsibility given to employees.

Starting in 2016, information workshops were organized across Mersen sites to build employee buy-in for these values. A subsequent survey conducted globally was intended to **compare these values with those encountered by staff** on a daily basis, as well as with those they aspire to for Mersen's future. This survey gave the Group both a local and global vision, enabling it to define indicators for each site (human potential success rate, pride in belonging, alignment with values, alignment with duties, engagement rate, quality of action plans), together with action plans. The new survey conducted in 2020 confirmed this vision and revealed a rise in the human potential success rate.

#### In summary:

- The human potential success rate was 83% in 2016, 85% in 2018, and 87% in 2020.
- In 2018, 89% of employees stated they were proud to be part of the Group, and in 2020 the figure was 91%.

### New recruit integration program

To allow every new recruit to quickly find their feet and take ownership of the Group culture, Mersen developed the mandatory integration program called "I Become Mersen". It starts on the first day on the job: the new recruit is given a **welcome booklet and kit** containing all the information he or she needs to learn about the Group. The program is then adapted to the profile of each new recruit. In 2020, a new platform called "My Employee Experience" was created, which is accessible via the Group intranet and gives all new employees the possibility of learning everything they need to know about the key moments to expect within the Group, both in their daily work and their overall career.

Mentors (known as "buddies") may be appointed for new employees depending on their site and position, and everyone joining the Group is required to follow a number of **in-house training sessions**. This training is given either face-to-face or via e-learning, and includes modules on health and safety, training on the Group's Code of Ethics, etc.

Engineers and managers are offered specific training courses (such as on project management and the Group's management framework) as well as a **two-day induction seminar** called the "New Comers Event". At this event, participants are given presentations about the Group and its different businesses as well as tours of manufacturing sites to show them how issues such as health and safety and operational excellence work in practice. These seminars could not be held in 2020 due to the Covid-19 restrictions. Work is currently under way on reviewing their format and the plan is to start them up again as from 2021 with more use of virtual platforms.

Mersen also implemented a specific integration program, "We Become Mersen", for **new employees joining the Group as part of an acquisition**. The adapted program focuses on human, social and cultural aspects.

#### In summary:

- A mandatory integration program called "I Become Mersen".
- Training on safety and the Group Code of Ethics for all.
- A seminar dedicated to engineers and managers called the "New Comers Event", organized in all the regions in which Mersen operates (America, Europe and Asia). Due to the current health situation, all or some of this seminar will be held virtually as from 2021.
- Adaptation of the program "We Become Mersen" for acquisitions.

### Diversity: collaboration based on respecting local cultures and combating all forms of discrimination

Present in 35 countries and on four continents, Mersen has made the diversity of its teams' origins, training, cultures and ways of thinking one of its quintessential strengths.

Diversity has formed part of the Mersen Group's values and HR strategy for a long time now as we believe that having a wide variety of profiles is a real asset and a performance driver. This very diversity is what drives collaboration between our teams and sparks our creativity so that we can understand the needs of our customers around the world better.

We firmly believe that promoting diversity will have a profound and positive impact on our organizations and business.

**Mutual respect, the recognition of the intrinsic value of each individual** whatever their origin, and **combating all forms of discrimination** are key aspects of our corporate culture. Human Resources strives to ensure equal opportunities at every level, while maintaining and strengthening the multi-disciplinary capabilities of teams.

In 2020, an anti-harassment policy was published at Group level and supplemented locally in some areas in line with the applicable laws and regulations. For example, in France a charter was drawn up on preventing and managing moral and sexual harassment and sexist behavior. This charter notably sets out the process to follow for handling any employee complaints.

As a member of the United Nations Global Compact, Mersen is committed to eliminating all forms of discrimination in employment and occupation around the world. We also defend this cause within various organizations and regularly discuss best practices with other companies.

**Success and close relationships through local management**: while Mersen enjoys strong corporate culture, it needs to adapt to local cultures to be truly effective. This is why virtually all the Group's sites are run by local managers. This balance of respecting our principles and values and recognizing local realities is what lends substance to the Group's human dimension.

| Industrial plants | 2020 | Sites with a workforce of above 125 | 2019 |
|---|---|---|---|
| Europe excluding France | 15 | 2 | 15 |
| France | 8 | 4 | 8 |
| North America | 14 | 3 | 14 |
| Asia-Pacific | 13 | 3 | 13 |
| Africa and South America | 5 | 2 | 5 |
| **TOTAL** | 55 | 13 | 55 |
| Site managers with local nationality | 92% | | 89% |

## Community involvement

The Group influences local and regional development because it has facilities around the world. It promotes local initiatives implemented by local teams, while also making sure these initiatives comply with the Group's values and Code of Ethics.

Local teams take part in economic (with local partners) and charitable initiatives alike.

- **An active role in competitiveness clusters:** in France, Mersen actively participates in competitiveness clusters, which bring together groups of companies and institutions in a clearly identified geographic area and to focus on a specific topic.
  - Mersen Boostec, located in the Midi-Pyrénées region, belongs to the European ceramics cluster *(Pôle Européen De La Céramique)* and Aerospace Valley (aeronautics, space and embedded systems). The Group also works with PRIMES, a local power mechatronics and energy management innovation platform, and is a member of the European center for innovative procedures (Maison Européenne des Procédés Innovants - MEPI) and the Technacol platform (adhesives engineering).

    In July 2020, two employees took part in sessions for the Webinar WebTechToTarbes event organized by the European Ceramics Cluster and the Tarbes-Lourdes-Pyrénées agglomeration.
  - Mersen Angers is a member of S2E2 (Smart Electricity Cluster), a competitiveness cluster specialized in renewable energy, electricity grids and energy efficiency.
- **Initiatives supporting projects that reflect Group values:** in all the countries where the Group operates, management and staff are involved in charitable work.
  - In South Korea, Japan and Toronto in Canada, the Group offers merit-based scholarships to students.
  - In Brazil, the Group's production facility provides bikes to children and young adults to make it easier for them to get to school or work.
  - In India, Mersen helps fund an organization that provides training to vulnerable young women and a daycare center for employees' children, as well as supporting employees' families by offering access to training that can help them find employment.
  - In China, a group of employees at the Chongqing, Kunshan and Shanghai sites together volunteered a full day of their time to work on a beach clean-up operation in Shanghai.
  - Most of the Group's sites around the world give cash or in-kind donations, or organize collections for local charities (cancer or Alzheimer's research, women's refuges, children's homes, retirement homes, food banks, animal welfare organizations, etc.) and employees from a number of sites volunteer their time together.

### In summary:

- Equal opportunities and combating all forms of discrimination are at the heart of our approach.
- Member of the United Nations Global Compact since 2009.
- Site management entrusted to local managers.
- An involvement in the development of the regions where the Group operates.

## Gender balance: ensuring equality in the workplace at all levels

The Group's primary objective, the **integration of an increasing number of women in all roles** including roles in production, has over many years led to several initiatives in recruitment, professional development, communication, raising manager awareness, compensation, maternity/paternity leave, organizational changes, adaptation of workstations, etc.

| | 2020 | 2019 |
|---|---|---|
| % of women in the Group's workforce | 35 | 35 |
| % of women in senior management positions (on the Executive Committee and the management committees of businesses and support functions) | 20 | 21 |
| % of women engineers and professionals | 24 | 23 |

In 2018, Mersen set itself the target of hiring more women engineers and managers in order to increase female representation in that employee category to at least 25% to 30% by 2022.

Also during 2018, Mersen set up a Group Diversity Committee which meets about four times a year. Four Executive Committee members sits on this committee, with one chairing it, illustrating the importance that Mersen places on diversity. The committee's role is to monitor the progress of the Group's work on diversity, put forward proposals to the Executive Committee, decide on and carry out priority actions for the year, and share and encourage best practices.

The Group's diversity policy and the progress of the actions undertaken are presented and discussed each year at a meeting of the Governance, Appointments and Remuneration Committee, which is one of the Board of Directors' specialized committees. In addition, diversity is one of the four CSR criteria underlying the multi-annual variable compensation of the Group's key executives.

Special attention is given to bottom-up feedback in order to **better identify any problems encountered by women** that hold them back in their professional development, and to better coordinate among the different countries and segments. In 2020, Mersen took part in a research project on gender equality in the workplace created by PWN Lyon and the IDRAC business school, in order to find out more about the extent to which gender inequality still exists and the underlying reasons for it.

Our diversity action plan in 2020 was based on the following four pillars:

**Pillar I: Recruiting more women, especially engineers and professionals**

Each of the four Diversity Committee meetings held in 2020 began with a review of the indicators on changes in the gender balance within the Group's workforce. The proportion of women in the engineers and professionals category – which was the lowest out of all of the employee categories – rose from 22.9% in December 2019 to 24.2% in December 2020, despite the fact that there were fewer hires during the year.

As part of the Group's CSR strategy, and more specifically, the diversity policy for its senior management positions, Mersen has set itself the objective of gradually increasing the proportion of women on its executive and management committees. The target is to increase the proportion of women senior managers from 19.7% at end-2020 to 25% by the end of 2025. More generally, the aim is to gradually align the proportion of women vice presidents within the Group with the overall proportion of women engineers and professionals.

In 2019, the Board of Directors decided that the increase in number of women engineers and professionals would henceforth be one of the underlying performance criteria for the performance shares granted to Group executives and other employees.

Additionally, Mersen's new recruitment guide highlights the gender diversity in our hiring processes and addresses the issue of recruiter prejudice and the need to "seek diversity in candidates". Our aim is to have gender parity on the selection panel for new hires and among short-listed candidates.

**Pillar II: Developing women's careers and giving them greater visibility to encourage internal promotion**

The Group's mentoring program is helping an increasing number of women develop their careers, with 62% of the participants at the most recent session (Europe) being female, compared with 33% at the previous session in 2019 (France).

The Women in Mersen network also offers development opportunities to women and helps give them greater visibility within the Group. The network's most recent face-to-face meetings took place in late 2019 as its members could not meet up physically in 2020 due to the pandemic. Consequently, the network took the innovative step during the year of organizing its very first online meetings.

In line with the Pillar II aim of giving women greater visibility within the Group, the number of women on career committees doubled in 2020. In addition, there are now women representatives in the Group's in-house community of experts – Open Expert.

Lastly, diversity awareness also means respecting women and ensuring they are not subject to any form of discrimination or harassment. The Group once again affirmed its commitment to upholding these principles in July 2020 when it published an Anti-Harassment Policy, supplemented by specific procedures in its different host regions.

**Pillar III: Raising employees' awareness about gender diversity**

On International Women's Day on March 8, 2020, the Diversity Committee launched a challenge aimed at showcasing the best local diversity initiatives involving tangible and visible actions taken by a large number of employees. The challenge proved highly successful and illustrated the deep commitment of Mersen and its teams to diversity.

Also in March 2020, we launched a diversity awareness-raising module on our Learning Management System (LMS) platform. Lasting an hour and available in six languages, this module is compulsory for the Group's managers and supervisors and recommended for all other employees. Its aim is to help them fully realize the advantages and opportunities that having a diverse organization brings.

Over 1,700 managers, supervisors and other employees with access to the LMS platform followed this online training. Group sessions for production staff will also be organized once Covid restrictions are lifted.

Lastly, the diagnostic phase of the Group's employer brand project proved the success of its focus on diversity. Employees are very aware of Mersen's commitment to diversity and they feel that actions taken in this domain should be highlighted even further.

**Pillar IV: Identifying any gender pay gaps and taking measures to close them**

In our salary policy for 2020, we paid particular attention to reducing any gender pay gaps, and going forward we intend to intensify our action in this area. A Group-wide salary assessment was conducted during the year, which showed that on average, pay rises for women employees were higher than for men in 2018, 2019 and 2020 (for 2020, 3% for women versus 2.7% for men).

This assessment was rounded out by specific analyses in some countries, such as in France at the same time as the gender equality index was prepared for publication on March 1, 2020 for each site employing over 50 people, followed by the implementation of progress plans.

Also in 2020, we changed the rules for bonus payments so as not to penalize or discriminate against employees on maternity or paternity leave.

At the Diversity Committee meeting in December 2020, a status report was prepared on the actions taken and the corresponding results. The Committee also determined the priorities for 2021, which will be presented to the members of the Women in Mersen network for their feedback.

Lastly, the Committee has decided to extend the scope of its work to cover disability. A survey will be carried out in early 2021 among the Group's human resources managers in order to establish a status report and draw up recommendations on the issue of disability.

### Integration: a workplace suited to disabled workers

Mersen's disability policy is part of an **overall policy of fostering diversity**. The Group also regularly subcontracts with sheltered work agencies in France (ESAT) and equivalent entities in other countries.

In addition, several specific initiatives were run in a number of countries:

- **France:** a partnership has been entered into with ARPEJEH, a not-for-profit organization supporting educational projects for disabled school-age and university students. Also at Saint Bonnet de Mure, specific training and personalized follow-up measures are provided to disabled employees to help them integrate and build their skill sets (transparent masks for lip reading, a digital tablet so they can transcribe conversations and follow meetings more easily, and the provision of sign-language interpreters on site at meetings and training sessions). In this respect, the site accompanies a hearing-Impaired employee. Comparable initiatives are being carried out on sites in Milan, Italy, and M'Ghira, Tunisia, which works closely with one of Handicap International's local partners.
- **Switzerland:** This site with less than 10 people has an employee with a severe visual impairment.
- **India:** Mersen works with EnAble India to train its staff on how to accommodate and work with disabled colleagues. The site's production units have taken on a number of employees with serious disabilities (8 in 2019 and 13 in 2020).
- **Tunisia:** Having received an award in 2019 from Handicap International for its efforts to facilitate employment for people with disabilities, the M'Ghira site now has six disabled employees, four of whom work on the production side.

45% of the workforce is covered by local or branch collective agreements.

### 10,000 businesses for inclusion and professional development

*In December 2019, Mersen Boostec joined the French Ministry of Labor's "10,000 businesses for inclusion and professional development" (10 000 entreprises pour l'inclusion et l'insertion) plan, which aims to encourage businesses to hire vulnerable workers. In this respect, the site had already committed to organizing a factory visit for young job-seekers, hiring interns from low-income communities and carrying out specific initiatives for people with disabilities (two people were hired in 2019). In 2019, the site also participated in a locally organized initiative aimed at helping people without diplomas be recognized for their skills. This initial experiment was a success, as it introduced Mersen to a highly motivated candidate who was hired under a professional training contract in July after completing a machining internship with the Group.*

### Labor relations: putting the spirit in team spirit

Labor relations is a core component of Mersen's human resources policy. It forms part of a process of **continually seeking a balance between economic and social imperatives** and is adapted to all levels of the Group and in all its countries of operations – giving the utmost respect not only to Mersen's values and ambitions, but also to the local cultures and history of each site.

- **Europe:** Due to the Covid-19 pandemic, meetings with employee representative bodies at French and European level were adapted in 2020 and took place by videoconference, both for the Group Committee and the European Works Council. Mersen's situation and its strategic priorities are discussed at these meetings, which complement existing employee representative consultation and discussion bodies within the Group's companies. In France, yearly meetings are held with each union organization. Also in France, measures to reorganize and adapt staff numbers were negotiated at three sites in 2020, in consultation with the trade unions. The agreed measures were included in agreements providing for the long-term implementation of short-time working or social support programs.
- **United States:** The St. Marys' plant has worked with an external union for many years discussing wages, working and employment conditions, and employee benefits. The unions meet on a regular basis to address issues of common interest in order to ensure alignment with mutual interests. The last contract was signed in 2019 for a term of three years.

- **Canada:** Since its creation in the 1960s, the Mersen Dorion subsidiary has a formal union accreditation by virtue of a contract that is signed every four to five years between Mersen and the union organization, United Food and Commercial Workers (UFCW). The contract covers several areas (wages, profit sharing, working conditions, health and safety, public holidays, etc.) and was renegotiated in 2019 for a further five years, i.e., until 2024.
- **Brazil:** Mersen's staff representative bodies take part in various annual renegotiation discussions (wages, profit sharing, hour bank systems, etc.). Two committees, CIPA (health and safety) and PPR (profit sharing), also regularly oversee the Group's performance. Employees are also convened by General Management four times a year to discuss company strategy, market conditions and the performance of Mersen do Brasil.

### Employment, training, learning: Mersen, partner to schools and universities

Mersen cultivates ties with the schools and universities in all its countries of operation in order to introduce young people to its sectors of activity and operations. As a strong advocate of learning, the Group is actively involved in training the talents of tomorrow by awarding scholarships and welcoming young people at its various sites through work-study contracts, internships or orientation visits. Several initiatives have been run locally to encourage the professional reintegration of people without access to employment.

- **Benelux:** The Schiedam plant is now officially a "learning company", enabling it to attract students who it can then train as operators for its production unit.
- **Great Britain:** The Teesside plant has entered into a partnership with a local university that combines research projects with work-study placements. The Teesside and Holytown teams have two Science, Technology, Engineering and Mathematics (STEM) ambassadors who give presentations in schools and universities. The Holytown plant received an award from the Scottish Engineering Association in 2020 for its continued growth and investment in Scotland, the industries it serves and its dedication to supporting its employees' development.
- **India:** Mersen continued its partnership with Skill India in 2020 and now has 60 Skill India apprentices. This program helps young people gain operational skills over three years while continuing their studies. The site runs a number of initiatives in partnership with schools and universities. These include plant tours, helping students with specific projects, and career counseling for employees' children.

### Mersen machining school

*Created to address the difficulty in recruiting high-precision machining specialists, Mersen's in-house school at the Gennevilliers site offers a seven-month work-study certificate program in partnership with AFORP, a professional training body. Chiefly geared to job seekers, the program is also open to Mersen employees, allowing them to earn an additional qualification. Since the school was first established, 28 external people and six Mersen employees have been trained, including 18 who were hired on permanent contracts. We had to put this program on hold in 2020, however, due to the pandemic.*

| Our goals | 2020 | 2021-2022 |
|---|---|---|
| Develop and retain our expertise through an organization that promotes collective intelligence | 24.2% of women engineers and professionals<br>+4.2 points vs. 2018<br><br>Human potential success rate: 87% | Human potential success rate of 88% (+3 points vs. 2018) by 2021<br><br>25% to 30% women engineers and professionals by 2022 |

## Strengthening internal communication

**MersenONE** is one of the Group's digital transformation programs. It is Mersen's first in-house communication media. Launched in 2020, its main aim is to provide a simple and agile environment for improving how each Mersen employee can connect, collaborate and communicate to help drive our Group's development.

### A culture of agility

In view of the Covid crisis that hit all of the Group's host countries in 2020, the number of people working remotely increased from a few dozen to almost all of its engineers, managers and office employees during the period from March to June. This new working organization was successfully rolled out, despite the difficult context.

The Group then assessed whether it was necessary to issue guidelines on the implementation, organization and deployment of remote working in normal business conditions. Following this assessment, a Group Remote Working Charter was prepared and published in early October, which has been supplemented by local charters in some countries (Canada, the United States, France and Mexico).

# 2. Encourage skills development

## Our strategy and our commitments

Mersen operates in extremely complex and highly competitive sectors and owes much of its success to the **expertise of its teams and skills of its employees.** To retain its talent and attract new talent while adapting to the technical and technological developments of its markets, the Group established a human resources policy focused on continuing professional development. This is a forward-looking approach to employment that allows Mersen to make the necessary changes to maintain its reputation as a leader.

### In summary:

- A proactive policy for continuing professional development.
- Supporting the professional development of employees in order to retain them and help them to continue to grow.
- A deep transformation of the management culture.
- A desire to attract new talent in order to continue to adapt to changes in the market and build on the expertise of the teams to continue to offer high-quality products.

### Training

| | 2020 | 2019 |
|---|---|---|
| **Total number of training hours** | **69,999** | **88,665** |
| *o/w Mersen Academy* | *22,707* | *14,901* |
| **Average number of hours per employee** | | |
| Group | 10.9 | 13.7 |
| *o/w Mersen Academy* | *8.6* | *4.7* |
| *o/w France* | *9.1* | *14.8* |
| **Spending on training as a % of total payroll costs** | | |
| Group | 0.9 | 1.1 |
| France | 0.8 | 1.7 |

*HRIS scope*

### Mersen Academy objectives

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

## Our initiatives

### Project management and cross-business coordination: a shared method

Whether acquisitions, industrial adjustments or major investments, Mersen carries out major projects throughout the year. The successful execution of these complex projects relies on the use of a **shared management method**, the Global Project Standard (GPS).

In 2015, the methodology was revised by a working group comprising operational employees from the various business lines and project management experts. Group training and deployment methods were also reviewed.

**E-learning:** An e-learning module on the GPS method is used to familiarize employees with the broad guidelines and methods. It has been mandatory for new engineers and managers since 2016 and can be rounded out with in-depth classroom training given by in-house experts. In 2018, this training was complemented by role-playing exercises. In 2020, a project was launched to change the role-plays to a virtual format, in view of the pandemic and in order to offer an alternative solution to entirely face-to-face learning.

**Ambassadors:** Thirteen ambassadors in charge of providing methodological support to the project teams were certified by the business segments and the Company's principal operating regions. They ensure that the GPS culture is applied and respected across the Group, assist and train project managers and their teams, and answer any queries they may have.

### Open Manager: increasing quality of management

Faced with a changing, fast-moving world, Mersen has chosen to adapt its management culture through its Open Manager framework. Open Manager sets out the **management behaviors that are expected** throughout the Group management structure for corporate executives, middle managers and supervisors. It is broken down into five areas: Working with Everyone, Communicating and Making Sense, Motivating and Developing Employees, Building the Future, and Achieving and Raising Standards.

**Identification of skills:** Going forward, the decision to assign an individual to a management position will be based on the new managerial skills identified. The Group has decided to combine the internal promotion approach with external hires in key roles such as expertise area executives, business managers and product line managers.

**Training:** Mersen launched its "Management Fundamentals" training course in 2018 aimed at the Group's entire open management community. The purpose was to revisit the fundamental practices that all Open Managers need to apply in order to lead their teams effectively on a daily basis. At end-2020, over 600 Open Managers had received in-house certification since this training course was launched. During 2020, the course was changed to virtual classes, enabling the Group to continue towards its objective of giving all of the Group's Open Managers this training by the end of 2021.

**Personal development:** Group senior management has access to a personalized development program. It uses 360° and Hogan-type assessments to draw up a development plan with the help of an executive coach.

## Career development: opportunities for every profile

Mersen's global dimension provides employees with genuine career development opportunities. The Group has demonstrated its desire to encourage exchanges between its various segments and geographic areas **by prioritizing mobility and the international diversity of managers**. This international mobility policy is underpinned by a desire to develop local talents and recognize skills wherever they may be. This approach allows Mersen to encourage responsiveness to customers and foster growth and innovation.

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

**Evaluations:** Individual evaluations are held for senior managers or other experienced managers who are expected to be promoted to a key management position in the short term. The aim is to check the suitability of the potential promotion and draw up a personalized development plan, which will also help employees succeed in their new role. Since 2018, evaluations for emerging talent have also been organized.

## Managing human resources for the future

While the Group is preparing its future by identifying the skills it will need to ensure its growth going forward, employees also need to be aware of likely changes in their jobs so that they can **actively improve their own skills set**.

To this end, each business performs a forecast of the skills it will need in the medium term, based on strategic workforce planning and in step with its priorities and those of the Group. This analysis is consolidated at the Group level, based on Mersen's benchmark job framework.

**Group job map:** Updated annually, it identifies and describes, for each of the 11 job fields (sales, marketing, business, R&D, production, production support, sourcing, information systems, human resources/safety/general services, finance and legal affairs, and business process owners), the 106 Group benchmark jobs shared by all segments. This job map, along with challenges, specificities and associated skills, is used to increase the effectiveness of the Group's HR policies (hiring, mobility, training, etc.) and narrow down the types of skills in demand during the hiring phase.

## Open Expert: Mersen's community of experts

To ensure the Group's development, and in particular to strengthen its technological excellence, Mersen set up **an expertise career path called "Open Expert"**, in parallel with its management path. It includes experts chosen for their key expertise in the Group's strategic business lines, as well as for certain behavioral skills.

These specialists are volunteers who, in addition to their expertise, are especially skilled in **sharing know-how** and galvanizing their colleagues to **help move the Group forward**. Three levels have been defined (experts, senior experts, executive experts) and 23 Open Experts had been appointed by end-2020, forming the foundation of a community dedicated to spreading the Group's culture of expertise.

## Knowledge transfer: preparing for retirement

**Planning ahead for departures linked to demographic trends in the Group's workforce** is instrumental to the Group's human resource planning policy and is closely monitored in all countries. This includes training young people and keeping more senior employees on, often by appointing them as mentors to build bridges between generations and encourage skills transfer.

**Hiring, integrating and training young people**: In France, despite the expiry of the *Contrat de Génération* action plan, Mersen has upheld its commitment to hire young people on fixed-term contracts while maintaining positions for senior employees.

**Retirement**: All employees likely to retire within two to five years are eligible for an interview regarding their experience. Known as an "experience interview", the objective is to review the departing employee's knowledge and key skills, and arrange a transfer of these skills. The interview also serves to adapt the final phase of each employee's career to ensure it remains interesting and as useful as possible. Managers are eligible to receive training on how to prepare for these interviews that contribute to improving succession planning.

**Mentoring:** Highly-motivated employees with expertise in a key area for the Group may be asked to become expert tutors. This kind of mentoring ensures the proper transmission of professional knowledge, which concerns everyone including experienced managers, engineers, technicians and operators.

## Tools for supporting and managing teams better

Mersen offers its managers a **range of tools to help with managing teams and providing personalized support to every employee**.

**Annual evaluation:** The annual evaluation is a key element of the skill development process and is an ideal opportunity for discussion between employees and their direct manager. In addition to measuring individual performance and setting new targets, the evaluation is also an opportunity to assess current and upcoming skills development. If necessary, a mid-year evaluation can be held in addition to the annual evaluation.

To ensure the success of the annual evaluations, Mersen has developed application in its Human Resources Information System (HRIS) that includes online forms. Managers around the world can familiarize themselves with these annual evaluations via training on the Mersen Academy platform.

### Reminder: HRIS objectives

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

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

**Key findings report:** Since 2018, at certain sites every new employee prepares a key findings report after their first three months. This is part of the Group's continuous improvement process and is an opportunity to assess employees' level of integration, and receive any questions and feedback. The information is then used by each site to further develop their own continuous improvement programs.

**Continuing education:** Mersen has been expanding access to its e-learning platform for its employees since 2013, and over 3,000 employees worldwide now have access to the platform.

In addition to general training and customized vocational training, the online training platform, Mersen Academy helps develop the skills of the Group's employees and support their professional development. The Group also promotes qualifying training programs via joint qualification certificates in its business areas, such as metallurgy and chemistry, as well as training leading to a certifies with KEDGE business school. It also gives access to mandatory Compliance, Safety, Environment and Ethics training. In 2020, more Open Managers obtained certification under the "Management Fundamentals" program, bringing the total to over 600 worldwide since the program's launch in 2018, and several new training courses were opened on Mersen Academy.

Three new continuing education modules represented 7,237 hours of training in 2020 (accounting for 29% of the total):

- "Sales Fundamentals" (an introduction to the training program for sales employees provided as part of the Sales Academy, also launched in 2020).
- "Health, Safety and the Environment at Mersen", a compulsory training module which has recently been updated.
- "Communicating with Impact".

In all, 24,946 hours of training were logged on Mersen Academy in 2020, representing a 67% increase compared with 2019. There was a particularly sharp increase in demand for training during the first wave of the pandemic in spring 2020. In order to meet employees' new training needs, the Group has created a series of courses that can be accessed by all Mersen Academy users, including modules on remote working best practices and remote team management.

**Exit interviews:** In 2018, Mersen introduced specific interviews for employees who choose to leave the Group in order to better understand their reasons and get an overview of their career with Mersen. These interviews aim to identify any potential issues and implement the appropriate action in order to better retain talent.

| Our goals | 2020 | 2021 |
| --- | --- | --- |
| Accelerate managerial transformation thanks to the "Open Manager" training program | 620 Open Managers trained (69%), including 124 in 2020 | All Open Managers having completed the Open Manager programs |

# 3. A motivating compensation policy

## Employee compensation policy

The compensation policy implemented by the Group includes a multitude of measures for employee motivation and satisfaction. Distinction is made between direct compensation, which is money paid to employees, and non-monetary compensation, which comprises welfare benefits.

The compensation components set out below are being gradually put in place in all of the Group's host countries and subsidiaries with the aim of achieving overall consistency wherever the applicable legislation and financial resources allow.

Direct compensation is composed of the following:

- Basic salary: the fixed amount of compensation that corresponds to the position occupied. A basic salary must be competitive and fair, both within the Group and in relation to market practices. Mersen ensures that salaries attract and retain as many employees as possible. Competitiveness surveys make it possible to analyze, on an annual basis, salary competitiveness in a particular market. Mersen also ensures that the salary paid meets the needs of its beneficiary.
- Annual bonus: paid to eligible employees for group and individual performance and based on annual targets, whose composition and achievement criteria are reviewed annually.
- Profit-sharing: mandatory in France under profit-sharing legislation and supplemented by incentive agreements in each of Mersen's French subsidiaries. Profit-sharing is also offered to employees in a large number of Mersen's host countries. In 2020, 39% of Mersen employees around the world received a bonus under a profit-sharing scheme.

The welfare benefits offered by the Group, aside from legal and obligatory benefits, are as follows:

- Health care: the Group covers, either directly or by means of contributions paid to an insurer, all or part of the health care costs incurred by employees. Under most of these plans, employees also contribute to the costs. In 2020, 26 Group companies required employee contributions to their health care plans and 16 fully financed their plans.
- Benefits plan: ensures the continued payment of the employee's salary in the event of a long-term illness. In the case of disability, the benefits plan provides employees with an income or lump sum to compensate their loss of income. In addition, some plans provide for the payment of a lump sum to beneficiaries in the event of an employee's death. The employer funds all or part of the plan; in the latter case the employee also contributes to the costs. In China, the plans are fully funded by the Group. In all, the proportion of sites that fully fund their plans is almost the same as the proportion that require employee contributions.
- Retirement: Mersen, with the participation of employees in some cases, contributes to retirement plans which complement compulsory schemes. These additional retirement plans are increasingly defined contribution plans. To the extent possible, Mersen seeks to maintain the replacement rate (i.e., pension paid as a percentage of the last salary received before retirement) for future generations. If necessary, Mersen offers to set up a supplementary retirement plan. For example, in 2020, the Group's subsidiaries in Germany set up a supplementary retirement plan funded both by employer and employee contributions and employer top-up contributions when the employee makes a voluntary contribution. A supplementary retirement plan is also being looked at for the Group's Spanish subsidiaries for 2021.

## Changes in direct compensation in 2020

**Basic salaries**

At Mersen, an employee's basic salary, which is a core component of their compensation, is reviewed yearly. Budgets for salary increases take into account the needs expressed by each entity and particularly factor in the annual inflation of living costs. In 2020, the average rise compared with 2019 was 3% for the Group as a whole, with most of the increases taking place at the beginning of the year.

**Yearly bonus**

The yearly bonus, which is a major component of variable compensation, consists of three schemes, each of which corresponds to a specific employee category. The first is for Group executives (114 beneficiaries in December 2020) and the second is for engineers and managers (534 beneficiaries). Lastly, members of the sales force (368 beneficiaries) are on a bonus scheme, with 70% of the bonus based on the achievement of individual objectives. If annual sales targets are exceeded, this maximum rate may be increased. The ratio for exceeding the maximum rate for individual objectives, calculated on a criterion-by-criterion basis, can reach 2.15, i.e., more than 150% of the total bonus.

As of 2017, Mersen has added a collective objective that is common to all bonus schemes. This objective is the Group's operating margin before non-recurring items. Its weighting is identical, irrespective of the type of bonus, i.e., 30% of the total bonus. The objective to be achieved with regard to the operating margin before non-recurring items is set yearly. If this objective is exceeded, an additional amount is paid to all employees who are eligible for a bonus scheme. This supplementary amount ranges from 1 to 1.4 times the maximum rate allocated to the operating margin before non-recurring items, i.e., at most 42% of the total bonus.

In addition to Mersen's bonus schemes, some countries implement variable compensation schemes that are open to some or all employees. These schemes correspond either to local bonus or profit-sharing schemes. In particular, local bonus schemes are in place in some of Mersen's Chinese and Indian facilities (deferred bonus plans).

**Profit-sharing**

Apart from France, profit-sharing is implemented in a number of other countries, such as Australia, Canada, Italy, Mexico, Spain, Turkey, the United Kingdom and the United States, through profit-sharing schemes. These schemes cover either all employees or those who are not covered by the Mersen bonus scheme. In China, Mersen decided to gradually implement a profit-sharing system as of 2019. The first Chinese site to have a profitsharing scheme was Shanghai-Fengxian, followed by Chongqing in 2020.

## Diversity of the welfare benefits offered

The welfare benefits offered to Mersen employees cover various areas, such as health care, benefits and pension plans.

At 69 of its subsidiaries, Mersen offers the following supplementary schemes:

- Healthcare: 45 subsidiaries
- Benefits: 30 subsidiaries
- Retirement: 43 subsidiaries

When there are several subsidiaries in one country, the same range of supplementary welfare benefits is generally offered by all of them in order to create a consistent framework. This was the case, for example, in France (in 2012 for the supplementary healthcare scheme and 2016 for the benefit scheme), and in the United States (where separate healthcare schemes were combined into one in 2015). Whenever a new scheme is set up, such as the healthcare and benefits scheme created in 2014 in China, it is offered from the outset to all of the subsidiaries in the country concerned.

## Compensation issues in the challenging year of 2020

The Mersen Group has been heavily impacted by the Covid-19 pandemic, which spread to the rest of the world as from spring 2020.

Mersen's approach from then has been based on a combination of protection, agility and solidarity.

**Protection and Recognition**

Mersen has taken particular care to ensure that its lowest-paid employees are protected. For example, in France, or employees whose monthly gross pre-pandemic salary was less than €2,500, the Group maintained their basic monthly net salary whenever the short-time and furlough schemes provided for in the collective bargaining agreements did not cover the full amount of the net monthly salary.

In the United States, the Group used short-time working and furlough schemes, with Mersen keeping in place its employee healthcare plans.

In Italy, the Malonno site topped up salaries in accordance with a salary maintenance agreement signed on March 23, 2020.

In Bangalore (India) and at the Group's Chinese sites that had to close due to Covid-19, salaries were maintained, with Mersen topping up the government aid received. This was also the case at the Juarez site in Mexico at the beginning of the crisis. At the El Jadida site in Morocco, salaries were maintained at 80% of their pre-Covid levels.

The dedication of the Group's production teams during the first lockdown periods was particularly remarkable. Consequently, in France and Germany the Group awarded bonuses to non-managerial employees in recognition of this dedication, drawing on governmental support programs set up in view of the crisis.

**Agility and Rigor**

Mersen decided not to revise its annual objectives for 2020 and kept the same collective and individual targets for employees on the bonus scheme.

Wherever possible, employees were encouraged to take any outstanding leave, which meant less need to use short-time working or furlough schemes.

**Solidarity**

The Group's management bodies showed solidarity with employees who were financially affected by lockdown measures. In addition, the fixed compensation of the Chairman and the Chief Executive Officer was reduced by 25% for a period of six months.

Similarly, the Group's executives and managers waived their allocation of free shares, which was originally planned for May 2020. The resolution providing for the authorization of these free share plans was therefore removed from the resolutions put forward at the May 2020 Annual General Meeting.

Lastly, the Board of Directors decided that no dividends would be paid to the Company's shareholders for 2019.

# 4. Health and safety: a constant priority

## Our strategy and our commitments

Mersen **pledges to provide the best possible work environment for the well-being, health and safety of all its employees. We make no comprises when it comes to health and safety**, whatever the commercial and financial implications. Because we are convinced that all accidents can be avoided and every risk preempted, we have made the quest for health and safety excellence in the workplace a constant priority.

Faced with the global health crisis that hit in early 2020, our health and safety culture facilitated the application of the recommendations and guidelines issued by the relevant health authorities in each of our host countries. At the same time, we were able to ensure supplies of personal protective equipment thanks to our sites supporting each other right from the start of the pandemic. All of the sites made it their priority to protect the health and safety of their people, keeping them constantly informed and updated about the situation.

Our health and safety strategy is underpinned by the commitment of our managers to deploying a preventive approach at their sites. This entails:

- Ensuring employees are aware of the risks and hazards they may face and carrying out risk and hazard assessments on a regular basis and each time there is a change in working organization.
- Providing regular training to employees on health and safety and collective and personal protective measures.
- Ensuring that both managerial and non-managerial employees report on and analyze any incidents.

Prevention and health and safety performance measurement are making progress in the workplace over time.

### In summary:

- Management commitment to health and safety.
- Risk and hazard assessments carried out by employees.
- Regular training on health and safety rules and procedures.
- Incident reporting and analysis by managerial and non-managerial employees.

## Our initiatives

The Group's health and safety program is underpinned by a proactive approach in the workplace in order to identify and eliminate any hazards that could cause injury or otherwise harm people's health. It is built on the full knowledge and understanding of data, transparency, and continuous improvement.

### Organization: The management system and the roles of stakeholders

The **health and safety management system** corresponds to a set of guidelines and procedures implemented at all of the Group's sites.

It is based on a written commitment made by the Executive Committee and shared with all employees, and a dedicated system that includes the following components:

- Organization, objectives and steering committees.
- Engagement from managers, health and safety indicators, and the annual prevention plan.
- Risk assessments, compliance with regulations, sub-contractors' prevention plans and health protection.
- Golden rules on safety.
- Program awareness, training tailored to different sites and roles and an emergency evacuation procedure.
- Observations, safety visits and audits.
- Analyses of incidents and potentially dangerous events.

As is the case every year, the system was comprehensively assessed in 2020 and no new elements or major changes to existing elements were identified. The assessment revealed areas for improvement, however, which were addressed during the year, including via training on Management Safety Visits and Risk Assessments.

The **HSE Committee** comprises the Chief Executive Officer, the Human Resources Department, the Operational Excellence Department and the heads of both the Group's segments. The Committee oversees all environmental and health and safety actions and indicators at Mersen and meets on a monthly basis.

**The Group's Health and Safety, Environment and Industrial Risks function:** this is part of the Operational Excellence Department, which is responsible for implementing the Group's health and safety program across all industrial sites.

**Mersen site managers** are responsible for implementing a safety management system that is effective, compliant with regulations and adapted to the local activity. Site managers must appoint a Health and Safety manager to oversee these actions and who reports functionally to the Health and Safety, Environment and Industrial Risks function.

**Site health and safety managers** are in charge of site action plans, coordinating activities and measuring progress. In 2020, 77% of sites had a Health and Safety Manager, compared with 73% in 2019 and 70% in 2018.

**Regional health and safety coordinators** (for Northern Europe, Southern Europe, China, India and North America) conduct cross-audits within their scope, where a Health and Safety Manager from one manufacturing site reviews how the safety management system is implemented at another site. These coordinators also monitor regulatory developments in their respective operating regions.

**The Safety Council** is made up of the Operational Excellence Department staff, Industrial Directors from each Business Unit and the Regional Health and Safety Coordinators. Its role is to implement and maintain the health and safety management system at all sites and organize health and safety audits.

**Audits:** Each year, the Executive Committee draws up a program of corporate audits for the Group's different sites. These are carried out by the Health and Safety, Environment and Industrial Risks function and are in addition to the cross-audits. The Group's objective is for each site to undergo an annual audit.

The audit program was halted in 2020 due to the travel bans imposed by Mersen. Some cross-audits were able to be carried out in certain countries at certain times, but the percentage of total sites audited was not material compared with the 75% figure in 2019.

| Health and Safety audits | 2020 | 2019 |
|---|---|---|
| Percentage of total Group sites subject to corporate audits and cross-audits | N/A | 75% |

**OHSAS 18001 or ISO 45001 certification:** At end-2020, 33% of the Group's sites had OHSAS 18001 or ISO 45001 certification, the recognized global standards for environmental management systems, up from 29% in 2019.

## A health and safety culture built on transparency and performance

Mersen's health and safety policy owes its effectiveness to **the transparency and performance expected of all the people working on its sites, be they managers or other employees, temporary staff or sub-contractors.** The Group has developed an open culture of reporting on all of its health and safety data, which enables it to carry out increasingly robust analyses and therefore continue to learn and improve.

Safety performance indicators have included temporary staff in accident rates since 2011 and sub-contractors since 2019.

The frequency rate of occupational accidents with or without lost time (Lost Time Injury Rate, or LTIR, and Total Recordable Incident Rate, or TRIR) measures the number of reported accidents per million hours worked, and the Severity Injury Rate measures the number of days of lost time per million hours worked.

In 2018, the Group set itself targets for 2021 of an LTIR lower or equal to 1.40 and an ISR lower or equal to 60.

| Rate of accidents per million hours worked (employees, temporary staff and sub-contractors) | 2020 | 2019 |
|---|---|---|
| Lost Time Injury Rate (LTIR) | 1.54 | 1.41 |
| Total Recordable Incident Rate (TRIR) | 3.08 | 3.37 |
| Severity Injury Rate (SIR) of occupational accidents | 64 | 64 |
| Fatal accidents (employees, temporary staff and sub-contractors) | 0 | 0 |
| Number of accidents with serious consequences (> 6 months' lost time) (employees, temporary staff and sub-contractors) | 2 | 2 |

| Rate of accidents per million hours worked (temporary staff and sub-contractors) | 2020 | 2019 |
|---|---|---|
| Lost Time Injury Rate (LTIR) | 2.58 | 3.39 |
| Total Recordable Incident Rate (TRIR) | 4.14 | 5.93 |
| Severity Injury Rate (SIR) of occupational accidents | 90 | 124 |
| Fatal accidents (temporary staff and sub-contractors) | 0 | 0 |
| Number of accidents with serious consequences (> 6 months' lost time) (temporary staff and sub-contractors) | 1 | 0 |

**Training:** Mersen firmly believes that competences and understanding are the foundations of its Health and Safety program. In 2020, 46,011 hours of training/awareness-raising sessions were delivered, covering compliance and other topics and translated into local languages. Training courses are designed and kept up to date centrally and/or locally, depending on the subject matter. Mersen also recognizes that face-to-face learning is not the only way to gain knowledge and ability. We believe that access to training through other methods available today, such as online learning, is an essential component of the program and we intend to develop those methods further.

In 2020, the "Discover Safety & Environment by Mersen" module – which explains the Group's health, safety and environmental culture and procedures – was extensively reworked and now includes a compulsory individual online training program for all employees, comprising videos, presentations and quizzes. Altogether, this online program represented 2,206 hours of training in 2020 split out into 1,654 hours on health and safety and 552 hours on the environment.

The overall number of training hours decreased by 12% in 2020 compared with 2019 due to the impact of the pandemic, although all compliance-related training was maintained.

| Health and safety training/awareness-raising | 2020 | 2019 |
|---|---|---|
| Hours | 46,011 | 52,115 |

**Risk assessment and management safety visits:** Mersen's approach to health and safety also involves identifying and assessing hazards and risks through the systematic implementation of a number of tasks and procedures. The most important of these are (i) annually updating a Risks Assessment document for each site, and (ii) carrying out Job Hazard Analyses (JHA). At end-2020, 98% of the Group's manufacturing sites had updated their Risks Assessment within the previous 12 months (97% in 2019).

Management Safety Visits, or MSVs, are an important element of the Group's prevention toolkit as they are aimed at seeing how employees work on the ground and opening up dialog with them to identify any hazardous acts or conditions. In 80% of cases, immediate corrective action can be taken to remedy any problems identified during MSVs. Mersen's aim is to **increase the number of its sites by 15% between 2018 and 2021 (4,750 in 2021 versus 4,124 in 2018)**. In 2020, the Group pursued its MSV training program for the members of the manufacturing sites' management committees, although it was significantly slowed down due to Covid-19 restrictions. This program will be continued in 2021 and managers carrying out the visits will be given top-up training every three years. In 2020, the number of MSVs was stable compared with 2019 (edging down just 1.4%) and was **10.9% higher than in 2018.** These figures demonstrate the resilience of the manufacturing sites' teams in the difficult conditions caused by the Covid-19 crisis.

| Management Safety Visits (MSV) | 2020 | 2019 | 2018 |
|---|---|---|---|
| Number of safety visits | 4,573 | 4,639 | 4,124 |
| *% change compared with 2018* | *+10.9%* | *+12.5%* | |

**Awareness-raising**: Mersen is a keen proponent of raising its employees' awareness and sharing best practices between sites. A "health and safety week" is held every year at nearly all of its manufacturing sites. These awareness-raising events contribute to fostering a culture of safety and feature themed workshops and guest speakers (emergency services, ergonomics experts and health professionals) and are a great success with employees. Other than safety in the workplace, health, food hygiene and the risk of domestic accidents are also addressed.

In addition, the Group's Health and Safety function organizes events in conjunction with the Business Units' Industrial Departments where best practices are shared by the sites, the regional coordinators and the Group.

**Safety Awards:** Mersen gives out awards to manufacturing sites that have logged a record number of days without lost-time accidents. At the end of 2020, the results were as follows:

- 2 sites with more than 4,000 days;
- 3 sites with more than 3,000 days and less than 4,000 days
- 9 sites with more than 2,000 days and less than 3,000 days
- 15 sites with more than 1,000 days and less than 2,000 days
- 14 sites with more than 500 days and less than 1,000 days

## Covid-19: new biological/infectious/epidemic risks

The effects of the Covid-19 pandemic severely disrupted the Group's working procedures throughout 2020. All of Mersen's sites, with no exceptions, applied the rules and recommendations issued by the governmental and health authorities. Faced with a shortage of PPE in some countries at the start of the pandemic, the Group organized an inter-site support system so that face masks could be transferred from one region to another, and two central PPE inventory points were set up in Europe and North America. Working organization was altered in line with Covid-19 restrictions and home working was put in place, with a home-working health and safety booklet provided to all employees concerned.

At the same time, the Group was attentive about continuing its risk prevention measures for non-Covid risks related to its manufacturing sites' operations. In particular, it continued to develop its health protection policy – which was updated in 2019 – based on the following areas:

- Chemicals.
- Noise and dust.
- Workstation ergonomics.
- Medical supervision of workers, in particular symptoms of stress and musculoskeletal disorders (MSDs).
- Preventing chemical risks: All products and substances that come on to Mersen's manufacturing sites are authorized and monitored by the site's Health and Safety Managers. Risk assessments are requested regularly from both internal and external medical services. Periodic air quality checks are conducted in line with legal requirements and the information is then included in the risk assessments. The Group is pursuing its education and training efforts on exposure to polycyclic aromatic hydrocarbons (PAHs) at sites that manufacture graphite products.

- **Noise and dust:** The Group constantly strives to protect employees and local residents from noise caused by machinery and transportation. First and foremost, we make sure we comply with the applicable regulations in our host countries, and we constantly seek to eliminate sources of noise or take protective measures where this is not possible. Noise sources are measured and analyzed to determine sound levels. Depending on local restrictions, sound levels are measured as far as the site's boundaries and surroundings if it is located near a residential neighborhood.

  Dust is primarily emitted during the processes to transform graphite and to fill fuses with sand. Graphite dust collection systems are monitored closely in line with regulations under a priority preventive maintenance program.
- **Workstation ergonomics:** MSD prevention and load carrying rules are two priority focuses to improve ergonomics. Multidisciplinary working groups have been formed to adapt workstations, with the help of ergonomics experts at some sites.

**Occupational illnesses**

The scope is limited to France due to a wide variety of definitions for occupational illness across the Group's host countries. Occupational illnesses within the Group mainly concern musculoskeletal disorders.

| Occupational diseases | 2020 | 2019 |
|---|---|---|
| Deaths due to a recognized occupational illness | 0 | 0 |
| Employees declaring an occupational illness which is recognized by the authorities | 1 | 6 |

## Our goals

- Protecting employee health and safety

## 2020

- 10.9% increase in safety inspections compared to 2018
- LTIR = 1.54
- SIR = 64

## 2021

- Increase the number of safety inspections by 15% from 2018 levels
- Attain a Lost Time Injury Rate (LTIR) of less than or equal to 1.40
- Attain a Severity Injury Rate (SIR) of less than or equal to 60

# Protecting the Group and its reputation

## 1. Ethics and Compliance

### Our strategy and our commitments

Mersen's development is driven by shared and mutual trust with all its stakeholders, be they employees, customers, suppliers, banks or shareholders. This is reflected **through values and ethics that are shared by all its employees** and applied responsibly, on a daily basis at all levels, from site management and human resources to financial transparency, anti-corruption and, of course, an ambitious sustainable development policy.

### Our organization

Set up in 2017, the Ethics and Compliance Department develops and coordinates the Group's ethics and compliance policy effectively and sustainably.

It is tasked with (i) identifying and assessing any risks of non-compliance with laws or regulations which would damage the image, culture or financial stability of the Group, (ii) implementing appropriate procedures and processes to minimize such risks, (iii) informing and raising the awareness of Group employees of the main risks and (iv) managing the "ethics hotline".

It supports the development of the Group's ethics culture and dedicated tools, and ensures that action plans are properly implemented. In the event of an ethical and/or compliance related alert, the Committee is tasked with analyzing the situation and deciding on the measures to be taken. The Ethics and Compliance Department also works with:

- The Human Resources Department to prevent illicit work and harassment, protect whistleblowers, ensure compliance with labor laws and train employees.
- The Legal Department to ensure that regulations are interpreted properly.
- Internal Audit, which takes compliance issues into account in its audit program and guidelines and verifies that the related procedures are properly applied.
- Specialized committees (CSR, MAR, EHS, etc.) that deal with compliance.

A compliance newsletter is issued quarterly to raise awareness about compliance issues throughout the Group. In 2020, the newsletter's main topics included third-party due diligence procedures under France's Sapin II Act and the whistleblowing hotline. A specific communication campaign was also carried out regarding the objectives and use of the whistleblowing hotline.

The Group Vice President for Audit, Risk and Compliance reports on the work of the Ethics and Compliance function to the Audit and Accounts Committee at least once a year. This work is supervised by an Ethics and Compliance Committee comprising the Chief Executive Officer, the Chief Financial Officer, and the Group Vice President for Human Resources.

The role of this Committee is to:

- Guide the Group's Ethics and Compliance function.
- Approve the options proposed.
- Ensure that decisions taken are effectively implemented.
- Analyze and steer measures taken in response to ethics or compliance alerts.

The Committee meets every quarter and whenever necessary following an alert. Once a year, the Committee requests an opinion on the Group's compliance policy from an external firm.

### Our guidelines

The Group has drawn up several charters and procedures to clearly set out its commitments and the applicable rules.

#### Code of Ethics: collective and individual engagement

The Code of Ethics restates the collective and individual commitment of Mersen and its employees to establish and build on mutual trust both within the Group and with all our stakeholders. **It applies to all Mersen employees, irrespective of the country in which they work or their position, as well as to the members of the Board of Directors,** and it formally documents each person's commitment to apply the Group's values.

The Code of Ethics was updated in 2017 and a mandatory online training module was established in 2018 in order to raise staff awareness.

**All employees received training on the Code of Ethics in 2020.**

Mersen's Code of Ethics covers the following areas:

- Relations within the Group.
- Relations with customers, suppliers and competitors.
- Relations with shareholders.
- Asset protection.
- Undertakings as a responsible business.

The full code is available of the Mersen website: https://www.mersen.com/group/ethics.

### Human Rights Policy

Mersen fully supports the values of the United Nations Global Compact, of which it is a member, and notably its principles on human rights and labor standards.

In 2021, the Group rounded out these general principles by drawing up its own “Human Rights Policy” which sets out its commitments in terms of:

- Lawful work, particularly the Group’s zero tolerance policy on child labor and forced labor.
- Freedom of association and the right to collective bargaining.
- Working conditions.
- Equal opportunities.
- Relations with local communities.
- Human resources and governance strategies.

### The Anti-Corruption Code of Conduct: effectively combating corruption

Mersen’s development is driven by shared and mutual trust with all the stakeholders in its ecosystem. This is reflected in the values and business ethics shared by all employees and applied on a daily basis at every level of the organization, as part of a responsible business approach that extends from financial transparency to combating corruption.

Mersen’s Code of Ethics covers various ethics-related topics, including corruption. The Anti-Corruption Code of Conduct presents the rules to be implemented and respected in order to combat corruption at all levels and in all countries where Mersen is present. It is available on the Group’s website.

Its rules cover the following areas:

- Public officials.
- Gifts and hospitality.
- Donations, patronage and sponsorship.
- Facilitation payments.
- Third-party due diligence.
- Conflicts of interest.
- Accounting records and internal controls.

Mersen takes a zero-tolerance approach to corruption and any breaches of the Code therefore result in sanctions.

A training course first implemented in 2018 is given to all employees directly exposed to these issues due to their departments (e.g., sales, procurement, finance) or position (management staff).

In 2020, this training went online via Mersen Academy, the Group’s training platform, and was followed by some 700 people. It is compulsory for all newcomers joining the Group in one of the aforementioned positions that are the most exposed to corruption risks. As from 2021, any employee who fails to follow this training will not be eligible for a bonus.

The Anti-Corruption Code of Conduct was rounded out in 2020 by a practical guide setting out best practices for preventing corruption.

### Third-party due diligence (Sapin II Act)

Mersen has brought its procedures into compliance with France’s Sapin II Act in relation to third-party due diligence.

To this end, the Group developed a tool for performing an initial analysis of new partners (suppliers, customers and agents) worldwide based on three criteria: revenue generated, country and end market. The assessment is based on data published by Transparency International.

If a potential risk is detected in the analysis, more in-depth study is conducted based on data from a recognized independent source.

Information meetings about the tool were held in early 2020, with a practical guide given to participants. A reminder on the procedures to follow was sent out during the year. Over 50% of the Group’s historic third-party partners had been analyzed by end-2020 and the figure will be increased to 100% during 2021.

To date, no major problems have been identified based on these analyses.

### Corruption risk map (Sapin II Act)

Mersen’s corruption risk map – which was first created in 2017 – was updated in 2019 and a related action plan drawn up. One of the main measures in the action plan was to produce a more detailed corruption risk map for the most sensitive geographic areas in which the Group operates.

Consequently, in 2020 a more detailed risk map was drawn up for China and Brazil with the help of an external firm, and the resulting action plan will be followed up in 2021.

More detailed risk maps will also be produced for two other geographic regions in 2021.

### Implementation of the General Data Protection Regulation (GDPR)

The GDPR came into effect in May 2018. It is applicable to citizens of the European Union and aims to increase protection for people whose personal data is processed and to hold those who handle data more accountable.

In 2017, the Group formed a work group to determine the measures required to comply with the regulation. The Group officially appointed a Data Protection Officer in early 2019 to step up the action needed to implement those measures.

The Group has been assisted by a specialized external firm since the beginning of 2019 to ensure its data protection policy is compliant with the GDPR. The firm has also assisted Mersen in developing a roadmap to better structure its actions and cover all relevant topics.

To coordinate the implementation of this approach, the Group draws on a network of local correspondents in its companies located in the European Union. These correspondents have received training to ensure that they fully understand their new responsibilities.

The following specific documents, codes and charters set out different aspects of compliance and practices applicable in all countries:

- Information Systems User Charter.
- Social Media Charter.
- Personal Data Protection Charter.
- Website privacy policy.
- Procedure for exercising GDPR rights.
- In 2020 the following actions were carried out:
- Finalization of the standard data processing register.
- Update of the privacy policy on the Group's website.
- Start-up of the process of integrating GDPR clauses into contracts with the Group's main third-party partners.

Also in 2020, a specialized external firm was commissioned to assess the Group's GDPR compliance processes. This firm concluded that Mersen has met its own GDPR objectives and that its GDPR processes are in line with those of other similar-sized companies. The assessment was presented to the Compliance Committee which then reported on it to the Audit and Accounts Committee.

### Whistleblowing system

A whistleblowing hotline has been available since the end of 2017 to allow any individual who wants to report an issue to the Group to do so safely and anonymously.

A procedure on this hotline and for whistleblowers was completed in 2019. It describes the process for handling reports and the protection measures for whistleblowers. Mersen is committed to ensuring that no disciplinary measures are taken against whistleblowers who act in good faith.

Two channels can be used to report issues:

- For internal staff, a dedicated email address is available: ethics@mersen.com.
- For internal and external stakeholders, a contact form is available on the Group's website.

The Chief Compliance Officer and Group Vice President for Human Resources are authorized to receive these reports and are required to deal with them with due care.

Nine cases were brought to Mersen's attention in 2020, including two through the website. All of the cases were investigated and have since been closed. One of the investigations was conducted with the help of an external firm which had more precise and powerful systems than the Group for analyzing large volumes of data. The other cases were investigated internally, and proven cases of misconduct resulted in disciplinary action and one dismissal.

### Other policies implemented

To meet national and international regulatory requirements, Mersen has in recent years implemented strict procedures on sensitive issues, such as trade embargoes and controls over its exports and the end-users of its products.

Mersen manufactures and delivers some products with sensitive and strategic applications, and must comply with specific regulations, such as dual-use items. In 2020, the Group drew up a practical guide on this area, which was principally distributed to Advanced Materials sites. The Electrical Power segment appears to be less affected by these issues but the Group has nevertheless launched an in-depth analysis on them.

Mersen also has to comply with national regulations on embargoes in the countries where it operates. Due to the extraterritorial application of some laws, especially US legislation, all Group companies may have to comply with certain US regulations (e.g., OFAC regulations with regard to counter terrorism sanctions).

The Group updated its competition law training course in 2019 and it is now available on the Group's e-learning platform, Mersen Academy. The course was taken by 669 people in that year and is compulsory for staff with the highest exposure to the issue. In the same way as for the anti-corruption training, this course is given to all newcomers to the Group who may be affected by questions of competition law. A further 170 people took the course in 2020.

### Policy oversight

The monitoring and implementation of ethics and compliance policies are principally overseen by the Ethics and Compliance Committee, which is described at the beginning of this chapter and assesses progress on the issues within its remit on a quarterly basis. The Committee reports on compliance to the Group's Executive Committee and the Audit and Accounts Committee at least once a year.

As part of its control program, the Internal Audit Department introduced tests in 2019 to ensure that the ethics and compliance policy is effectively implemented and observed. Under the compliance monitoring process, the following points are verified:

- Compliance with embargoes.
- Export controls and compliance with OFAC regulations.
- Gifts, invitations and donations.
- Implementation of ethics and anti-corruption training.
- Conflicts of interest.

**The 2020 projects of the Ethics and Compliance function**

Sapin II Act:

- Extension of the ongoing controls of certain accounting transactions to the Asia region and some North American units.
- Implementation of the third-party due diligence tool across the Group.
- Revision of the Anti-Corruption Code of Conduct with the addition of a "Best Practices" section in order to further strengthen risk prevention.
- Preparation of a corruption risk map for China and Brazil.
- Update of the internal control manual with the addition of a Compliance chapter.

General Data Protection Regulation (GDPR):

- Launch of the process to integrate GDPR clauses into third-party contracts.
- Update of the privacy policy on the Group's website.
- Creation of a checklist of controls to verify that procedures are being properly applied.

Other subjects:

- Publication of a Compliance newsletter to raise Group employees' awareness about various issues, such as third-party due diligence and the whistleblowing hotline.
- Creation of a guide on dual-use items.

# 2. A responsible taxpayer

As an international group operating worldwide, Mersen is keenly aware of the important role that tax plays in countries' economies.

The Group is committed to being exemplary when it comes to tax matters, and takes particular care to comply with all the applicable national and international tax laws and regulations.

Mersen has always sought to build and maintain good relations with the tax authorities and ensures that its business is conducted in a spirit of mutual trust and transparency.

The Group's overall tax policy is designed to be responsible and effective, in line with Mersen's business and strategy, while ensuring legal certainty and safeguarding the Group's reputation. It also helps preserve the value generated for the Group and its shareholders.

In particular, Mersen does not engage in transactions that are purely tax driven or which are artificially structured. It may, however, benefit from tax incentives in some countries that are available to all companies and are therefore not specific to Mersen.

## Tax structure and governance

The Group's Finance Department is responsible for coordinating and managing Mersen's tax situation, backed by the expertise of the Group Tax Department. In this role, the Finance Department makes sure that the most relevant tax options are chosen in full compliance with the applicable laws and regulations. It also ensures that all taxes and provisions for tax risks are properly accounted for in the consolidated financial statements.

The Finance Department reports to the Audit and Accounts Committee on the Group's tax situation and main tax risks at least once a year.

The Group's tax director reports directly to the Group's Chief Legal Officer and on a dotted-line basis to the Chief Financial Officer.

He is responsible for applying the Group's tax policy, especially for cross-border transactions and advising the Group's various companies on tax matters. He also provides specialist tax advice for all acquisition and divestment projects and on any other industrial operations. The tax director can be assisted by external consultants and advisors where required.

## Mersen's geographic locations

At December 31, 2020, no Mersen Group companies were located in (i) a country considered "non-co-operative" by France or the European Union, or (ii) a jurisdiction classified as "non-compliant" in the OECD's tax transparency report.

## Country-by-Country Reporting (CbCR)

In accordance with the applicable laws and regulations, Mersen reports to the French tax authorities on a country-by-country basis.

However, it does not publicly disclose this information for reasons of confidentiality with respect to its main competitors as the CbCR contains sensitive industrial and commercial information that could be used by competitors.

To the best of Mersen's knowledge, at December 31, 2020 none of the Group competitors mentioned in the Universal Registration Document had publicly disclosed its CbCR.

### Variable compensation related to tax performance

None of the performance objectives of the operations or finance staff of the Group's sites or businesses relate reducing the amount of tax paid or recorded in the accounts. The objective based on operation margin before non-recurring items – which applies to everyone who receives variable compensation – is set on a pre-tax basis.

The Group Chief Financial Officer and certain managers from the Group Finance Department may have performance objectives related to the Group's tax rate, in line with the budget, or changes in tax losses in certain countries. Some finance managers are set objectives for improving their performance in terms of tax monitoring or managing tax risks, or related to the documentation process for transfer pricing.

### The Group's effective tax rate (ETR) for the past three years

| | 2018 | 2019 | 2020 |
|---|---|---|---|
| Group ETR | 24% | 23% | 269% |

The Group's ETR primarily reflects the tax rates applicable in the countries where the Group conducts business. The ETR was particularly high in 2020 due to the fact that significant amounts of non-deductible, non-recurring expenses were recorded during the year, as well as impairment losses on deferred tax assets.

### Cross-border transactions

Mersen takes care to ensure that its intra-group transactions comply with the arm's length principle set out in the OECD's Transfer Pricing Guidelines and in the bilateral tax agreements signed by the countries where the Group operates. One of the roles of Mersen's Tax Department is to ensure that this principle is properly applied.

Transfer pricing documentation is prepared for cross-border transactions and provided to the local tax authorities whenever required.

### Tax risks and audits

The Finance Department endeavors to eliminate risks resulting from uncertainties or complexities in interpreting tax laws and regulations, with the assistance of external consultants or advisers where necessary. Mersen places particular importance on rigorously complying with both the letter of the law and the objectives sought by the legislators.

However, given the scale of its operations and the volume of its tax obligations, the Group's tax positions may be contested by the tax authorities due to differences of interpretation. In such cases, the Finance Department is responsible for defending the Group's interests.

The Group carries out tax due diligences whenever it acquires a company but may nevertheless be exposed to unidentified risks.

Mersen is subject to tax audits, which may be carried out in any of its host countries.

The main tax disputes are managed by the Group Tax Department, in conjunction with external consultants or advisers when necessary. The Group's principal tax risks are presented on a regular basis to the Audit and Accounts Committee.

## 3. Protection of information systems

### Our strategy and our commitments

The Group endeavors to protect its information systems from attacks intended to damage its systems or to manipulate, block or steal data through simulated cyber attacks and awareness-building campaigns for all its employees.

The Risk Department is responsible for overseeing information systems security, and specifically (i) ensuring the security of the IT systems and protecting data confidentiality, and (ii) ensuring the security of IT infrastructure and applications to safeguard the continuity of operations.

### Our organization

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

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

The Information Systems Security manager organizes at least two meetings per year with the Risk and Compliance Department, the Chief Financial Officer and the Group Chief Information Officer to review the security of the Group's information systems.

For the last three years, the Information Systems Security manager has reported to the Audit and Accounts Committee on the cyber risks facing the Group and the corresponding policy implemented.

### Our guidelines

Launched in 2013, Mersen's information systems security policy is based on industry best practices and standards, particularly ISO 27001 and NIST SP 800-171.

The underlying objective of the policy is to protect Mersen's data and ensure optimal availability of IT tools and systems, while adapting their level of protection in line with the requirements of the Group's various businesses, and minimizing user constraints to the extent possible.

Each employee has a role to play in safeguarding the Group's IT assets, and Management encourages projects that seek to reduce IT risks in correlation with business-specific risks.

The overall policy is underpinned by an audit manual that lists the main domains to be controlled, as well as technical documents and best practices that are available on the Group's intranet.

The policy evolves over time in line with changes in threats to the Group's information systems security, and is focused on action plans and preventive measures.

IT staff and advanced users have had access to an e-learning module since 2016. Information letters are regularly issued in several languages to keep IT teams and users updated about potential risks and best practices. Specific training sessions are also held on a regular basis.

Risks are identified and monitored based on a regularly updated risk map as well as the findings of audits regularly carried out either on site or remotely.

Immediate security threats can also be identified via real time supervision and the use of indicators.

# Other CSR information

Given the nature of its industrial operations, Mersen does not consider the following themes to be key CSR risks and as such do not justify further development in this report:

- Reduction of food waste.
- The fight against food insecurity, the respect for animal welfare, and responsible, fair and sustainable food.

Regarding biodiversity, Mersen does not consider this subject as a key CSR risk. As part of Reach regulation, tests on graphite were conducted and did not reveal any environmental toxicity. To its knowledge, the other components of its products have little or no impact on biodiversity.

# Our reporting methodology

This chapter contains the social, societal and environmental information required under Article R. 225-105-1 of the French Commercial Code, as amended by order no. 2017-1180 and implementing Decree no. 2017-1265, transposing Directive 2014/95/EU of the European Parliament and Council of October 22, 2014, relative to the publication of non-financial information. Reporting principles are described in a set of guidelines that is updated every year (v34 in 2019).

## 1. Reporting scope

The CSR reporting scope encompasses the companies included in the Group based on the following principles:

- **Standard reporting:** all companies included in the financial consolidation scope.
- **Social reporting:** workforce indicators are published for all companies included within the Group's financial scope of consolidation (except for the "workforce by age" indicator which is only available for companies included in the HR information system - HRIS). All the other indicators that are published only relate to the financial-scope companies included in the HRIS.
- **Social reporting:** all Group industrial and administrative sites.
- **Safety reporting:** all Group industrial sites, except for accident statistics that cover all Group industrial or administrative sites (89).
- **Environmental reporting:** all of the Group's manufacturing sites (59).
- Certain exclusions from the scope of reporting have been defined for certain indicators, such as where local legislation does not permit the reporting of relevant data or where sufficient arrangements for the collection of certain types of data have not yet been made. The summary table at the end of this section sets out the scope covered by each of the indicators.

# 2. Reporting periods

Quantitative indicators are calculated using the following method:

- **Labor data:** for the period from January 1, 2020 to December 31, 2020 (12 months), with figures reported as at December 31, 2020.
- **Health and safety data:** for the period from January 1, 2020 to December 31, 2020, or for companies acquired within the last year, as of the date they were integrated into the Group.
- **Environmental data:** for the period from January 1, 2020 to December 31, 2020, or for companies acquired within the last year, as of the date they were integrated into the Group.

# 3. Data collection

Quantitative information is reported using the indicators described in the dedicated frameworks. These frameworks specify 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.

## 3.1. Labor information

Labor information is collected through the HR information system (HRIS) used in all the Group's consolidated companies, with the exception of a few entities (especially companies recently integrated into the scope of consolidation). For these companies (scope not covered by the HRIS), only the workforce indicator is available.

Once collected and prior to final consolidation, the data submitted by the subsidiaries is verified for consistency on various criteria. Any value or change in value considered suspect is verified with the relevant site, which will be asked to correct or explain the data. If the value cannot be corrected or if the explanation provided is deemed inconclusive, the scope concerned by that value will then be disregarded from the scope of consolidation.

## 3.2. Safety information

Health and safety indicators are collected monthly through the Calame reporting system implemented at all Group companies. Indicators on accidents cover Mersen employees as well as temporary workers and employees from outside companies working at Mersen sites.

Once collected and prior to final consolidation, the data submitted by the subsidiaries is verified for consistency on various criteria. Any value or change in value considered suspect is verified with the relevant site, which will be asked to correct or explain the data.

## 3.3. Environmental information

Environmental indicators are collected annually through the Calame reporting system. Data is entered by EHS managers at each site. Only data on waste is collected on a quarterly basis.

Once collected and prior to final consolidation, the data submitted by the sites is verified for consistency on various criteria. Any value or change in value considered suspect is verified with the relevant site.

## 3.4. Social information

Qualitative indicators are collected annually through a questionnaire sent to all subsidiaries.

# 4. Reporting process participants and their responsibilities

A certain number of employees are involved in implementing the reporting process within the Group and all of its subsidiaries.

There are three levels of responsibility:

- **Corporate responsibility**

  In conjunction with the Human Resources Department (for social information) and the Financial Communications Department (for societal information), the Operational Excellence Department organizes the reporting with the directors of the companies that fall within the scope. To this end, it:

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

- **Group companies' responsibility**

  Data reporting is the responsibility of the manager of each site within the scope. Their role is to:

  - organize data collection at company level by defining responsibilities and ensuring that their compliance with the definitions of indicators;
  - safeguard data traceability;
  - ensure that the reporting schedule is adhered to;
  - check the exhaustiveness and consistency of the data provided and implement the requisite checks and verifications by persons not involved in the collection process.

- **External organization**

  Audit and verification of data were performed in 2020 by an independent third-party organization, in accordance with the implementing Decree of August 9, 2017.

# 5. Notes on methodology

On account of the Group's global presence and some local legislation, indicator data collection methodologies are adapted to certain constraints of the Group.

## Absenteeism

Number of days of absence from work for any reason related to the employee that the employer cannot anticipate: illness, workplace accidents, maternity/paternity leave, strikes and any other unforeseeable absence. Absences related to reduced working time as a result of the Covid-19 pandemic in 2020 are not included in this indicator.

## Accidents with lost time

Bodily or psychological harm or injury that is the sudden consequence of an event that occurred due to or in the course of work-related activity, which has led to treatment by a health professional, and which must be reported to the occupational health and safety authority according to local regulations.

## Lost-time accident

An accident resulting in time off work. An accident affecting several people is recognized as a single accident. Only the causative event is taken into account. The accidents taken into account are those considered to be directly work-related following investigation by the health and safety officers and against which the Group may be able to take preventive action. Certain events, such as non-work-related conditions or commuting accidents, are excluded, even if the relevant authorities have declared them to be workplace accidents. The LTIR (Lost Time Injury Rate), TRIR (Total Recordable Incident Rate) and SIR (Severity Injury Rate) indicators include Mersen employees, temporary workers and external companies.

## Agreement

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

## Total headcount and breakdown by gender, age and geographic area

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

## Employees suffering from an occupational illness (operations in France, i.e., 21% of headcount)

As the concept of occupational illness varies significantly from country to country, this information is provided only for France. An illness is recognized as "occupational" if it appears on one of the tables appended to the French Social Security Code *(Code de sécurité sociale)* or French Rural Code *(Code rural).*

Under certain conditions, illnesses that do not appear on the tables may also be included:

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

## Hiring

Total number of people hired during the fiscal year who meet the definition of headcount described above.

## Training

Administrative sites with fewer than 10 employees are not included in the reporting scope for training indicators.

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 their jobs;
- develop employees' talents and help them acquire new skills.

The following are excluded: required training for the position, information programs, regulatory training, internships and apprenticeships (during education courses). The HRIS model used is based on monthly data collection. As training is not provided systematically on a monthly basis, it is subject to manual reprocessing at the end of the fiscal year.

## Environmental protection training

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

## Managers

Employees are considered to be managers when they hold a managerial function, including engineer, project manager or technical expert, or a team management position, with the exception of first-level management (supervisors). More specifically, the notion of "manager" (based on managing a team) associated with the "Open Manager" training program comprises the "manager" and "supervisor" job categories. The notion of "manager" (based on level of responsibility) associated with workforce indicators, notably gender diversity, includes the "engineer" and "manager" categories.

## Local nationality

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

## Corporate governance bodies

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

## Policy

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

## Environmental, Health and Safety (EHS) Manager

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

## Disabled employees

As the Group is present in a large number of countries, it is subject to the various local laws. It is unable to disclose quantitative information on this subject but provides qualitative information for some countries.

## Senior employees

Over 55 years of age.

## 6. Summary table of non-financial indicators

To help understand Mersen's different indicators, the following table summarizes the list of indicators, their scope and their type (i.e., qualitative or quantitative), and the Global Reporting Initiative standards (2016 version) to which they correspond.

| | Qualitative or quantitative information | Scope* | GRI reference1 | Page |
|---|---|---|---|---|
| **ENVIRONMENT** | | | **204<br>301 to 308** | |
| Organization of the Company to ensure environmental compliance | Qualitative | Standard | | 111 |
| Purchasing policy | Qualitative | Standard | | 107 |
| Sales linked to sustainable development markets | Quantitative | Standard | | 109 |
| ISO 14001 certification rate | Quantitative | Environmental | 307-1 | 111 |
| Hours of training on environmental issues | Quantitative | Environmental | 307-1 | 111 |
| Investments linked to environmental compliance | Qualitative | Standard | 307-1 | 112 |
| Significant provisions for environmental risks | Quantitative | Standard | 307-1 | 112 |
| Fines for non-compliance with environmental laws and/or regulations | Quantitative | Standard | 307-1 | 112 |
| **Energy** | | | | |
| Electricity purchased | Quantitative | Environmental | 302-1 | 113 |
| Natural gas consumption | Quantitative | Environmental | 302-1 | 113 |
| LPG consumption | Quantitative | Environmental | 302-1 | 113 |
| Fuel oil, propane, butane consumption | Quantitative | Environmental | 302-1 | 113 |
| Energy intensity ratio | Quantitative | Environmental | 302-1 | 113 |
| **Water** | | | | |
| Water consumption | Quantitative | Environmental | 303-3 | 113 |
| Water consumption intensity ratio | Quantitative | Environmental | 303-3 | 113 |
| **Raw materials** | | | | |
| Pitch consumption | Quantitative | Environmental | 301-1 | 114 |
| Coke consumption | Quantitative | Environmental | 301-1 | 114 |
| Artificial graphite consumption | Quantitative | Environmental | 301-1 | 114 |
| Viscose fiber consumption | Quantitative | Environmental | 301-1 | 114 |
| Phenolic resin consumption | Quantitative | Environmental | 301-1 | 114 |
| Copper consumption | Quantitative | Environmental | 301-1 | 114 |
| Aluminum consumption | Quantitative | Environmental | 301-1 | 114 |
| **Consumption linked to packaging and logistics** | | | | |
| Wood consumption | Quantitative | Environmental | 301-1 | 114 |
| Cardboard consumption | Quantitative | Environmental | 301-1 | 114 |
| **Greenhouse gases (GHG) emissions** | | | | |
| Scope 1 GHG emissions | Quantitative | Environmental | 305-1 | 115 |
| Scope 2 GHG emissions | Quantitative | Environmental | 305-2 | 115 |
| Scope 3 GHG emissions | Quantitative | Environmental | 305-3 | 115 |
| Reduction in GHG emissions | Qualitative | Environmental | 305-5 | 115 |
| **Waste** | | | | |
| Total waste | Quantitative | Environmental | 306-3 | 116 |
| Hazardous waste | Quantitative | Environmental | 306-3 | 116 |
| Recycled waste and by-products | Quantitative | Environmental | 306-4 | 116 |

** Scope: refer to definitions given in paragraph 1 of the Reporting Methodology*

*(1) In 2020, the Group carried out a comparison of the definitions for its indicators against those used by the GRI (2016 version) in order to allow for the gradual alignment of certain indicators over the medium term.*

| | Qualitative or quantitative information | Scope* | GRI reference1 | Page |
|---|---|---|---|---|
| **HUMAN CAPITAL** | | | **402 404 to 413** | |
| Head count by gender | Quantitative | Standard | 401-1 | 118 |
| Head count by age group | Quantitative | Labor | 401-1 | 118 |
| Head count by region | Quantitative | Standard | 401-1 | 117 |
| Headcount by employee category | Quantitative | Standard | | 117 |
| Headcount by type of contract | Quantitative | Standard | | 118 |
| Number of new hires | Quantitative | Labor | 401-1 | 118 |
| Number of dismissals | Quantitative | Labor | 401-1 | 118 |
| Number of departures | Quantitative | Labor | 401-1 | 118 |
| Employee turnover | Quantitative | Labor | 401-1 | 118 |
| Human potential success rate | Quantitative | Standard | | 123 |
| Absenteeism rate | Quantitative | Labor | | 118 |
| **Diversity** | | | | |
| Diversity and equality policy | Qualitative | Standard | | 120 |
| Disabled employees | Qualitative | Standard | | 122 |
| Percentage of engineers and executives who are women | Quantitative | Standard | 405-1 | 120 |
| Percentage of women on corporate governance bodies | Quantitative | Standard | 405-1 | 120 |
| Percentage of seniors | Quantitative | Labor | 405-1 | 120 |
| Percentage of site managers of local nationality | Quantitative | Standard | | 118 |
| Labor relations | Qualitative | Standard | | 122 |
| **Training and skills development** | | | | |
| Training policies implemented | Qualitative | Labor | | 124 |
| Number of hours of training per employee | Quantitative | Labor | 404-1 | 124 |
| Hours of training as a % of total payroll costs | Quantitative | Labor | | 124 |
| **Remuneration** | | | | |
| Remuneration policy | Qualitative | Labor | | 127 |
| Welfare benefits | Qualitative | Labor | | 128 |
| Changes in remuneration | Quantitative | Labor | | 127 |
| **HEALTH AND SAFETY** | | | **403** | |
| Health and safety policy | Qualitative | Standard | 403-1 | 129 |
| Health and safety audits | Quantitative | Standard | 403-7 | 130 |
| ISO 45001 or OHSAS 18001 certification rate | Quantitative | Standard | 403-3 | 130 |
| Percentage of sites with a dedicated EHS manager | Quantitative | Security | 403-3 | 129 |
| Lost Time Injury Rate (LTIR) | Quantitative | Standard | 403-9 | 130 |
| Total Recordable Incident Rate (TRIR) | Quantitative | Standard | 403-9 | 130 |
| Severity Injury Rate (SIR) | Quantitative | Standard | 403-9 | 130 |
| Hours of health and safety training | Quantitative | Standard | 403-5 | 131 |
| Number of safety inspections | Quantitative | Security | 403-7 | 131 |
| Safety awards | Quantitative | Security | 403-6 | 131 |
| Occupational illnesses | Quantitative | France | 403-10 | 132 |

** Scope: refer to definitions given in paragraph 1 of the Reporting Methodology*

*(1) In 2020, the Group carried out a comparison of the definitions for its indicators against those used by the GRI (2016 version) in order to allow for the gradual alignment of certain indicators over the medium term.*

| | Qualitative or quantitative information | Scope* | GRI reference1 | Page |
|---|---|---|---|---|
| **ETHICS AND COMPLIANCE** | | | **205 to 207, 408-409** | |
| Organization of the Company for ethics and compliance concerns | Qualitative | Standard | 205-206 | 133 |
| Training on ethics code | Quantitative | Standard | 205-2 | 133 |
| Human rights policy | Qualitative | Standard | 408-409 | 134 |
| Measures implemented to prevent corruption | Qualitative | Standard | 205-1 | 134 |
| Personal data protection | Qualitative | Standard | | 135 |
| Competition law | Qualitative | Standard | 206 | 135 |
| Training on competition law | Quantitative | Standard | 206 | 135 |
| Whistleblowing procedures | Qualitative | Standard | 205 | 135 |
| Tax transparency | Qualitative | Standard | 207-1 | 136 |
| Protection of information systems | Qualitative | Standard | | 137 |

** Scope: refer to definitions given in paragraph 1 of the Reporting Methodology*

*(1) In 2020, the Group carried out a comparison of the definitions for its indicators against those used by the GRI (2016 version) in order to allow for the gradual alignment of certain indicators over the medium term.*

# Report verifying the Non-Financial Information Statement

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

The Non-Financial Information Statement reviewed covers the year ended December 31, 2020.

## Request, Responsibilities and Independence

At Mersen SA's request and pursuant to the provisions of Article L.225-102-1 of the French Commercial Code (Code de commerce), we have verified the Non-Financial Information Statement (hereinafter the "Statement") for the year ended December 31, 2020 included in Mersen SA's universal registration document, as an independent third party certified by COFRAC under number 3-1341 (whose list of locations and scope are available at www.cofrac.fr).

Pursuant to Articles L.225-102-1, R.225-105 and R.225-105-1 of the French Commercial Code, the Board of Directors is responsible for preparing a compliant Statement which must include a presentation of the business model, a description of the principal non-financial risks, a presentation of the policies implemented in light of those risks and the outcome of said policies, including key performance indicators.

The Statement has been prepared in accordance with the reporting guidelines (hereinafter the "reporting procedures" of the company (hereinafter the "entity"). The Statement will be available on the entity's website along with a summary of the reporting procedures.

It is our responsibility to verify the Statement, which enables us to provide a reasoned opinion as to:

- The Statement's consistency with the provisions of Article R.225-105 of the French Commercial Code.
- The fairness of the information provided in accordance with Article R.225-105 I, 3 and II of the French Commercial Code.

We verified the Statement in an impartial and independent manner in accordance with the professional practices of the independent third party and pursuant to the French Code of Ethics (Code Ethique) applied by all members of Bureau Veritas.

## Nature and scope of our work

In order to provide a reasoned opinion on the Statement's compliance and the fairness of the information supplied, we carried out our work in accordance with Articles A.225-1 to A.225-4 of the French Commercial Code and our internal methodology for the verification of the Statement, in particular:

- We obtained an understanding of the scope of consolidation to be considered for the preparation of the Statement, as specified in Article L.233-16 of the French Commercial Code. We also verified that the Statement covers all the entities within the scope of consolidation specified in the Statement.
- We obtained an understanding of the entity's activities, the context in which the entity operates, the social and environmental impact of its activities and the impact of these activities on compliance with human rights and anti-corruption and tax evasion legislation.
- We obtained an understanding of the content of the Statement and verified that it included the items listed in Article R.225-105 of the French Commercial Code:
  - Presentation of the entity's business model.
  - Description of the principal risks associated with all the consolidated entities' activities for each category of information set out in Article L.225-102-1 III, including, where relevant and proportionate, the risks associated with their business relationships and products or services, as well as the policies implemented by the entity, where applicable, and the due diligence procedures implemented to prevent, identify and reduce the occurrence of the identified risks.
  - The outcomes of these policies, including key performance indicators.
- We examined the entity's procedures for reviewing the impacts of its activities as listed in Article L.225-102-1 III, identifying and prioritizing the associated risks.
- We identified missing information, as well as information omitted without explanation.
- We verified that the Statement includes a clear and reasoned explanation for the absence of information regarding the principle risks identified.
- We examined the data collection process implemented by the entity to ensure the completeness and consistency of the information referred to in the Statement. We assessed the reporting procedures with respect to their relevance, reliability, understandability, completeness and objectivity, with due consideration of industry best practices, where appropriate.
- We identified the people within the entity who are in charge of all or part of the reporting process and interviewed some of them.

- We asked what internal control and risk management procedures the entity has put in place.
- Through sampling, we assessed the implementation of the reporting procedures, in particular the collection, compilation, processing and verification of the information.
- For the quantitative results(1) that we considered to be the most important, we:
  - performed analytical procedures and, using sampling techniques, verified the calculations and the consolidation of the data at the level of the Group and the verified entities;
  - selected a sample of contributing entities(2) within the scope of consolidation according to their activity, their contribution to the entity's consolidated data, their presence and the outcomes of work performed in earlier years;
  - performed tests of details, using sampling techniques, in order to verify the proper application of the reporting procedures, reconcile the data with the supporting documents and verify the calculations made and the consistency of the outcomes;
  - selected a sample representing 15.5% of the headcount and between 22% (consumption of cardboard packaging and copper) and 98% (coke consumption) of the values reported for the environmental data tested.
- We referred to documentary sources and conducted interviews with the people responsible for drafting the documents in order to corroborate the qualitative information that we considered to be the most important.
- We assessed the consistency of the information referred to in the Statement.
- Our work was carried out by a team of seven auditors between October 8, 2020 and the completion of our report, and took a total of about five weeks. We conducted over 40 interviews with the people responsible for reporting at the time of this assignment.

## Comments on the reporting procedures or the content of certain information

Without qualifying the conclusions below, we provide the following comments:

- The materiality matrix presented by Mersen SA in its non-financial information statement identifies and prioritizes the issues, thereby enabling the development of a roadmap. However, the non-financial information statement does not explicitly present the principle risks associated with the impacts of Mersen SA's activities, products and business relationships.
- Despite the many improvements made to the reporting scope and to the rules regarding moving inside or outside the scope, the definitive list at the end of the reporting period remains difficult to finalize before the end of the audit.
- The "number of hours worked" data resulting from an automatic calculation based on several data entered by the contributing sites to the reporting system - used for absence and accident reporting (frequency rate, severity rate) do not meet the expected standard of reliability. The data are acceptable but the variations occasionally observed are not yet verified with a satisfactory explanation.
- The change in reporting method for raw materials (graphite, coke and coal tar pitch) does not allow for a comparison between 2019 and 2020 (leading to double counting between 2019 and 2020). The impact on scope 3 emissions calculations is considered as negligible.

## Conclusion

Based on our work, we have not identified any significant misstatement that causes us to call into question the Statement's compliance with the provisions of Article R.225-105 and the fairness of the information provided.

Puteaux, March 10, 2021

Bureau Veritas

Laurent Mallet

Managing Director

(1) ***Human resources information:*** *active headcount at December 31, broken down by gender and geographic distribution; share of sites with site managers of local nationality; number of recruitments; number of dismissals; percentage of women in the workforce; percentage of female engineers and executives and percentage of women in governing bodies; LTIR and SR (employees, temporary workers and subcontractors); number of safety visits; percentage of employees with a work-related illness; average number of training hours per employee; human potential success rate; absenteeism.*
***Environmental information:*** *electricity consumption; gas consumption; total energy consumption; water consumption; raw material consumption: coke, coal tar pitch, artificial graphite and copper; packaging consumption: wood and cardboard; $CO_2$ emissions, scope 1, scope 2 and scope 3; tonnage of total industrial waste; tonnage of industrial waste and by-products recycled and by-products; tonnage of hazardous industrial waste; provisions for environmental risk, HSE investment, fines and penalties, percentage of 14001 and 45001 certified sites,*
***Qualitative information:*** *developing innovative products that contribute to sustainable development: electronics, renewable energy, green transport, energy efficiency; developing products with a reduced environmental footprint, from their design to their recycling; promoting environmentally friendly practices throughout the sites; organization: a management system; a continuous improvement approach; health and safety: constant priorities; business ethics; ethics and compliance, responsibility for taxation, an attractive pay policy.*

(2) *On-site audit of human resource and environmental information: Chongqing (China), Saint Bonnet de Mure (France), Pagny sur Moselle (France), Saint Sylvain d'Anjou (France), Amiens (France). A remote audit was conducted on some environmental information for the St Mary's site (United States).*

# 5 Information about the share capital and share ownership

# General information about the Company

## 1. Corporate name, headquarters, legal form and duration

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

The Company is a limited liability company *(société anonyme)* governed by French law.

The Company was incorporated on January 1, 1937 and shall be dissolved on December 31, 2114, except in the event of extension or early dissolution by vote of an Extraordinary General Meeting.

## 2. Corporate purpose (Article 3 of the Articles of Association)

The Company's purpose in France and in all other countries is to carry out all operations concerning the design, manufacture, processing, use and sale of:

- carbon-based products, articles or equipment, whether or not they are combined with other materials;
- metal powders, articles made from these powders, special alloys and articles made from these alloys;
- electro-mechanical and electronic products;
- all industrial products, namely metallurgical, mechanical, plastic and elastomer products;
- all other products, articles or equipment that may be related to the above products:
  - by using the latter to make the former,
  - by developing research activities, or
  - through manufacturing processes, industrial applications or distribution networks.

Within the scope of the corporate purpose defined above, the Company may carry out all operations related to:

- raw materials, prepared materials, components and elements, spare parts, semi-finished and finished products, equipment, combinations of equipment, assemblies of all kinds and sizes combining equipment;
- all work;
- all techniques.

The Company may also indirectly carry out operations related to technical, industrial and commercial activities. To this end, it may form any companies and groups of companies, acquire holdings in any companies and partnerships, contribute assets to the capital and subscribe to the shares of any company, and purchase or sell any shares, partnership shares or corporate rights.

In general, the Company may carry out any industrial, commercial, financial, securities or real estate operations connected principally or incidentally to these activities.

Furthermore, the Company may acquire any interest, in any form whatsoever, in any French or foreign companies or organizations.

## 3. Trade and Companies Register Code

RCS NANTERRE B 572 060 333 – APE CODE: 6420Z.

## 4. Legal Entity Identifier (LEI)

OQXDLNM5DTBULYMF5U27

## 5. Access to the Company's corporate documents and website

Corporate documents, particularly the Articles of Association, financial statements and reports to General Meetings by the Board of Directors and the Statutory Auditors, may be consulted at the headquarters by contacting:

Thomas Baumgartner Group Vice President, Finance and Administration

Mersen
Tour EQHO
2 avenue Gambetta
92400 Courbevoie, France
Tel: + 33 (0)1 46 91 54 19

www.mersen.com

## 6. Fiscal year

The fiscal year begins on January 1 and ends on December 31 of each year.

## 7. Annual General Meeting

Shareholders' meetings shall be convened subject to the conditions provided for by law and deliberate in accordance with quorum and majority voting requirements determined by law.

The terms for convening Annual General Meetings are set forth in Article 25 of the Articles of Association, available on the Company's website: www.mersen.com/group/governance.

# 8. Disclosure thresholds (Article 11 ter of the Articles of Association)

The Company's Articles of Association stipulate that any person, acting alone or in concert, who acquires in any manner whatsoever within the meaning of Articles L.233-7 *et seq.* of the French Commercial Code, whether directly or indirectly through companies that they control within the meaning of Article L.233-3 of said same Code, a stake of 1% or more in the share capital or voting rights that takes their stake up to or over this limit, is required, within five days of trading in the securities and irrespective of their delivery, to disclose to the Company by recorded delivery letter with acknowledgment of receipt the total number of shares or securities giving access to the capital in the future and the number of voting rights that they hold. Should their stake drop below the 1% threshold, it must be disclosed in the same manner and within the same deadline. This obligation shall apply whenever the share capital or voting rights held increases or falls by at least 1%.

If a disclosure does not meet the terms and conditions above, the shares in excess of the threshold that should have been disclosed shall be stripped of voting rights at any General Meeting held in the two years following the date on which proper notification is made, at the request, during the Meeting, of one or more shareholders holding at least 1% of the share capital or voting rights.

In addition to the above disclosure obligation, any crossing of share ownership thresholds, as provided by law, must be disclosed.

# 9. Double voting rights

To account for the entry into force of Act No. 2014-384 of March 29, 2014, the Company submitted a resolution to the May 19, 2015 Extraordinary General Meeting to eliminate double voting rights so that shareholders could discuss and decide on this issue.

The resolution was rejected. Double voting rights are now attached to all shares that fulfill both of the following conditions: i) have been held in registered form for at least two years and ii) are fully paid up, in accordance with Article L.22-10-46 of the French Commercial Code.

# 10. Categories of shares (Articles 6, 13 and 15 of the Articles of Association)

Following the conversion of all category C shares into ordinary shares during the 2020 financial year, the Chief Executive Officer, empowered by the Board of Directors, duly noted the cancellation of 1,172 category C shares on November 27, 2020 and subsequent amendment of the Articles of Association. The new Article 6 of the Articles of Association provides for three categories of shares: category A shares are ordinary shares, and category D and E shares are preference shares issued pursuant to Article L.228-11 *et seq.* of the French Commercial Code.

A shares are freely negotiable (Article 13). D and E shares are transferable under the terms and conditions set forth in Article 15 of the Articles of Association.

## 10.1. Category D shares (2017 bonus preference share plan)

At the end of the Vesting Period, each D share shall confer the right, in proportion to the amount of capital it represents, to a share in the profits and in any surplus in the event of liquidation, namely to a dividend per D share equal to 10% of the dividend per share allocated to A shares.

Each D share confers the right, during the life of the Company or during its liquidation and subject to the date of entitlement, to the payment of a net sum equal to 10% of any sum paid out for each category A share, in accordance with the provisions of paragraph 1.

At the end of the holding period for category D shares (the "Holding Period Expiry Date"), as set forth in the category D share bonus allotment plan determining their allotment, each category D shareholder may convert some or all of the category D shares held into category A shares, under the terms and conditions set forth in Section II, paragraphs 4 to 6 of Article 15 of the Articles of Association.

The Allotment Date is defined as the date on which a bonus share allotment plan is adopted by the Board of Directors.

The Initial Share Price corresponds to the volume-weighted average of the opening prices of the category A shares over a period preceding the Allotment Date by twenty (20) trading days.

The total maximum number of category A shares that may result from the conversion of category D shares may not exceed 129,000; this number does not take into account any adjustments made to protect, in accordance with legal and regulatory provisions and, where necessary, contractual stipulations, the rights of category D share beneficiaries.

As of the "Holding Period Expiry Date," D shares are freely transferable between D shareholders. D shares may be converted to A shares within thirty (30) days of (i) the fourth anniversary of the Allocation Date or (ii) the date falling four years and three months after the Allocation Date (the "Conversion Period"), in accordance with a ratio (the "Conversion Ratio") determined on the basis of the percentage difference between the Initial Share Price and the Final Share Price. If the Conversion Periods fall during a blackout period on Company shares, said Conversion Period will not begin until the blackout period has ended, within the limit of a period of ninety (90) days, it being specified that, if the first Conversion Period is deferred, the second Conversion Period will also be deferred by an identical number of days.

The "Initial Share Price" refers to the volume-weighted average of the opening trading prices for category A shares during the last twenty (20) trading sessions prior to the Allocation Date.

The "Final Share Price" refers to the volume-weighted average of the opening trading prices for category A shares between the date of the second anniversary from the Allocation Date (included) and the date of commencement of the Conversion Period during which owners of D shares have requested their conversion into A shares (excluded).

The Conversion Ratio will be equal to:

- If the Final Share Price is lower than 150% of the Initial Share Price (the “Maximum Final Share Price” or “maxFP”):

  N = 10 + 300 (FP-IP)/FP

Where:

“N” is the number of A shares to which each D share is entitled, it being specified that in the case of a fraction, the number of A shares allotted to a D shareholder will be rounded down to the lower unit;

“FP” is the Final Share Price;

“IP” is the Initial Share Price; and

“maxFP” is the Final Maximum Share Price.

- If the Final Share Price is greater than Maximum Final Share Price:

  N = 10 + (maxFP x 100)/FP

- If the Final Share Price is less than the Initial Share Price:

  N = 10

In the absence of conversion during the Conversion Periods, the D shares will be automatically converted into A shares on expiry of the second Conversion Period, at the Conversion Ratio applicable during the second Conversion Period.

## 10.2. Category E shares (2018 bonus preference share plan)

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

- The Conversion Periods, i.e., the periods during which category E shares may be converted into category A shares, cover the thirty (30) day period from (i) the fourth anniversary of the Allotment Date or (ii) the date falling four years and three months after the Allotment Date (the “Conversion Periods”) in accordance with a ratio (the “Conversion Ratio”) based on the percentage difference between the Initial Share Price and the Final Share Price.

Where:

“N” is the Conversion Ratio, i.e., the number of ordinary shares obtained on conversion of each category E share, with rights to fractions of shares being forfeited such that the number of ordinary shares received by an category E shareholder will be rounded down to the nearest whole number of shares;

- If FP < IP: N = 10
- If IP < FP < maxFP: N = 10 + 600 x (FP-IP)/FP
- If FP > maxFP: N = 10 + (maxFP x 100)/FP

“IP” is the Initial Share Price, which is equal to the volume-weighted average of the opening prices quoted for the Company’s ordinary shares over the twenty (20) trading days preceding the Allotment Date.

“FP” is the Final Share Price, which is equal to the volume-weighted average of the opening prices quoted for the Company’s ordinary shares between the second anniversary of the Allotment Date (included) and the beginning of the Conversion Period during which the owners of E shares have requested their conversion into ordinary shares (excluded).

“maxFP” is the “Final Maximum Share Price” which is equivalent to 120% of the “Initial Share Price”.

The maximum total number of category A shares resulting from the conversion of category E shares may not exceed 103,400 shares, not including any shares to be issued to protect the rights of category E shareholders in accordance with the law and any contractual clauses.

# General information about the share capital

## 1. Conditions

Changes in the share capital and the respective rights of the various classes of shares are made in accordance with the provisions laid down in law.

## 2. Ownership of the share capital

At December 31, 2020, the Company's share capital is fixed at a total of 41,728,128 euros, divided into 20,864,064 shares, including 20,862,155 category A shares, 1,172 category D shares and 737 category E shares, each with a nominal value of 2 (two) euros.

229,872 shares were held by the Company at December 31, 2020.

## 3. Voting rights

Taking into account double voting rights, the theoretical number of voting rights stood at 23,432,569 at December 31, 2020.

Double voting rights are attached to all shares that fulfill both of the following conditions: i) being held in registered form for at least two years; and ii) being fully paid up. Double voting rights have been recorded since April 4, 2016, in accordance with legal provisions.

## 4. Authorizations to carry out a capital increase

### 4.1. Combined General Meeting of May 11, 2016

#### Bonus preference share allotments (resolution 18)

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

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

*The definitive allotment of preference shares is subject to performance conditions associated with the achievement of earnings per share (EPS) criteria or change in the EPS between 2016 and 2017 compared to that of comparable companies (whichever is more favorable).*

*Empowered by the Board of Directors to make use of the authorization granted by shareholders at the General Meeting of May 11, 2016, the Chief Executive Officer noted on May 11, 2018 the fulfillment of the following allotment conditions: (i) performance conditions have been 100% met; (ii) the number of beneficiaries present within the Company is 14; (iii) the number of bonus preference shares to be allocated, after application of the percentage to which conditions have been met, is 1,172 shares.*

All category C preference shares were converted into ordinary shares between May and November 2020, resulting in the issue of 115,170 ordinary shares.

### 4.2. Combined General Meeting of May 18, 2017

#### 4.2.1. Bonus preference share allotments (resolution 19)

At the General Meeting, the shareholders authorized the Board of Directors to allot, on one or more occasions, except during a public offer for the Company's shares, Company bonus preference shares conferring the right to convert them into new or existing ordinary Company shares to certain categories of employees and corporate officers, it being specified that the rights attached to the preference shares were established by the Articles of Association of the Company. The maximum number of ordinary shares that may result from the conversion of the preference shares may not exceed 129,000 shares, or 0.6% of the Company share capital. This authorization provides that the Board of Directors will determine the criteria and conditions for allotting these preference shares, the identity of the beneficiaries, the number of preference shares allotted, and the performance conditions and criteria. This authorization invalidates the previous authorization granted by the General Meeting of May 11, 2016 and any similar delegation. This authorization is valid for 38 months.

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

*The definitive allotment of preference shares is subject to performance conditions associated with two criteria, the most favorable being retained. These criteria are based on the average of the 2017 and 2018 EPS and on the change in EPS compared to that of peer companies. Given the performance, 100% of the shares were granted. Preference shares may not be converted until May 19, 2021.*

## 4.3. Combined General Meeting of May 17, 2018

### 4.3.1. Capital increase by capitalizing reserves, income and/or additional paid-in capital (resolution 13)

The General Meeting authorized the Board of Directors, with the option of subdelegation under the conditions provided for by the law and the Articles of Association, to carry out one or more capital increases by capitalizing reserves, income, additional paid-in capital or other capitalizable amounts, and issuing bonus shares and/or raising the nominal value of existing ordinary shares. The nominal value of the capital increases that may be carried out under this authorization may not exceed €50,000,000, i.e., approximately 121% of the Company's share capital at the Meeting date. This authorization is valid for a period of 26 months. It replaces and supersedes the previous authorization granted by the General Meeting of May 18, 2017. The Company has not used this authorization, now expired, to date.

### 4.3.2. Issue of ordinary shares conferring rights to ordinary shares or debt securities and/or securities conferring rights to ordinary shares, with preferential subscription rights for existing shareholders (resolution 14)

The General Meeting authorized the Board of Directors, with the option of subdelegation under the conditions provided for by the law and the Articles of Association, to issue, on one or more occasions, for the amounts and at the times that it deems appropriate, on the French and/or international market, in euros or, where applicable, in a foreign currency or any monetary unit determined by reference to a basket of currencies, ordinary shares, and/or ordinary shares conferring rights to ordinary shares or debt securities, and/or securities conferring rights to new ordinary shares. The nominal value of ordinary shares issued under this delegation of authority shall not exceed €15,000,000 and the nominal value of debt securities shall not exceed €300,000,000. This authorization is valid for a period of 26 months. It replaces and supersedes the previous authorization granted by the General Meeting of May 18, 2017. The Company has not used this authorization, now expired, to date.

### 4.3.3. Issue of ordinary shares conferring rights to ordinary shares or debt securities and/or securities conferring rights to ordinary shares, through a public offer without preferential subscription rights but with a priority subscription period for existing shareholders (resolution 15)

The General Meeting authorized the Board of Directors, with the option of subdelegation under the conditions provided for by the law and the Articles of Association, to issue, on one or more occasions, for the amounts and at the times that it deems appropriate, on the French and/or international market, in euros or, where applicable, in a foreign currency or any monetary unit determined by reference to a basket of currencies, ordinary shares, and/or ordinary shares conferring rights to ordinary shares or debt securities, and/or securities conferring rights to new ordinary shares. The nominal value of shares issued under this delegation of authority shall not exceed €8,000,000. The nominal value of debt securities shall not exceed €300,000,000. This authorization is valid for a period of 26 months. It replaces and supersedes the previous authorization granted by the General Meeting of May 11, 2016. The Company has not used this authorization, now expired, to date.

### 4.3.4. Issue of ordinary shares conferring rights to ordinary shares or debt securities and/or securities conferring rights to ordinary shares, without preferential subscription rights for existing shareholders (resolution 16)

The General Meeting authorized the Board of Directors, with the option of subdelegation under the conditions provided for by the law and the Articles of Association, to issue, on one or more occasions, for the amounts and at the times that it deems appropriate, on the French and/or international market, in euros or, where applicable, in a foreign currency or any monetary unit determined by reference to a basket of currencies, ordinary shares, and/or ordinary shares conferring rights to ordinary shares or debt securities, and/or securities conferring rights to new ordinary shares. The nominal value of ordinary shares issued under this delegation of authority shall not exceed €4,000,000 or the equivalent of 20% of the capital per year. The nominal value of debt securities shall not exceed €300,000,000. This authorization is valid for a period of 26 months. It replaces and supersedes the previous authorization granted by the General Meeting of May 11, 2016. The Company has not used this authorization, now expired, to date.

#### 4.3.5. Increase in the amount of any issues that are oversubscribed (greenshoe option) (resolution 18)

Having considered the Board of Directors' report, the General Meeting resolved that for each issue of ordinary shares or securities conferring rights to shares decided pursuant to the fourteenth to sixteenth resolutions, if the issue is oversubscribed, the number of securities to be issued may be increased subject to compliance with Articles L.225-135-1 and R.225-118 of the French Commercial Code and the ceilings set by the General Meeting.

#### 4.3.6. Issue of rights in return for contributions in kind made to the Company comprising capital instruments and securities conferring rights to the Company's share capital (resolution 19)

The General Meeting authorized the Board of Directors, with the option of subdelegation under the conditions provided for by the law and the Articles of Association, to issue shares or securities conferring rights, immediately and/or in the future, to the Company's share capital in return for the contributions in kind made to the Company comprising capital instruments and securities conferring rights to the Company's share capital. The nominal value of ordinary shares issued under this delegation of authority shall not exceed 10% of the Company's share capital on the date of the Meeting and shall be deducted from the ceiling on ordinary share issues set in the fifteenth and sixteenth resolutions. It replaces and supersedes the previous authorization granted by the General Meeting of May 11, 2016. This authorization is valid for 26 months. The Company has not used this authorization, now expired, to date.

#### 4.3.7. Bonus preference share allotments, without preferential subscription rights for existing shareholders (resolution 24)

The General Meeting authorized the Board of Directors to allot, on one or more occasions, except during a public offer for the Company's shares, Company bonus preference shares conferring the right to convert them into new or existing ordinary Company shares to certain categories of employees and corporate officers, it being specified that the rights attached to the preference shares were established by the Articles of Association of the Company. The maximum number of ordinary shares that may result from the conversion of the preference shares may not exceed 129,000 shares, or 0.5% of the Company's share capital. This authorization provides that the Board of Directors will determine the criteria and conditions for allotting these preference shares, the identity of the beneficiaries, the number of preference shares allotted, and the performance conditions and criteria. This authorization invalidates the previous authorization granted by the General Meeting of May 18, 2017 and any similar delegation. This authorization is valid for 38 months.

*At its meeting of May 17, 2018 the Board of Directors made use of this authorization and empowered the Chief Executive Officer to implement the bonus preference share plan and the allotment of said shares. The Chief Executive Officer implemented this authorization by allotting 940 bonus preference shares to the members of the Executive Committee and the Group's key management staff. This number corresponds to a maximum number of 103,400 ordinary shares after conversion.*

*The definitive allotment of preference shares is subject to performance conditions associated with two criteria, with the most favorable of the two being taken into account. These criteria are based on the average of the 2018 and 2019 EPS and on the change in EPS compared to that of peer companies.*

### 4.4. Combined General Meeting of May 17, 2019

#### 4.4.1. Issue of ordinary shares or securities to employees of Mersen Group companies whose headquarters are not located in France and who are not members of a company investment plan (resolution 12)

The General Meeting authorized the Board of Directors, with the option of subdelegation under the conditions provided for by the law and the Articles of Association, to carry out one or more capital increases reserved for Group employees, in the proportion and at the times that it deems appropriate (except during a public offer for the Company's shares), via the issue of ordinary shares or securities conferring rights to the Company's share capital. These capital increases entail the waiver of shareholders' preferential subscription rights. The maximum number of ordinary shares that may be issued under this authorization shall not exceed 200,000 and this ceiling shall be deducted from the ceiling set in the thirteenth resolution. This authorization is valid for a period of 18 months. It replaces and supersedes the previous authorization granted by the General Meeting of May 17, 2018. The Company has not used this authorization to date.

#### 4.4.2. Issue of rights reserved for employees participating in the Group Investment Plan (resolution 13)

The General Meeting delegated its authority to the Board of Directors, with the option of subdelegation, to increase the share capital on one or more occasions at its sole discretion, through the issue of shares for cash reserved for employees participating in the Group Investment Plan. These capital increases require that shareholder preferential subscription rights be waived. The maximum number of ordinary shares that may be issued under this authorization shall not exceed 200,000 and this ceiling shall be deducted from the ceiling set in the twelfth resolution. This authorization is valid for a period of 26 months. It replaces and supersedes the previous authorization granted by the General Meeting of May 17, 2018. The Company has not used this authorization to date.

### 4.4.3. Allotment of bonus shares to certain employees (resolution 14)

The General Meeting authorized the Board of Directors to allot existing or new shares to employees, or to certain categories of employees, of the Company and those of affiliated companies, at no cost. The total number of shares that may be thus allotted may not exceed 84,000, representing around 0.4% of the share capital on the day of the Meeting. This authorization provides that the Board of Directors will determine the identity and categories of the beneficiaries of the share allotment referred to, as well as the performance and share allotment conditions and criteria. This authorization invalidates the previous authorization granted by the General Meeting of May 17, 2018. This authorization is valid for 38 months.

*At its meeting of May 17, 2019, the Board of Directors made use of this authorization to implement the performance-based bonus share plan and allotted 84,000 free shares to 200 Mersen Group employees and management staff according to performance conditions based on average growth in EBITDA margin and average organic sales growth over a period of several years. As in 2018, the performance criteria include a target growth rate and a growth rate compared to a panel of comparable companies (excluding any companies with abnormal fluctuations or material exceptional transactions over the period), with the bonus determined based on the most favorable amount of the two criteria.*

### 4.4.4. Allotment of bonus shares to certain employees and/or to certain corporate officers (resolution 15)

The General Meeting authorized the Board of Directors to allot existing or new shares at no cost to the Chief Executive Officer (corporate officer), members of the Executive Committee and business unit managers of the Group. The total number of shares that may be thus allotted may not exceed 68,000, representing around 0.3% of the share capital on the day of the Meeting. The total number of bonus shares granted to the Chief Executive Officer cannot exceed 10% of the total number of bonus shares granted under this authorization. The authorization provides for the Board of Directors to determine the performance criteria and conditions for allotting these bonus shares. This authorization is valid for 38 months.

At its meeting of May 17, 2019, the Board of Directors made use of this authorization to implement the performance-based bonus share plan and decided to allocate 59,000 bonus shares out of a potential total of 68,000 to 14 senior executives, including the Chief Executive Officer, based on a combination of three independent, cumulative criteria: its stock market performance as measured against a comparable market company (change in the Eurostoxx 600), its profitability based on operating income per share and a CSR criterion in line with the Group's CSR commitments.

## 4.5. Combined General Meeting of May 14, 2020

### 4.5.1. Capital increase by capitalizing reserves, income and/or additional paid-in capital (resolution 13)

The General Meeting authorized the Board of Directors, with the option of subdelegation under the conditions provided for by the law and the Articles of Association, to carry out one or more capital increases by capitalizing reserves, income, additional paid-in capital or other capitalizable amounts, and issuing bonus shares and/or raising the nominal value of existing ordinary shares. The nominal value of the capital increases that may be carried out under this authorization may not exceed €50,000,000. This authorization is valid for a period of 26 months. It replaces and supersedes the previous authorization granted by the General Meeting of May 17, 2018. The Company has not used this authorization to date.

### 4.5.2. Issue of ordinary shares conferring rights to ordinary shares or debt securities and/or securities conferring rights to ordinary shares, with preferential subscription rights for existing shareholders (resolution 14)

The General Meeting authorized the Board of Directors, with the option of subdelegation under the conditions provided for by the law and the Articles of Association, to issue, on one or more occasions, for the amounts and at the times that it deems appropriate, on the French and/or international market, in euros or, where applicable, in a foreign currency or any monetary unit determined by reference to a basket of currencies, ordinary shares, and/or ordinary shares conferring rights to ordinary shares or debt securities, and/or securities conferring rights to new ordinary shares. The nominal value of ordinary shares issued under this delegation of authority shall not exceed €17,000,000 and the nominal value of debt securities shall not exceed €300,000,000. These two ceilings shall be deducted from the overall ceiling set forth in resolution 20. This authorization is valid for a period of 26 months. It replaces and supersedes the previous authorization granted by the General Meeting of May 17, 2018. The Company has not used this authorization to date.

### 4.5.3. Issue of ordinary shares conferring rights to ordinary shares or debt securities and/or securities conferring rights to ordinary shares without preferential subscription rights but with a priority subscription period for existing shareholders, through a public offer (with the exception of offers governed by Article L.411-2, paragraph 1 of the French Monetary and Financial Code) and/or in payment for shares tendered to a public exchange offer (resolution 15)

The General Meeting authorized the Board of Directors, with the option of subdelegation under the conditions provided for by the law and the Articles of Association, to issue, on one or more occasions, for the amounts and at the times that it deems appropriate, on the French and/or international market, in euros or, where applicable, in a foreign currency or any monetary unit determined by reference to a basket of currencies, ordinary shares, and/or ordinary shares conferring rights to ordinary shares or debt securities, and/or securities conferring rights to new ordinary shares. The nominal value of shares issued under this delegation of authority shall not exceed €8,000,000 and the nominal value of debt securities shall not exceed €300,000,000, it being understood that these ceilings shall be deducted from the overall ceilings and the sub-ceilings set forth in resolution 20. This authorization is valid for a period of 26 months. It replaces and supersedes the previous authorization granted by the General Meeting of May 17, 2018. The Company has not used this authorization to date.

### 4.5.4. Issue of ordinary shares conferring rights to ordinary shares or debt securities and/or securities conferring rights to ordinary shares, without preferential subscription rights for existing shareholders (resolution 16)

The General Meeting authorized the Board of Directors, with the option of subdelegation under the conditions provided for by the law and the Articles of Association, to issue, on one or more occasions, for the amounts and at the times that it deems appropriate, on the French and/or international market, in euros or, where applicable, in a foreign currency or any monetary unit determined by reference to a basket of currencies, ordinary shares, and/or ordinary shares conferring rights to ordinary shares or debt securities, and/or securities conferring rights to new ordinary shares. The nominal value of shares issued under this delegation of authority shall not exceed €4,000,000 and the nominal value of debt securities shall not exceed €300,000,000, it being understood that these ceilings shall be deducted from the overall ceilings and the sub-ceilings set forth in resolution 20. This authorization is valid for a period of 26 months. It replaces and supersedes the previous authorization granted by the General Meeting of May 17, 2018. The Company has not used this authorization to date.

### 4.5.5. Increase in the amount of any issues that are oversubscribed (greenshoe option) (resolution 17)

The General Meeting resolved that for each issue of ordinary shares or securities conferring rights to shares decided pursuant to the fourteenth to sixteenth resolutions, if the issue is oversubscribed, the number of securities to be issued may be increased subject to compliance with Articles L.225-135-1 and R.225-118 of the French Commercial Code and the ceilings set by the General Meeting.

### 4.5.6. Issue of rights in return for contributions in kind made to the Company comprising capital instruments and securities conferring rights to the Company's share capital (resolution 18)

The General Meeting authorized the Board of Directors, with the option of subdelegation under the conditions provided for by the law and the Articles of Association, to issue shares or securities conferring rights, immediately and/or in the future, to the Company's share capital in return for the contributions in kind made to the Company comprising capital instruments and securities conferring rights to the Company's share capital. The nominal value of ordinary shares issued under this authorization may not exceed 10% of the Company's share capital at the Meeting date, it being understood that this ceiling will be deducted from the overall ceiling of €17,000,000 and the sub-ceilings of €8,000,000 and €4,000,000 on issues of ordinary shares set forth in resolution 20. This authorization is valid for 26 months. It replaces and supersedes the previous authorization granted by the General Meeting of May 17, 2018. The Company has not used this authorization to date.

### 4.5.7. Issue of rights reserved for employees participating in the Company Investment Plan (resolution 19)

The General Meeting delegated its authority to the Board of Directors, with the option of subdelegation, to increase the share capital on one or more occasions at its sole discretion, through the issue of shares for cash reserved for employees participating in the Company or Group Investment Plan. These capital increases entail the waiver of shareholders' preferential subscription rights. The maximum number of ordinary shares that may be issued under this authorization shall not exceed €400,000, it being understood that this ceiling shall be deducted from the ceilings set forth in resolution 20. This authorization is valid for a period of 26 months. It replaces and supersedes the previous authorization granted by the General Meeting of May 17, 2019. The Company has not used this authorization to date.

#### 4.5.8. Setting of the overall ceilings for the issue of ordinary shares or debt securities that may be issued under the delegations of authority above

The General Meeting resolved that, other than the individual ceilings specified in resolutions 14, 15, 16, 17 and 19 above, the overall ceilings and sub-ceilings on the issues that may be made by virtue of said resolutions are as follows:

- the nominal value of ordinary shares that may be issued, whether immediately or in the future, by virtue of resolutions 14, 15, 16, 18 and 19 is €17,000,000;
- the nominal value of ordinary shares that may be issued, whether immediately or in the future, without preferential subscription rights by virtue of resolutions 15, 16, 18 and 19 is €8,000,000;
- the nominal value of ordinary shares that may be issued, whether immediately or in the future, without preferential subscription rights by virtue of resolutions 16 and 18 is €4,000,000;

it being specified that the nominal value of any capital increase subsequently required to protect the rights of holders of securities conferring rights to shares of the Company in accordance with the law and, where applicable, contractual provisions setting out other circumstances for adjustments will be added to these amounts;

- the nominal value of debt securities held against the Company that are likely to be issued by virtue of resolutions 14, 15 and 16 is €300,000,000.

## 5. Changes in share capital

| Dates | Type of operation | Share capital after operation | Issue premium *(in €)* | Total number of shares after the operation |
|---|---|---|---|---|
| 12/12/2017 | Issue of 165,772 new shares through the exercise of subscription options in 2017 | 41,275,252 | 2,666,545 | 20,637,626 |
| 12/12/2017 | Cancellation of 585 category B shares, each with a par value of €2 | 41,274,082 | N/A | 20,637,041 |
| 05/11/2018 | Issue of 1,172 category C shares, each with a par value of €2 | 41,276,426 | N/A | 20,638,213 |
| 01/23/2019 | Issue of 129,905 new shares through the exercise of subscription options in 2018 | 41,536,236 | 2,075,670 | 20,768,118 |
| 05/18/2019 | Issue of 10,600 ordinary shares and issue of 1,172 category D shares, each with a nominal value of €2 | 41,559,780 | N/A | 20,779,890 |
| 01/29/2020 | Issue of 78,654 new shares, each with a nominal value of €2, through the exercise of subscription options in 2019 | 41,717,088 | 1,348,433 | 20,858,544 |
| 01/29/2020 | Cancellation of 317 category B shares | 41,716,454 | N/A | 20,858,227 |
| 05/17/2020 | Issue of 737 category E shares | 41,717,928 | N/A | 20,858,964 |
| 06/10/2020 11/27/2020 | Conversion of 1,172 category C shares into category A shares | 41,717,928 | N/A | 20,858,964 |
| 08/2020 | Issue of 5,100 new shares through the exercise of subscription options | 41,728,128 | 105,519 | 20,864,064 |

## 6. Securities conferring rights to the share capital

■ Subscription options

The number of subscription options still to be exercised at December 31, 2020 (after taking cancellations into account) would make it possible to issue 55,831 new shares, each with a nominal value of €2.

■ Bonus preference shares (executive program)

- 1,172 category D preference shares were allotted definitively, resulting in a maximum of 128,920 ordinary shares after conversion.
- 737 category E preference shares were allotted definitively and 203 ordinary shares were allotted subject to performance criteria. In total, this corresponds to a maximum of 103,400 ordinary shares after conversion.

The total number of ordinary shares that may be allotted definitively (under the 2017 and 2018 preference share plans) is 232,320, of which 171,820 for Executive Committee members (including 29,260 for the Chief Executive Officer).

■ Bonus shares (executive program)

The total number of shares that may be allotted under the 2019 executive bonus share plan is 59,000, of which 44,250 for Executive Committee members (including 8,850 for the Chief Executive Officer).

■ Bonus shares (non-executive program)

The number of bonus shares that may be allotted definitively (under the 2018 and 2019 bonus share plans) is 150,150.

■ Summary

The number of bonus shares that could be allotted definitively, including by converting category D and E shares into ordinary shares, is 441,470 new shares, each with a nominal value of €2, representing 2.1% of the current share capital.

Based on the number of subscription options that may be exercised by beneficiaries (55,831) and the shares that may be definitively allotted (441,470), the maximum dilution would be 2.4%.

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

## 7. Voting right certificates

None.

## 8. Investment certificates

None.

## 9. Shares pledged

None.

## 10. Shareholders' agreement

The Company is not aware of any shareholders' agreements or other agreements concerning its share capital.

# Stock repurchase program

## 1. Program authorized by the General Meeting of May 14, 2020

At the Combined General Meeting of May 14, 2020, the Company was authorized to trade in its own shares on the stock exchange in accordance with Article L.225-209 *et seq.* (now L. 22-10-62) of the French Commercial Code in order to:

- enhance trading in the secondary market or the liquidity of the Mersen share by engaging an investment service provider under a liquidity agreement that complies with practices approved by French law. For the purposes of the program, the number of shares taken into account to calculate the above-mentioned limit corresponds to the number of shares acquired, less the number of shares re-sold;
- hold the acquired shares in treasury and subsequently remit them as part of an exchange offer or in consideration for any acquisitions;
- cover share option and/or bonus share plans (or similar plans) allotted to Group employees and/or corporate officers, share allotments under company or group investment plans (or similar plans) or company profit-sharing plans and/or any other forms of share allotments to Group employees and/or corporate officers;
- cover securities conferring rights to allotment of shares in the Company, in accordance with applicable regulations;
- cancel the acquired shares, in accordance with the authorization granted or to be granted by the Extraordinary General Meeting.

The maximum purchase price has been set at €60 per share. This price is set subject to adjustments related to any transactions affecting the Company's share capital. Based on the maximum purchase price set above and the number of shares making up the share capital at the date of the authorization, the maximum amount of the purchases may not exceed €117,308,700.

This authorization replaced the authorization granted by the General Meeting of May 17, 2019.

These share purchases, grants or sales may be entered into and paid for by any means, including as part of a liquidity agreement entered into by the Company with an investment services provider.

## 2. Liquidity agreement

In March 2005, the Company signed a liquidity agreement with Exane BNP Paribas in compliance with the charter of ethics drawn up by the AMAFI. This liquidity agreement was renewed each year by tacit approval. The Company signed a new agreement with Exane on January 23, 2019, in order to comply with the new AMAFI recommendations.

The funds and shares made available pursuant to this agreement and credited to the liquidity account on February 25, 2005 comprised €2,200,000 and no shares.

At December 31, 2020, the following funds and shares appeared in the liquidity account:

- 39,406 shares;
- €1,047,898.

# 3. Trading in its own shares by the Company in 2020

- In 2020, the Company bought 200,000 shares in order to cover employee bonus share plans and to limit the effect of share capital increases becoming diluted by issuing shares to employees.

It used 115,170 treasury shares to convert category C shares into category A shares.

| **Number of treasury shares held by the Company at December 31, 2019** | **130,677** |
|---|---|
| Number of shares purchased in March and April 2020 | 200,000 |
| Number of shares allocated to the conversion of category C shares | -115,170 |
| Number of shares purchased under the liquidity agreement | +397,740 |
| Number of shares sold under the liquidity agreement | -383,375 |
| **Number of treasury shares held by the Company at December 31, 2020** | **229,872** |

The Company did not use any derivatives.

## Breakdown by objectives of treasury shares held at December 31, 2020

| | **Number of treasury shares and percentage of share capital** |
|---|---|
| Grant or transfer of shares to employees and/or corporate officers under the company investment plans and the allotment of shares, specifically, the allotment of bonus shares or stock purchase options | 80,572<br>0.4% |
| Allotment of shares in connection with the conversion or exchange of securities (including debt securities) conferring rights to the Company's share capital | 0<br>0% |
| Purchase for holding purposes and subsequent remittal as part of an exchange offer or in consideration for any acquisitions | 0<br>0% |
| Cancellation of shares through a reduction in the share capital in accordance with the French Commercial Code | 109,894<br>0.5% |
| Enhancement of trading via a liquidity contract | 39,406<br>0.2% |

# 4. Description of the stock repurchase program submitted for shareholders' approval at the Combined General Meeting of May 20, 2021

Prepared in accordance with Articles 241-1 *et seq.* of the General Regulation of the French Financial Markets Authority (*Autorité des marchés financiers – AMF)* and Articles L. 22-10-62 *et seq.* and L.225-210 *et seq.* of the French Commercial Code this description is intended to present the objectives and terms and conditions of the renewal of the stock repurchase program.

## 4.1. Summary of the principal characteristics of the operation

- Mersen's ordinary shares, admitted for trading on Euronext Paris, Compartment B (ISIN code: FR0000039620).
- Maximum percentage of the share capital authorized for repurchase by shareholders at the General Meeting: 10%.
- Maximum acquisition price per share: €50.
- Duration of the program: the authorization is valid for 18 months as of the General Meeting of May 20, 2021, i.e., until November 19, 2022.

## 4.2. Objectives of the program

Shares may be acquired in order to:

- enhance trading in the secondary market or the liquidity of the Mersen share by engaging the services of an investment service provider under a liquidity agreement that complies with practices approved by French law. For the purposes of the program, the number of shares taken into account to calculate the above-mentioned limit of 10% corresponds to the number of shares acquired, less the number of shares re-sold;
- hold the acquired shares in treasury and subsequently remit them as part of an exchange offer or in consideration for any acquisitions;
- cover share option and/or bonus share plans (or similar plans) allotted to Group employees and/or corporate officers, share allotments under company or group investment plans (or similar plans) or company profit-sharing plans and/or any other forms of share allotments to Group employees and/or corporate officers;

- cover securities conferring rights to allotments of shares in the Company, in accordance with applicable regulations;
- cancel the acquired shares, in accordance with the authorization granted or to be granted by the Extraordinary General Meeting.

## 4.3. Legal framework

The stock repurchase program is compliant with the provisions of Articles L. 22-10-62 *et seq*. and L.225-210 *et seq.* of the French Commercial Code. It will be submitted to the approval of the shareholders at the Combined General Meeting of May 20, 2021, deliberating in accordance with quorum and majority voting requirements for Ordinary General Meetings. The corresponding resolution to be proposed by the Board of Directors is worded as follows:

### 4.3.1. Resolution on the share repurchase program

Having considered the Board of Directors' report, the General Meeting authorizes the Board of Directors for a period of 18 months and in accordance with Articles L. 22-10-62 *et seq*. L.225-210 *et seq.* of the French Commercial Code, to purchase shares in the Company on one or more occasions and at the times that it deems appropriate. The number of ordinary shares held by the Company under this authorization may not be greater than 10% of the Company's capital and may be adjusted as necessary to take into account any capital increases or reductions that may occur during the term of the program.

This authorization supersedes the authorization granted to the Board of Directors by the General Meeting of May 14, 2020 in its ordinary resolution.

The shares may be purchased by any means, including by way of block purchases, at the times that the Board of Directors deems appropriate.

The Company does not intend to use options or derivatives.

The Board of Directors may not use this authorization without prior authorization from the General Meeting from the date that a public offer for the Company's shares is filed by a third party until the end of the offer period.

The maximum purchase price has been set at €50 per share. In the event of a transaction affecting the Company's share capital, such as share splits or reverse splits and bonus share allotments to shareholders, the above amount will be adjusted in the same proportion (a coefficient of the ratio between the number of shares comprising the share capital before the transaction and the number of shares after the transaction).

The maximum amount of the stock purchase program has been set at €104,310,775.

The General Meeting grants full powers to the Board of Directors to carry out the stock purchase program, determine the conditions and procedures thereof, enter into any and all agreements and carry out all formalities.

## 4.4. Procedures

### 4.4.1. Maximum percentage of the share capital to be acquired and maximum amount payable by Mersen

Mersen will have the option of acquiring up to 10% of ordinary shares, i.e., 2,086,406 shares. This limit shall be assessed on the date on which shares are acquired, in order to take into account any capital increases or reductions that may occur during the term of the stock repurchase program. The number of shares taken into account to calculate the limit corresponds to the number of shares acquired, less the number of shares re-sold during the term of the program for liquidity purposes. As the Company cannot hold more than 10% of its share capital and given that it already held 229,872 shares (or 1.1% of the share capital) at December 31, 2020, the maximum number of shares that it may acquire under the program is 1,856,534 (or 8.9% of the share capital), unless it sells or cancels the shares that it already holds.

The Company reserves the right to use the entire authorization. Accordingly, the maximum amount that Mersen may pay, assuming that it acquires shares at the maximum price set by the General Meeting of €50 per share, would be €92,826,700.

In accordance with the law, the amount of the stock repurchase program may not exceed the Company's discretionary reserves. The Company's discretionary reserves, as stated under liabilities in the most recent annual financial statements prepared and certified at December 31, 2020, amounted to €305,414,441.

Mersen undertakes to stay below the direct and indirect ownership threshold of 10% of the share capital at all times.

### 4.4.2. Conditions governing repurchases

These shares may be purchased, allotted or transferred at any time (except during a public offer for the Company's shares) and paid by any means, on and off the market, including by acquisition or transfer of blocks of shares, and specifically pursuant to a liquidity agreement entered into by the Company with an investment service provider.

### 4.4.3. Duration of program

These stock repurchases may take place only after the approval of the corresponding resolution to be presented to the Combined General Meeting of May 20, 2021 and for a period of 18 months, i.e., until November 19, 2022.

# SHARE OWNERSHIP

## 1. Share ownership thresholds crossed

In 2020, certain shareholders have reported crossing the following disclosure thresholds:

**ACF I Investissement (Ardian)**

- January 14: ACF I Investissement (Ardian) announced that it had fallen below the statutory threshold of 10% of the share capital and now holds 2,075,857 shares, i.e., 9.96% of the share capital and 16.13% of voting rights.
- Between October 8 and December 22: ACF I Investissement (Ardian) announced that it had fallen below the threshold on six occasions. At December 22, it announced that it holds 1,165,741 shares, i.e., 5.58% of the share capital and 4.97% of voting rights.

**Amiral Gestion**

- December 18: Amiral Gestion announced that it had exceeded the statutory threshold of 2% of the share capital and holds 434,103 shares, i.e., 2.09% of the share capital and 1.7% of voting rights.

**BlackRock**

- During the 2020 fiscal year, BlackRock announced that it had crossed the threshold of 2% of the share capital on 15 occasions, both raising its interest and reducing its interest. At October 29, it announced that it holds 417,728 shares, i.e., 2% of the share capital and 1.64% of voting rights.

**Caisse des Dépôts et Consignations including Bpifrance Participations**

- April 14: The Caisse des Dépôts et Consignations Group announced that CDC Croissance itself had exceeded the statutory threshold of 4% of voting rights. The Caisse des Dépôts et Consignations Group announced that it now holds – whether directly or indirectly through CDC Croissance and Bpifrance Participations – 3,255,757 shares, i.e., 15.61% of the share capital and 21.74% of voting rights.
- November 10: The Caisse des Dépôts et Consignations Group announced that it had passively exceeded the threshold of 22% of voting rights through Bpifrance Participations and CDC Croissance and that it holds – whether directly or indirectly through CDC Croissance and Bpifrance Participations – 3,262,907 shares, i.e., 15.64% of the share capital and 22.53% of voting rights.

**FRR**

- December 14: The Reserve Fund for Pensions (Fonds de Réserve pour les Retraites – FRR) declared that it had exceeded the statutory threshold of 1% of the share capital and holds 215,049 shares, i.e., 1.03% of the share capital and 0.87% of voting rights.

**Henderson**

- March 19: Henderson announced that it had exceeded the statutory threshold of 3% of the share capital and holds 848,199 shares, i.e., 4.07% of the share capital and 3.35% of voting rights.
- September 23: Henderson announced that it had exceeded the statutory threshold of 4% of the share capital and holds 1,018,273 shares, i.e., 4.88% of the share capital and 4% of voting rights.
- November 16: Henderson announced that it had exceeded the statutory threshold of 5% of the share capital and holds 1,069,564 shares, i.e., 5.13% of the share capital and 4.38% of voting rights.

**Invesco**

- November 20: Invesco announced that it holds 1,021,435 shares, i.e., 4.89% of the share capital and 4.18% of voting rights.

**Norges Bank**

- January 16: Norges announced that it had fallen below the statutory threshold of 5% of the share capital and holds 1,028,377 shares, i.e., 4.94% of the share capital and 4.07% of voting rights.
- December 15: Norges announced that it had exceeded the statutory threshold of 5% of the share capital and holds 1,062,246 shares, i.e., 5.09% of the share capital and 4.38% of voting rights.
- December 16: Norges announced that it had fallen below the statutory threshold of 5% of the share capital and holds 1,042,363 shares, i.e., 4.99% of the share capital and 4.30% of voting rights.

**Sycomore**

- September 7: Sycomore announced that it had exceeded the statutory threshold of 2% of the share capital and holds 430,253 shares, i.e., 2.06% of the share capital and 1.69% of voting rights.
- November 10: Sycomore announced that it had exceeded the statutory threshold of 2% of the voting rights and holds 513,253 shares, i.e., 2.46% of the share capital and 2.10% of voting rights.

Since January 1, 2021, certain shareholders have reported crossing the following disclosure thresholds:

**ACF I Investissement (Ardian)**

- Between January 12 and January 21: ACF I Investissement (Ardian) announced that it had fallen below the threshold on four occasions. At January 21, it announced that it holds 409,899 shares, i.e., 1.97% of the share capital and 1.75% of voting rights.
- At February 5, ACF I Investissement announced that it had sold the entirety of its shares in Mersen.

**BlackRock**

- Between January 5 and February 15, 2021, BlackRock announced that it had crossed the threshold of 2% of the share capital on five occasions, both raising its interest and reducing its interest. At February 11, it announced that it holds 445,102 shares, i.e., 2.13% of the share capital and 1.90% of voting rights.

**Caisse des Dépôts et Consignations including Bpifrance Participations**

- January 13: The Caisse des Dépôts et Consignations Group announced that it had passively exceeded the threshold of 23% of voting rights and that it holds – whether directly or indirectly through CDC Croissance and Bpifrance Participations – 3,262,907 shares, i.e., 15.64% of the share capital and 23.50% of voting rights.

**Sycomore**

- February 11: Sycomore announced that it had exceeded the statutory threshold of 3% of the share capital and holds 629,830 shares, i.e., 3.02% of the share capital and 2.69% of voting rights.

## 2. Changes in share ownership

| | Dec. 31, 2020 | | | Dec. 31, 2019 | | | Dec. 31, 2018 | | |
|---|---|---|---|---|---|---|---|---|---|
| Shareholders | Number of shares | % of the share capital | % of the voting rights | Number of shares | % of the share capital | % of the voting rights | Number of shares | % of the share capital | % of the voting rights |
| Free float, o/w | | | | | | | | | |
| - French institutional investors | 9,212,234 | 44.2% | 48.9% | 9,651,287 | 46.3% | 54.9% | 10,442,202 | 50.3% | 58.7% |
| - International institutional investors | 8,558,922 | 41.0% | 36.5% | 8,285,143 | 39.7% | 32.7% | 7,322,100 | 35.3% | 29.0% |
| - Individual shareholders | 2,608,784 | 12.5% | 13.5% | 2,476,781 | 11.9% | 10.8% | 2,580,835 | 12.4% | 11.1% |
| - Employee shareholders | 254,252 | 1.2% | 1.1% | 314,339* | 1.5% | 1.6% | 191,147 | 0.9% | 1.2% |
| Treasury shares | 229,872 | 1.1% | | 130,677 | 0.6% | | 231,834 | 1.1% | |
| **TOTAL** | **20,864,064** | **100%** | **100%** | **20,858,227** | **100%** | **100%** | **20,768,118** | **100%** | **100%** |

** Including 73,934 treasury shares held by employees following the 2016 and 2017 bonus share plans.*

The Chief Executive Officer and the members of the Board of the Directors own 2,287,322 shares (of which 2,242,770 held by Bpifrance and 38,544 by the Chief Executive Officer), i.e., a total of 10.9% of the share capital.

To the best of the Company's knowledge, at the date of publication of the Universal Registration Document, the following shareholders hold more than 5% of the Company's share capital and voting rights:

| | Shares | % of the share capital | Voting rights exercisable at GM | % Voting rights exercisable at GM |
|---|---|---|---|---|
| Bpifrance Participations | 2,242,770 | 10.8% | 4,485,540 | 19.1% |
| Caisse des Dépôts et Consignations | 1,020,137 | 4.9% | 1,020,137 | 4.4% |
| **TOTAL BPI + CDC** | **3,262,907** | **15.6%** | **5,505,677** | **23.5%** |
| **Henderson** | **1,069,564** | **5.1%** | **1,069,564** | **4.6%** |

No shareholders' agreement is in place. No public tender or exchange offer, nor any guaranteed share price offer has been made in respect of the Company's shares over the past three years. The Company has not initiated any such offers for other companies over the same period.

## 3. Dividend

| | No. of shares at year-end | Dividend per share* *(in €)* | Share price *(in €)* | | | Overall yield based on share price at year-end |
|---|---|---|---|---|---|---|
| | | | High | Low | Last | |
| 2016 | 20,471,854 | 0.50 | 20.38 | 11.25 | 20.32 | 2.5% |
| 2017 | 20,637,041 | 0.75 | 39.43 | 20.43 | 37.34 | 2.0% |
| 2018 | 20,768,118 | 0.95 | 41.90 | 21.95 | 23.50 | 4.0% |
| 2019 | 20,858,227 | 0 | 35.15 | 22.80 | 34.15 | 0 |
| 2020 | 20,864,064 | 0.65 | 35.30 | 12.38 | 24.75 | 2.8 |

**Amount of dividend per ordinary share (category A), it being understood that the preference shares (category D and E) are entitled to a dividend equal to 10% of this amount.*

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

In April 2020, given the decline in Group activity due to the global economic and health situation, the Board of Directors has decided not to pay a dividend in respect of 2019, in order to maintain greater financial flexibility for the future and contribute to the solidarity measures needed at this time.

For the 2020 financial year, resolution third of the Combined General Meeting of May 20, 2021 provides for the payment of a dividend of €0.65 per share, subject to approval by said Meeting.

# MERSEN AND THE STOCK MARKET

Mersen endeavors to meet the value creation targets of its shareholders and to promote a broader understanding of the Group by providing clear, regular and transparent information.

## 1. Share price performance and trading volumes

### 1.1. Share-related data

- Listing: Euronext Paris.
- Market: Eurolist Compartment B.
- Indices: CAC All shares, CAC Mid&Small, Next 150, Tech 40.
- Eligible for SRD (deferred settlement) and PEA (equity savings plans).
- ISIN code: FR0000039620.

### 1.2. Market data

| Share price | Number of shares traded | Share capital traded on a monthly basis *(in € million)* | Average daily number of shares traded | Price High *(in €)* | Price Low *(in €)* | Price Average(a) *(in €)* |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| January | 1,016,538 | 33.30 | 46,206 | 35.30 | 29.40 | 33.02 |
| February | 1,043,468 | 30.25 | 52,173 | 31.10 | 25.70 | 29.24 |
| March | 1,866,677 | 34.08 | 84,849 | 27.80 | 12.38 | 18.70 |
| April | 806,536 | 14.38 | 40,327 | 20.75 | 15.90 | 17.77 |
| May | 704,702 | 13.53 | 35,235 | 21.85 | 17.28 | 18.93 |
| June | 757,844 | 16.59 | 34 447 | 24.70 | 20.35 | 21.72 |
| July | 585,997 | 12.51 | 25,478 | 23.20 | 19.72 | 21.43 |
| August | 566,109 | 13.95 | 26,958 | 26.80 | 22.15 | 21.52 |
| September | 484,799 | 12.65 | 22,036 | 28.85 | 23.80 | 20.04 |
| October | 580,214 | 14.29 | 26,373 | 27.30 | 20.40 | 25.20 |
| November | 841,471 | 20.28 | 40,070 | 25.80 | 21.35 | 24.20 |
| December | 507,725 | 12.61 | 23,078 | 25.50 | 23.30 | 24.95 |
| **2020** | | | | | | |
| January | 1,016,538 | 33.30 | 46,206 | 35.30 | 29.40 | 33.02 |
| February | 1,043,468 | 30.25 | 52,173 | 31.10 | 25.70 | 29.24 |
| March | 1,866,677 | 34.08 | 84,849 | 27.80 | 12.38 | 18.70 |
| April | 806,536 | 14.38 | 40,327 | 20.75 | 15.90 | 17.77 |
| May | 704,702 | 13.53 | 35,235 | 21.85 | 17.28 | 18.93 |
| June | 757,844 | 16.59 | 34,447 | 24.70 | 20.35 | 21.72 |
| July | 585,997 | 12.51 | 25,478 | 23.20 | 19.72 | 21.43 |
| August | 566,109 | 13.95 | 26,958 | 26.80 | 22.15 | 21.52 |
| September | 484,799 | 12.65 | 22,036 | 28.85 | 23.80 | 20.04 |
| October | 580,214 | 14.29 | 26,373 | 27.30 | 20.40 | 25.20 |
| November | 841,471 | 20.28 | 40,070 | 25.80 | 21.35 | 24.20 |
| December | 507,725 | 12.61 | 23,078 | 25.50 | 23.30 | 24.95 |
| **2021** | | | | | | |
| January | 632,265 | 16.03 | 31,613 | 27.00 | 23.25 | 23.39 |
| February | 733,958 | 20.58 | 36,698 | 30.50 | 25.10 | 27.90 |

*Source: Euronext.*
*(a) Average closing price.*

| *(Share price in €)* | February 2021 | January 2021 | 2020 | 2019 |
|---|---|---|---|---|
| At end of period | 28.45 | 25.20 | 24.75 | 34.15 |
| High/Low | 30.50 / 25.10 | 26.70 / 23.85 | 35.30 / 12.38 | 35.15 / 22.90 |
| YoY change/SBF 120 change | | | -29% / -8% | +48% / +26% |
| Market capitalization at end of period *(in € million)* | 532 | 526 | 516 | 712 |
| Average monthly number of shares traded | | | 813,507 | 747,652 |
| Average daily number of shares traded | 36,698 | 31,613 | 37,985 | 35,184 |

## 2. A confidence-based relationship with shareholders

Mersen maintains a confidence-based relationship with its shareholders built on transparency and communicates through various channels to give them a better understanding of the Group, its strategy, businesses and fundamentals.

The Group's investor relations strategy is predicated on an active program of information meetings and presentations, including:

- meetings with institutional investors in Europe and North America;
- meetings and themed conferences run for the benefit of financial analysts and journalists from the economic and financial press;
- information and discussion meetings with individual shareholders in France and a twice-yearly shareholders' newsletter.

In addition, the website provides extensive information on products and markets. All regulatory information, Focus documents on the Group's business lines, and presentations of results are available in the Finance section.

#### Meetings for institutional investors

Due to the global health situation, all investor meetings took place virtually throughout the year.

#### Annual General Shareholders' Meeting

Paris - May 14 - Due to the global health situation, the general meeting took place in closed session.

## 3. Timetable for the Group's financial communication

### 3.1. 2020 Calendar

#### Sales

2019 Q4 sales – January 30

2020 Q1 sales – April 29

2020 Q2 sales – July 31

2020 Q3 sales – October 28

#### Results

2019 annual results – March 11

2020 half-year results – July 31

### 3.2. Provisional 2021 Calendar

#### Sales

2020 Q4 sales – January 28

2021 Q1 sales – April 28

2021 Q2 sales – July 30

2021 Q3 sales – October 27

#### Results

2020 annual results – March 11

2021 half-year results – July 30

#### Annual General Shareholders' Meeting

Paris - May 20

## 4. Officer responsible for financial information

Thomas Baumgartner

Group Vice President, Finance and Administration

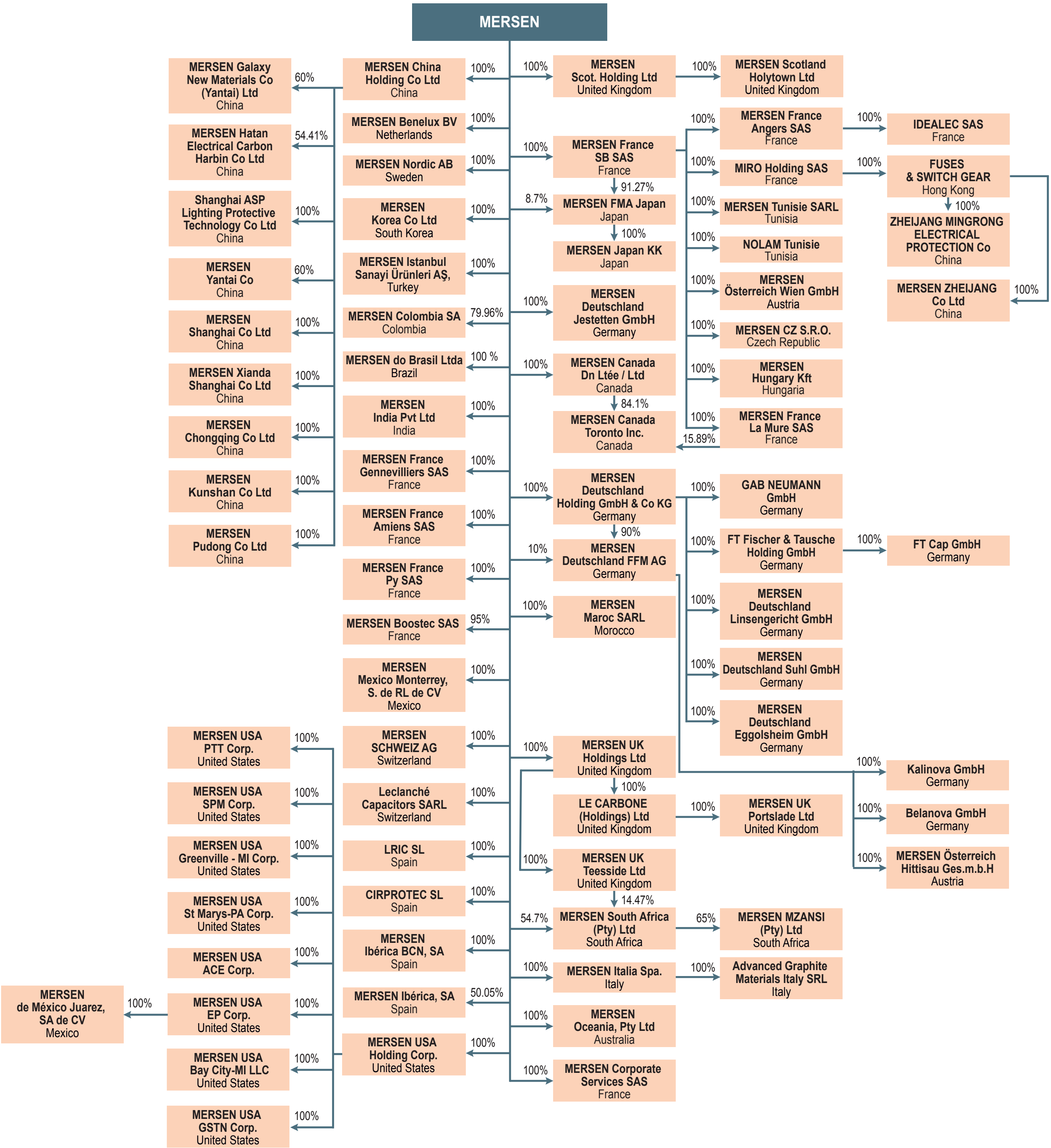
**Mersen**
Tour Eqho
2 avenue Gambetta
CS 10077
F-92066 Paris La Défense, France
Tel.: + 33 (0)1 46 91 54 19

# 6 CONSOLIDATED FINANCIAL STATEMENTS



*NB: comments related to changes in the Group's operations, results and debt are presented in the Management Report (Chapter 3) of this Universal Registration Document.*

# CONSOLIDATION SCOPE AT DECEMBER 31, 2020



# LIST OF CONSOLIDATED COMPANIES

| | Consolidation method FC: Fully Consolidated | % of Group control | % of Group interests |
|---|---|---|---|
| **1. MERSEN** (France) | FC | 100 | 100 |
| **2. MERSEN France Amiens S.A.S** (France) | FC | 100 | 100 |
| **3. MERSEN France Gennevilliers S.A.S** (France) | FC | 100 | 100 |
| **4. MERSEN France Py S.A.S** (France) | FC | 100 | 100 |
| **5. MERSEN Corporate Services S.A.S** (France) | FC | 100 | 100 |
| **6. MERSEN France SB S.A.S** (France) | FC | 100 | 100 |
| - MERSEN France La Mure S.A.S (France) | FC | 100 | 100 |
| - MERSEN France Angers S.A.S (France) | FC | 100 | 100 |
| - Idéalec SAS (France) | FC | 100 | 100 |
| - MERSEN Österreich Wien Gmbh (Austria) | FC | 100 | 100 |
| - MERSEN CZ S.R.O. (Czech Republic) | FC | 100 | 100 |
| - MERSEN Hungaria Kft (Hungary) | FC | 100 | 100 |
| - MERSEN Tunisie SARL (Tunisia) | FC | 100 | 100 |
| - NOLAM Tunisie SARL (Tunisia) | FC | 100 | 100 |
| - MIRO Holding SAS (France) | FC | 100 | 100 |
| - FUSES & SWITCHGEAR (Hong Kong) | FC | 100 | 100 |
| - Zhejiang Mingrong Electrical Protection Company (China) | FC | 100 | 100 |
| - Mersen Electrical System (Zhejiang) Co. Ltd (China) | FC | 100 | 100 |
| - MERSEN FMA Japan KK (Japan) | FC | 100 | 100 |
| - MERSEN Japan KK (Japan) | FC | 100 | 100 |
| **7. MERSEN Boostec S.A.S** (France) | FC | 95 | 95 |
| **8. MERSEN Deutschland Holding GmbH & Co. KG** (Germany) | FC | 100 | 100 |
| - MERSEN Deutschland FFM AG (Germany) | FC | 100 | 100 |
| - Belanova-Kalbach GmbH (Germany) | FC | 100 | 100 |
| - Kalinova-Kalbach GmbH (Germany) | FC | 100 | 100 |
| - MERSEN Österreich Hittisau Ges.m.b.H. (Austria) | FC | 100 | 100 |
| - MERSEN Deutschland Linsengericht GmbH (Germany) | FC | 100 | 100 |
| - MERSEN Deutschland Suhl GmbH (Germany) | FC | 100 | 100 |
| - MERSEN Deutschland Eggolsheim GmbH (Germany) | FC | 100 | 100 |
| - FT Fischer & Tausche Holding Gmbh | FC | 100 | 100 |
| - FTCAP Gmbh (Germany) | FC | 100 | 100 |
| - GAB Neumann GmbH (Germany) | FC | 100 | 100 |
| **9. Leclanché Capacitors** (Switzerland) | FC | 100 | 100 |
| **10. MERSEN Deutschland Jestetten GmbH** (Germany) | FC | 100 | 100 |
| **11. MERSEN Ibérica S.A** (Spain) | FC | 50 | 50 |
| **12. MERSEN Ibérica BCN S.A** (Spain) | FC | 100 | 100 |
| **13. Cirprotec S.L.** (Spain) | FC | 100 | 100 |
| **14. LRIC S.L.** (Spain) | FC | 100 | 100 |
| **15. MERSEN UK Holdings Ltd.** (Great Britain) | FC | 100 | 100 |
| - Le Carbone (Holdings) Ltd. (Great Britain) | FC | 100 | 100 |
| - MERSEN UK Portslade Ltd. (Great Britain) | FC | 100 | 100 |
| - MERSEN UK Teeside Ltd. (Great Britain) | FC | 100 | 100 |

| | Consolidation method FC: Fully Consolidated | % of Group control | % of Group interests |
|---|---|---|---|
| **16. MERSEN Scotland Holding Ltd.** (Great Britain) | FC | 100 | 100 |
| - MERSEN Scotland Holytown Ltd. (Great Britain) | FC | 100 | 100 |
| **17. MERSEN Italia Spa.** (Italy) | FC | 100 | 100 |
| - Advanced Graphite Materials Italy SRL (Italy) | FC | 100 | 100 |
| **18. MERSEN Benelux BV** (Netherlands) | FC | 100 | 100 |
| **19. MERSEN Nordic AB** (Sweden) | FC | 100 | 100 |
| **20. MERSEN Schweiz AG** (Switzerland) | FC | 100 | 100 |
| **21. MERSEN Canada Dn Ltée / Ltd.** (Canada) | FC | 100 | 100 |
| - MERSEN Canada Toronto Inc. (Canada) | FC | 100 | 100 |
| **22. MERSEN USA Holding Corp.** (United States) | FC | 100 | 100 |
| - MERSEN USA PTT Corp. (United States) | FC | 100 | 100 |
| - MERSEN USA Greenville-MI Corp. (United States) | FC | 100 | 100 |
| - MERSEN USA St Marys-PA Corp. (United States) | FC | 100 | 100 |
| - MERSEN USA Bay City-MI Llc. (United States) | FC | 100 | 100 |
| - MERSEN USA Ace Corp (United States) | FC | 100 | 100 |
| - MERSEN USA EP Corp (United States) | FC | 100 | 100 |
| - MERSEN de México Juarez, S.A DE. C.V (Mexico) | FC | 100 | 100 |
| - MERSEN USA SPM Corp. (United States) | FC | 100 | 100 |
| - MERSEN USA GSTN Corp. (United States) | FC | 100 | 100 |
| **23. MERSEN Mexico Monterrey, S de R.L. de C.V.** (Mexico) | FC | 100 | 100 |
| **24. MERSEN Oceania, Pty Ltd.** (Australia) | FC | 100 | 100 |
| **25. MERSEN Korea Co. Ltd.** (South Korea) | FC | 100 | 100 |
| **26. MERSEN India Pvt. Ltd.** (India) | FC | 100 | 100 |
| **27. MERSEN China holding Co.** Ltd (China) | FC | 100 | 100 |
| - MERSEN Pudong Co. Ltd (China) | FC | 100 | 100 |
| - MERSEN Chongqing Co. Ltd (China) | FC | 100 | 100 |
| - MERSEN Kunshan Co. Ltd (China) | FC | 100 | 100 |
| - MERSEN Xianda Shanghai Co. Ltd (China) | FC | 100 | 100 |
| - MERSEN Shanghai Co. Ltd (China) | FC | 100 | 100 |
| - MERSEN Yantai Co. (China) | FC | 60 | 60 |
| - Shanghai ASP Lighting Protective Technology Co. Ltd (China) | FC | 100 | 100 |
| - MERSEN Hatan Electrical Carbon (Harbin) Co. Ltd (China) | FC | 54 | 54 |
| - MERSEN Galaxy New Materials (Yantai) Co. Ltd (China) | FC | 60 | 60 |
| **28. MERSEN South Africa PTY Ltd** (South Africa) | FC | 69 | 69 |
| - MERSEN Mzansi PTY Ltd (South Africa) | FC | 69 | 47 |
| **29. MERSEN do Brasil Ltda.** (Brazil) | FC | 100 | 100 |
| **30. MERSEN Istanbul Sanayi Ürünleri** (Turkey) | FC | 100 | 100 |
| **31. MERSEN Colombia S.A** (Colombia) | FC | 80 | 80 |
| **32. MERSEN Maroc S.A.R.L** (Morocco) | FC | 100 | 100 |

All these companies have a fiscal year that corresponds to the calendar year.

# CHANGES IN CONSOLIDATION SCOPE OVER THE PAST TWO YEARS

The principal changes in consolidation scope that impacted the consolidated financial statements in 2019 and 2020 were as follows:

- In 2019, Mersen acquired:
  - the assets of the former Graftech site in Columbia (Tennessee) on June 28. These assets are carried on the books of the US company USA GSTN Corp., which was set up for this purpose,
  - acquired all of the shares of Advanced Graphite Materials in Italy (November).
- In 2020:
  - On February 28, Mersen completed the acquisition of all of the shares in GAB Neumann GmbH in Germany.
  - In July, Mersen acquired the insulation business of the US company, Americarb. This business's production equipment has been transferred to Mersen USA GSTN Corp's site.

# Significant events of the period: the Covid-19 crisis

## Impact on the Group's business

The Covid-19 pandemic hit the global economy hard in 2020, with many countries imposing travel bans, lockdowns and quarantine measures to slow the spread of the virus. These restrictions began in January and February in China and then reached Europe in early March and America at the end of March.

Although some countries eased their lockdowns after the first wave of the pandemic, business recovery only took place gradually during the summer and then new anti-Covid measures, albeit less strict, were imposed in the fourth quarter of the year as a second wave began.

As nations faced this unprecedented situation, many governments put in place financial support measures such as short-time working and furlough schemes, subsidies and government-backed loans.

During the year, Mersen received government aid (primarily in China) and made use of schemes covering the costs of furloughing its employees or using short-time working. At the height of the crisis, in April/May 2020, up to 10% of the Group's workforce was furloughed or on short-time working arrangements. The government support received for this totaled approximately €9 million over the year. However, the Group did not apply for any government-backed loans.

Mersen's operations were classified as essential by the authorities in most of the countries where lockdowns were imposed. This meant that most of its sites were able to stay open, with at least 85% of them operational in April and May 2020 when the first wave of the pandemic peaked. However, some sites had to be temporarily shut for health and safety reasons (for example for deep cleans or precautionary measures due to confirmed Covid cases), or due to supply-chain issues, such as supply stoppages.

The Group generated sales of €847 million in 2020, down 11.4% on an organic basis on 2019. Business was particularly weighed down by lower demand, although the picture was mixed across the Group's different markets. Aeronautics, chemicals and process industries all fell sharply, whereas sustainable development markets remained stable overall. By geographic region, Asia held up well overall (with a 2.1% organic decline), whereas Europe and North America both suffered double-digit organic decreases (16.14% and 13.2% respectively). However, the Group was able to draw on its global footprint to partially mitigate the effects of the crisis.

In order to adapt to the lower business volumes, the Group significantly reduced its budgeted operating costs and capital expenditure, except for programs related to the environment, health & safety and growth markets. Altogether, capital expenditure came to €57 million in 2020.

The additional direct costs caused by Covid-19 (purchase of masks, cleaning costs, exceptional transportation, etc.) came to some €4 million for the year, but were more than offset by reductions in expenses (particularly for business travel). These additional costs were included in operating income before non-recurring items.

As well as cost-reduction measures, targeted plans had to be drawn up to adapt businesses that will be lastingly impacted by the crisis, primarily those serving the chemicals and aeronautics industries. Restructurings were therefore carried out at some manufacturing sites, including two in France. In addition, following a review of the operating efficiency of the Electrical Power segment, a fuse manufacturing unit in China was relocated to a more modern plant, and the design and manufacture of capacitors were combined together at the Husum plant in Germany. Altogether, the Group's business adaptation plans could lead to a reduction of around 300 jobs across a large number of sites around the world.

In 2020, the Group also recorded impairment losses against property, plant, and equipment and intangible assets, mainly as a result of the morose chemicals market and the fact that certain production equipment is not being used to full capacity in markets that are structurally weak.

Non-recurring expenses totaled €51 million in 2020, including €25 million in impairment of goodwill and property, plant and equipment which had no cash impact. The Group also recognized approximately €4 million in impairment losses against deferred tax assets, mainly in France, as a result of its eroded business outlook in certain markets.

Mersen has a solid financial structure, with over €160 million in undrawn credit lines and more than €110 million in cash at December 31, 2020, meaning that the Group will be able to cover its debt repayments at least until 2023.

Net debt [1] at end-2020 stood at €180.2 million, significantly lower than one year earlier. The Group was able to adapt its inventory levels to its sales volumes and it did not see any erosion of its receipts and/or late payments during the months of the pandemic in 2020.

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

The leverage ratio (net debt/EBITDA) of 1.65x and gearing ratio (debt/equity) of 33% are well within its banking covenants.

During this unprecedented year, the Group's priority was to ensure the health and safety of its employees throughout the world. It encouraged the sharing of best practices and supported solidarity efforts. In line with this solidarity approach, the Board of Directors decided that at the Annual General Meeting it would not recommend a dividend payment or seek an authorization to allocate free shares to executives and managers. Lastly, the Group's corporate officers (the Chairman of the Board of Directors and the Chief Executive Officer) decided to reduce their fixed compensation for 2020 by 12.5% as part of the collective efforts required in view of the economic context.

### Judgments, estimates and assumptions applied

For the purpose of the consolidated financial statements at December 31, 2020, some of the Group's assets and liabilities were analyzed in light of the Covid-19 crisis. This concerned:

- Asset impairment losses: the Group revised its long-term forecasts and therefore performed its December 31, 2020 impairment tests based on projections that took into account the estimated effects of the Covid crisis. Any changes in the assumptions used for the purpose of the impairment tests could have a significant impact on the recoverable amount of the assets concerned. Following these tests, an impairment loss was recognized against the ACE CGU and the goodwill allocated to this CGU was written down by €17 million (see Note 7).
- The measurement of inventories, in order to ensure that any under-activity due to the Covid-19 crisis has been taken into account.
- Trade receivables and potential late payments, which are being extra carefully tracked given that credit insurers are reducing their coverage.
- Employee benefit obligations, which were remeasured in view of the decrease in the discount rates applied for all of the Group's geographic regions and the increase in the fair value of pension plan assets. (see Note 14).
- The recoverability of deferred tax assets, which was tested, with €4 million in impairment losses recorded against deferred tax assets recognized for tax losses, mainly in France. (see Note 23).

# CONSOLIDATED STATEMENT OF INCOME

| *In millions of euros* | Notes | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| Consolidated sales | 19 | 847.2 | 950.2 |
| Cost of sales | | (595.6) | (650.0) |
| **Total gross income** | | **251.6** | **300.2** |
| Selling and marketing expenses | | (71.4) | (80.0) |
| Administrative and research expenses | | (107.9) | (114.8) |
| Amortization of revalued intangible assets | | (1.4) | (1.3) |
| Other operating expenses | | (2.3) | (2.0) |
| **OPERATING INCOME BEFORE NON-RECURRING ITEMS** | | **68.6** | **102.1** |
| Non-recurring expenses | 18 | (51.4) | (11.2) |
| Non-recurring income | 18 | 0.0 | 0.0 |
| **OPERATING INCOME** | **19/21** | **17.2** | **90.9** |
| Financial expenses | | (12.0) | (13.2) |
| Financial income | | | |
| Finance costs | | (12.0) | (13.2) |
| **Net financial expense** | **22** | **(12.0)** | **(13.2)** |
| **Income from continuing operations before tax** | | **5.2** | **77.7** |
| Current and deferred income tax | 23 | (14.0) | (17.9) |
| **Net income from continuing operations** | | **(8.8)** | **59.8** |
| Net income/(loss) from operations held for sale and discontinued operations | 5 | 0.0 | 0.0 |
| **NET INCOME** | | **(8.8)** | **59.8** |
| Attributable to: | | | |
| - Owners of the parent | | (12.0) | 57.3 |
| - Non-controlling interests | | 3.2 | 2.5 |
| **NET INCOME/(LOSS) FOR THE PERIOD** | | **(8.8)** | **59.8** |
| **Earnings/(loss) per share** | **24** | | |
| Basic earnings/(loss) per share *(€)* | | (0.58) | 2.76 |
| Diluted earnings/(loss) per share *(€)* | | (0.57) | 2.68 |
| **Earnings/(loss) per share from continuing operations** | **24** | | |
| Basic earnings/(loss) per share *(€)* | | (0.58) | 2.76 |
| Diluted earnings/(loss) per share *(€)* | | (0.57) | 2.68 |
| **Earnings/(loss) per share from operations held for sale and discontinued operations** | **24** | | |
| Basic earnings/(loss) per share *(€)* | | 0.00 | 0.00 |
| Diluted earnings/(loss) per share *(€)* | | 0.00 | 0.00 |

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| *In millions of euros* | Notes | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|---|
| **NET INCOME/(LOSS) FOR THE PERIOD** | | **(8.8)** | **59.8** |
| **Items that will not be subsequently reclassified to income** | | | |
| Financial assets at fair value through “Other comprehensive income” | | (0.6) | 0.2 |
| Remeasurements of the net defined benefit liability (asset) | | (0.7) | (9.2) |
| Tax impact | | 0.3 | 2.1 |
| | | (1.0) | (6.9) |
| **Items that may subsequently be reclassified to income** | | | |
| Change in fair value of hedging instruments | | 1.4 | 1.4 |
| Exchange differences on translation of assets and liabilities at the period-end rate | | (27.5) | 6.4 |
| Tax impact | | (0.4) | (0.2) |
| | | (26.5) | 7.6 |
| **INCOME AND EXPENSES RECOGNIZED DIRECTLY IN EQUITY** | | **(27.5)** | **0.7** |
| **TOTAL COMPREHENSIVE INCOME/(LOSS)** | | **(36.3)** | **60.5** |
| Attributable to: | | | |
| - Owners of the parent | | (39.0) | 57.9 |
| - Non-controlling interests | | 2.7 | 2.6 |
| **TOTAL COMPREHENSIVE INCOME/(LOSS)** | | **(36.3)** | **60.5** |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## ASSETS

| *In millions of euros* | Note | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| **Intangible assets** | | | |
| - Goodwill | 6 | 256.8 | 280.6 |
| - Other intangible assets | 8 | 34.6 | 34.2 |
| **Property, plant and equipment** | 8 | | |
| - Land | | 32.1 | 32.3 |
| - Buildings | | 75.9 | 78.8 |
| - Plant, equipment and other tangible assets | | 186.7 | 196.0 |
| - Assets in progress | | 42.7 | 31.3 |
| - Right-of-use assets | 16 | 46.2 | 50.2 |
| **Non-current financial assets** | | | |
| - Equity interests | 9 | 3.5 | 3.7 |
| - Non-current derivatives | 3 | | |
| - Other financial assets | | 3.7 | 4.2 |
| **Non-current tax assets** | | | |
| - Deferred tax assets | 23 | 25.0 | 29.3 |
| - Long-term portion of current tax assets | | 9.1 | 7.8 |
| **TOTAL NON-CURRENT ASSETS** | | **716.3** | **748.4** |
| **CURRENT ASSETS** | | | |
| - Inventories | 10 | 181.1 | 207.0 |
| - Trade receivables | 11 | 128.2 | 147.3 |
| - Contract assets | | 6.9 | 9.8 |
| - Other operating receivables | | 20.6 | 21.7 |
| - Short-term portion of current tax assets | | 2.5 | 3.6 |
| - Other current assets | | 0.0 | 0.0 |
| - Current financial assets | 15 | 26.0 | 16.5 |
| - Current derivatives | 3 | 3.4 | 1.4 |
| - Cash and cash equivalents | 15 | 110.7 | 45.2 |
| - Assets held for sale and discontinued operations | 5 | 0.0 | 0.0 |
| **TOTAL CURRENT ASSETS** | | **479.4** | **452.5** |
| **TOTAL ASSETS** | | **1,195.7** | **1,200.9** |

## EQUITY AND LIABILITIES

| *In millions of euros* | Note | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|---|
| **EQUITY** | | | |
| - Share capital | 12 | 41.7 | 41.7 |
| - Retained earnings and other reserves | | 509.5 | 452.6 |
| - Net income for the period | | (12.0) | 57.3 |
| - Cumulative translation adjustments | | (30.0) | (3.0) |
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** | | **509.2** | **548.6** |
| - Non-controlling interests | | 24.5 | 22.0 |
| **TOTAL EQUITY** | | **533.7** | **570.6** |
| **NON-CURRENT LIABILITIES** | | | |
| - Non-current provisions | 13 | 9.3 | 6.2 |
| - Employee benefit obligations | 14 | 71.7 | 75.0 |
| - Deferred tax liabilities | 23 | 24.7 | 30.3 |
| - Long and medium-term borrowings | 15 | 230.9 | 235.4 |
| - Lease liabilities | 16 | 46.6 | 48.1 |
| - Non-current derivatives | 3 | 0.0 | 0.1 |
| **TOTAL NON-CURRENT LIABILITIES** | | **383.2** | **395.1** |
| **CURRENT LIABILITIES** | | | |
| - Trade payables | | 56.1 | 60.6 |
| - Contract liabilities | | 23.6 | 29.1 |
| - Other operating payables | | 87.5 | 88.6 |
| - Current provisions | 13 | 17.5 | 6.1 |
| - Short-term portion of current tax liabilities | | 4.3 | 3.6 |
| - Miscellaneous liabilities | 13 | 2.2 | 1.8 |
| - Other current financial liabilities | | 74.2 | 27.3 |
| - Current derivatives | 3 | 0.9 | 0.2 |
| - Financial current accounts | 15 | 0.2 | 0.7 |
| - Bank overdrafts | 15 | 11.6 | 16.5 |
| - Liabilities related to assets held for sale and discontinued operations | 5 | 0.7 | 0.7 |
| **TOTAL CURRENT LIABILITIES** | | **278.8** | **235.2** |
| **TOTAL EQUITY AND LIABILITIES** | | **1,195.7** | **1,200.9** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to owners of the parent | | | | | | |
|---|---|---|---|---|---|---|---|
| *In millions of euros* | Share capital | Additional paid-in capital, retained earnings and other reserves | Net income/ (expense) for the period | Translation adjust-ments | Total | Non-controlling interests | Total equity |
| **AT JANUARY 1, 2019** | **41.5** | **417.6** | **56.5** | **(9.3)** | **506.3** | **21.8** | **528.1** |
| Prior-period net income | | 56.5 | (56.5) | | 0.0 | | 0.0 |
| Net income for the period | | | 57.3 | | 57.3 | 2.5 | 59.8 |
| Change in fair value of derivative hedging instruments, net of tax | | 1.2 | | | 1.2 | | 1.2 |
| Financial assets as at their fair value | | 0.2 | | | 0.2 | | 0.2 |
| Revaluations of the net liabilities (assets) for defined benefits after taxes | | (7.1) | | | (7.1) | | (7.1) |
| Translation adjustment | | | | 6.3 | 6.3 | 0.1 | 6.4 |
| **Total other comprehensive income** | | **(5.7)** | **0.0** | **6.3** | **0.6** | **(0.2)** | **0.7** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **0.0** | **(5.7)** | **57.3** | **6.3** | **57.9** | **2.6** | **60.5** |
| Dividends paid | | (19.5) | | | (19.5) | (2.4) | (21.9) |
| Treasury shares | | (0.2) | | | (0.2) | | (0.2) |
| Capital increase | 0.2 | 1.3 | | | 1.5 | | 1.5 |
| Stock options and free shares | | 2.5 | | | 2.5 | | 2.5 |
| Changes in non-controlling interests | | | | | 0.0 | | 0.0 |
| Other | | 0.1 | | | 0.1 | | 0.1 |
| **AT DECEMBER 31, 2019** | **41.7** | **452.6** | **57.3** | **(3.0)** | **548.6** | **22.0** | **570.6** |
| Prior-period net income | | 57.3 | (57.3) | | 0.0 | | 0.0 |
| Net income for the period | | | (12.0) | | (12.0) | 3.2 | (8.8) |
| Change in fair value of derivative hedging instruments, net of tax | | 1.0 | | | 1.0 | | 1.0 |
| Financial assets at fair value | | (0.6) | | | (0.6) | | (0.6) |
| Remeasurements of the net defined benefit liability (asset) after tax | | (0.4) | | | (0.4) | | (0.4) |
| Impairment of receivables | | | | | 0.0 | | 0.0 |
| Translation adjustment | | | | (27.0) | (27.0) | (0.5) | (27.5) |
| **Total other comprehensive income/(loss)** | **0.0** | **0.0** | **0.0** | **(27.0)** | **(27.0)** | **(0.5)** | **(27.5)** |
| **COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD** | **0.0** | **0.0** | **(12.0)** | **(27.0)** | **(39.0)** | **2.7** | **(36.3)** |
| Dividends paid | | | | | 0.0 | (0.2) | (0.2) |
| Treasury shares | | (2.7) | | | (2.7) | | (2.7) |
| Capital increase | | 0.1 | | | 0.1 | | 0.1 |
| Stock options and free shares | | 2.1 | | | 2.1 | | 2.1 |
| Changes in non-controlling interests | | | | | 0.0 | | 0.0 |
| Other | | 0.1 | | | 0.1 | | 0.1 |
| **AT DECEMBER 31, 2020** | **41.7** | **509.5** | **(12.0)** | **(30.0)** | **509.2** | **24.5** | **533.7** |

# Consolidated statement of cash flows

| *In millions of euros* | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Income before tax | 5.2 | 77.7 |
| Depreciation and amortization | 52.9 | 51.2 |
| Additions to/(reversals from) provisions | 32.0 | (0.5) |
| Net financial income | 12.0 | 13.2 |
| Capital gains on asset disposals | 0.2 | 0.3 |
| Other | 10.4 | 7.2 |
| **Cash generated by operating activities before change in WCR** | **112.7** | **149.1** |
| Change in working capital requirement | 31.4 | (9.8) |
| Income tax paid | (11.4) | (16.0) |
| **Net cash generated by continuing operating activities** | **132.7** | **123.3** |
| **Cash generated by/(used in) discontinued operations** | **0.0** | **(0.2)** |
| **NET CASH GENERATED BY OPERATING ACTIVITIES** | **132.7** | **123.1** |
| **Cash flows from investing activities** | | |
| Intangible assets | (5.2) | (4.6) |
| Property, plant and equipment | (58.4) | (65.3) |
| Decreases in amounts due to suppliers of non-current assets | 1.7 | 2.6 |
| Financial assets | 0.0 | 0.0 |
| Changes in scope of consolidation | (13.6) | (19.4) |
| Other cash flows from investing activities | 1.1 | (0.2) |
| **Cash used in investing activities from continuing operations** | **(74.4)** | **(86.9)** |
| **Cash generated by/(used in) investing activities from discontinued operations** | **0.0** | **0.0** |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(74.4)** | **(86.9)** |
| **NET CASH GENERATED BY OPERATING AND INVESTING ACTIVITIES** | **58.3** | **36.2** |
| Amounts received/(paid) on capital increases/reductions and other changes in equity | (3.5) | 1.4 |
| Net dividends paid to shareholders and non-controlling interests | (0.1) | (22.1) |
| Interest payments | (7.4) | (7.9) |
| Lease payments | (13.5) | (12.7) |
| Change in debt | 29.2 | 16.5 |
| **NET CASH GENERATED BY FINANCING ACTIVITIES** | **4.7** | **(24.8)** |
| Increase in cash and cash equivalents | 63.0 | 11.4 |
| Cash and cash equivalents at beginning of year (Note 15) | 45.2 | 34.8 |
| Cash and cash equivalents at year-end (Note 15) | 110.7 | 45.2 |
| Changes in scope of consolidation | 0.0 | 0.0 |
| Impact of currency fluctuations | (2.5) | 1.0 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **63.0** | **11.4** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## SUMMARY OF THE NOTES TO THE FINANCIAL STATEMENTS

## Note 1 Compliance statement

In accordance with Regulation (EC) No. 1606/2002 of July 19, 2002, which applies to the consolidated financial statements of European companies listed on a regulated market, and as a result of its listing in an EU country, the consolidated financial statements of Mersen and its subsidiaries (the "Group") have been prepared in accordance with IFRS (International Financial Reporting Standards).

The standards and interpretations that are mandatory at January 1, 2020 are indicated in Note 2. The new standards applied with effect from 2020 are presented in Note 2-W. The standards and interpretations yet to be applied appear in Note 2-X.

The options chosen by the Group are indicated in the chapters that follow.

The consolidated financial statements at December 31, 2020 were prepared by applying the principles for recognizing and valuing transactions set forth in the IFRS standards adopted in the European Union on this date. They were also prepared in accordance with the rules of presentation and financial information applicable to annual financial statements, as defined in the General Regulation of the French Financial Markets Authority (Autorité des Marchés Financiers -AMF).

For comparison purposes, the 2020 consolidated financial statements include data for 2019, which were prepared using the same accounting rules.

The accounting principles described in Note 2 et seq. were used to prepare the comparative information and the 2020 annual financial statements.

## Note 2 Summary of significant accounting policies and methods

### A - Scope and consolidation method

The consolidated financial statements include the financial statements of the parent company as well as those of companies controlled by the parent company.

Income from subsidiaries acquired or sold during the period is included in the consolidated statement of income since the date of acquisition or up to the loss of control, respectively.

All intra-Group transactions and balances are eliminated.

The consolidated financial statements have been prepared in euros.

The Group's business is not seasonal; both sales and purchases are spread evenly over the year.

### B - Presentation of the financial statements

The Mersen group presents its financial statements in accordance with the principles contained in the revised standard IAS 1 "Presentation of Financial Statements".

#### *B1 - Statement of comprehensive income*

In view of customary practice and the nature of its business, the Group has opted to present the statement of income using the function of expense method, which consists in classifying expenses according to their function under cost of sales, the cost of commercial activities, administrative activities and Research and Development (R&D).

The Group presents comprehensive income in two statements consisting of a statement of income and a separate statement showing income and other items of comprehensive income.

#### *B2 - Consolidated statement of financial position*

Assets and liabilities linked to the operating cycle and those having a maturity of less than 12 months at the reporting date are classified as current. Other assets and liabilities are classified as non-current.

#### *B3 - Statement of cash flows*

The Group prepares the statement of cash flows using the indirect method and as stipulated in IAS 7.

The indirect method consists in determining the cash flows relating to the operational activities, for which net income or loss is adjusted for the effects of non-cash transactions and items relating to investment and financing activities.

#### *B4 - Activities, assets and liabilities held for sale and discontinued operations*

In application of IFRS 5, assets and liabilities that are immediately available for sale in their current state, and whose sale is highly probable, are presented on the statement of financial position under assets and liabilities held for sale. Where a group of assets is held for sale as a single transaction and this group of assets represents a distinct component of the entity (business segment or principal and distinct geographical region covered by a single and coordinated disposal plan, or a subsidiary acquired exclusively with a view to resale), we consider the group of assets as a whole, together with the related liabilities. The sale must take place during the year following this presentation of the asset or group of assets.

The non-current assets or group of assets held for sale are stated at the lower of their net carrying amount and the fair value net of disposal costs. Non-current assets presented in the statement of financial position as held for sale are no longer depreciated (or amortized) once they are presented as such.

For groups of assets that meet the definition of an operation held for sale or discontinued, their net income is presented separately from the net income of continuing operations and their cash flows are presented on separate lines in the cash flow statement.

## C - Foreign currency translation

The financial statements of the Group's foreign subsidiaries are prepared in their functional currency.

The statements of financial position of companies whose functional currency is not the euro are translated into euro at the closing exchange rate, with the exception of equity, which is translated at the historic exchange rate. Statements of income are translated at the average exchange rate during the period; the average exchange rate is the approximate value of the exchange rate on the date of the transaction, in the absence of significant fluctuations.

Foreign exchange adjustments resulting from translation are recognized under other items of comprehensive income, and are presented in the currency translation reserve component of equity. However, if the operation involves a subsidiary that is not wholly owned, a foreign exchange difference proportional to the percentage of the holding is assigned to the non-controlling interests. Where a foreign operation is sold and control or significant influence or joint control is lost, the aggregate amount of the corresponding foreign exchange differences is reclassified in income. Where the Group sells part of its equity interest in a subsidiary that includes a foreign operation while retaining control, a proportional share of the aggregate amount of the foreign exchange differences is reallocated to non-controlling interests. Where the Group sells only a part of its equity interest in an affiliated or proportionally consolidated company that includes a foreign operation abroad, but maintains a significant interest or joint control, the proportional share of the aggregate amount of the foreign exchange differences is reclassified under income.

With the exception of cash that is translated at the closing exchange rate, the cash flow statement is translated at the average exchange rate, unless it is not appropriate to do so.

Statement of financial position translation differences are recorded separately in equity under cumulative translation adjustments and include:

- the impact of the exchange rate movements on assets and liabilities;
- the difference between income calculated at the average exchange rate and income calculated at the year-end exchange rate.

Goodwill and fair value adjustments resulting from the acquisition of subsidiaries whose functional currency is not the euro are treated as assets and liabilities of the subsidiary. They are therefore stated in the functional currency of the subsidiary and translated at the closing exchange rate.

## D - Translation of foreign currency transactions

The recognition and measurement of foreign currency transactions are defined by IAS 21 "Effects of Changes in Foreign Exchange Rates".

Foreign currency transactions are translated at the exchange rate effective at the time of the transaction. At the end of the fiscal year, monetary assets and liabilities denominated in foreign currencies are translated at the closing exchange rate. The resulting translation adjustments are recognized in operating income under foreign exchange gains and losses.

Translation adjustments on financial instruments denominated in foreign currencies corresponding to a net investment hedge at a foreign subsidiary are recognized in equity under cumulative translation adjustments.

## E - Hedging

The recognition and measurement of hedging transactions are defined by IAS 32 and 39.

### *E1 - Currency and commodity hedging*

A currency derivative is eligible for hedge accounting provided that the hedging relationship was documented from the outset and that its effectiveness over its lifetime has been demonstrated.

Hedging protects against variations in the value of assets, liabilities or firm commitments; it also guards against variations in the value of cash flows (sales generated by the company's assets, for example).

Derivatives are stated at fair value. Changes in the fair value of these instruments are recognized using the following methods:

- changes in the fair value of instruments eligible for the hedging of future cash flows are recognized directly in equity for the effective component of the hedge (intrinsic value); changes in the fair value of these instruments are then recognized in operating income and offset changes in the value of the hedged assets, liabilities, or firm commitments as and when they occur. The time value of the hedges is recognized in operating income under other operating expenses;
- changes in the fair value of instruments not eligible for hedging future cash flows are recognized directly in income.

### *E2 - Interest rate hedging*

Interest rate derivatives are valued on the statement of financial position at fair value. Changes in fair value are recognized using the following methods:

- the ineffective component of the derivative instrument is recognized under income as the cost of debt;
- the effective component of the derivative instrument is recognized as:
  - equity in the case of a derivative recognized as a cash flow hedge (e.g. a swap to fix a debt carrying a floating interest rate),
  - income (cost of debt) in the case of a derivative recognized as a fair value hedge (e.g. a swap turning a fixed interest rate into a floating interest rate). This recognition is offset by changes in the fair value of the hedged debt.

## F - Intangible assets

The applicable standards are IAS 38 "Intangible Assets", IAS 36 "Impairment of Assets" and IFRS 3 "Business Combinations".

In accordance with IAS 38 "Intangible Assets", only items whose future economic benefits are likely to benefit the Group and whose cost can be reliably determined are recognized as intangible assets.

The Group's intangible assets consist primarily of goodwill.

Other intangible assets (customer relationships, technology) with a finite lifespan are recognized at cost less accumulated amortization and impairment. Amortization is recognized as an expense on a straight-line basis over the estimated useful life.

### *F1 - Goodwill*

The Group recognizes business combinations using the acquisition method when an acquired set of activities and assets meets the definition of a business and the Group has obtained control of that business. In order for an integrated set of activities and assets to be considered by the Group as a business, it has to include, at a minimum, an input, and a substantive process that together significantly contribute to the ability to produce goods or services.

Goodwill arising on business combinations corresponds to the fair value of the consideration transferred (including the fair value of any equity interest previously held in the acquired company) plus the amount recognized for any non-controlling interest in the acquired company, less the net amount recognized (usually the fair value) for the identifiable assets acquired and liabilities assumed, with all these items measured at their acquisition-date values. When the difference is negative, the resulting gain is recognized as a bargain purchase in income.

The Group chooses, transaction by transaction, on the date of acquisition, to value any non-controlling interest at either its fair value or its share in the identifiable net assets of the acquired company recognized.

Goodwill is allocated to the Group's cash-generating units (CGU). The Group has defined the following five CGUs:

- Power Transfer Technologies;
- Graphite Specialties;
- Anticorrosion Equipment;
- Solutions for Power Management;
- Electrical Protection & Control.

In accordance with IFRS 3 "Business Combinations", goodwill is not amortized. It is subject to an impairment test as soon as indications of impairment appear, and at least once a year.

In accordance with IAS 36, the method used by the Group for testing the impairment of assets consists in:

- developing cash flows after normative taxes on the basis of the Strategic Plan of the relevant CGU;
- calculating a value in use using a method comparable to any business valuation by discounting the cash flows at the Group's Weighted Average Cost of Capital (WACC);
- comparing this value in use with the carrying amount of the assets to determine whether an impairment loss should be recorded.

The value in use is determined from discounted projections of future operating cash flows over five years, and a terminal value. The discount rate used for these calculations is the weighted average cost of capital after tax for each cash generating unit (see Note 7).

Any impairment losses recognized against goodwill are irreversible.

### *F2 - Patents and licenses*

Patents and licenses are amortized on a straight-line basis over the legal protection period.

Computer software is amortized on a straight-line basis over its useful life.

### *F3 - Development costs*

According to IAS 38 "Intangible Assets", development costs are capitalized as soon as it has been demonstrated:

- that the company has the intention and the financial and technical capacity to see the development project through to its term;
- that the future economic benefits that are attributable to development spending will benefit the company;
- that the cost of this asset can be measured reliably; and
- how the intangible asset will generate probable future economic benefits.

Research and Development costs that do not meet the above criteria are recognized as expenses in the period during which they are incurred. Capitalized development costs that meet the criteria laid down by the new accounting framework are recorded on the assets side of the statement of financial position. They are amortized on a straight-line basis over their useful life.

### *F4 - Intangible assets acquired in connection with a business combination*

Intangible assets also include the technology, trademarks and customer relationships valued at the time of the acquisition of companies in application of IFRS 3 "Business Combinations".

Amortization is recognized as an expense on a straight-line basis over the estimated useful life of the intangible assets, other than goodwill, as soon as they are ready to be brought into service. The estimated useful lives for the current period and comparable period for the acquisitions made were as follows:

- trademarks whose useful life is finite — up to 30 years
- patents and technology — up to 30 years
- customer relationships — up to 30 years

To determine whether the useful life of an intangible asset is finite or indefinite, the Group examines the external and internal factors relating to the asset according to the criteria laid down in the standard.

## G - Property, plant and equipment

In accordance with IAS 16 “Property, plant and equipment”, only items whose cost can be reliably determined and whose future economic benefits will probably benefit the Group are recognized as Property, plant and equipment.

Property, plant and equipment are valued at their historical acquisition cost, less accumulated depreciation and impairments observed, with the exception of land, which was revalued on the date of the IFRS transition date.

Borrowing costs directly attributable to the acquisition, construction and production of qualifying assets are included in the cost of this asset.

Depreciation is calculated on the basis of the rate of consumption of the expected economic benefits for each asset item on the basis of the acquisition cost, where appropriate less a residual value.

The various components of property, plant and equipment are recognized separately if their useful life and therefore their depreciation period are significantly different.

Accordingly, the depreciation method used by the Group is the straight-line method, depending on the projected useful life of the asset.

The periods used are:

- construction: 20 to 50 years;
- fixtures and fittings: 10 to 15 years;
- plant and equipment: 3 to 10 years;
- vehicles: 3 to 5 years.

These depreciation periods and the residual values are reviewed and adjusted at the end of each annual period; the changes are applied prospectively.

Investment subsidies are recognized at the outset as a deduction from the gross value of the asset.

## H - Leases

In accordance with IFRS 16, the Group’s statement of financial position includes right-of-use assets and lease liabilities relating to leases of assets valued at more than €5,000 (USD 5,000) or leases with a term of more than one year.

Right-of-use assets are initially measured at cost and subsequently amortized on a straight-line basis over the reasonably certain term of the lease. Where necessary, right-of-use assets are adjusted for any loss in value.

Lease liabilities are initially recognized at the present value of the lease payments not yet paid at the commencement date of the lease. Subsequent to initial recognition, lease liabilities are remeasured if (i) there is a change in future lease payments resulting from a change in an index or a rate, or (ii) there is a change in the amounts expected to be payable under a residual value guarantee, or (iii) the Group reassesses the probability of it exercising a purchase, renewal or termination option, or (iv) there is a change in an in-substance fixed lease payment.

One of the key assumptions is that specific discount rates should be set for each country, to be calculated according to the default risk of the country and the credit risk of the lessee entity, as well as the Group’s external financing conditions.

The Group estimates the reasonably certain term of its leases based on its past experience.

In the consolidated statement of financial position, the Group presents right-of-use assets on a separate line in non-current assets. Lease liabilities are also presented separately and not included in borrowings.

## I - Impairment of property, plant and equipment and intangible assets

In accordance with IAS 36 “Impairment of Assets”, if events or changes in the market environment suggest that there is a risk of impairment, the Group’s property, plant and equipment and intangible assets are subject to a detailed review to determine whether their carrying amount is lower than their recoverable amount; this amount is defined as the higher of either their fair value less costs of disposals, or their value in use.

If the recoverable amount of the assets is lower than their carrying amounts, an impairment loss is recognized equivalent to the difference between these two amounts. Impairment losses relating to property, plant and equipment and intangible assets (excluding goodwill) with a finite useful life can be subsequently reversed if the recoverable amount becomes higher than the carrying amount (within the limit of the impairment loss originally recognized).

The recoverable amount of an asset is usually determined on the basis of its value in use. This corresponds to the value of the future economic benefits expected from their use and sale. It is calculated in particular by reference to the future discounted cash flows determined in line with economic forecasts and provisional operating conditions used by the Management of the Mersen group.

IAS 36 defines the discount rate to be used as the pre-tax rate reflecting the current market assessments of the time value of money and the risks specific to the asset. It is the rate of return that investors would require if they were to choose an investment whose amount, maturity and risks were equivalent to those of the relevant asset or Cash-Generating Unit (CGU).

## J - Financial assets and liabilities

Measurement and recognition of financial assets and liabilities are defined by IFRS 9 “Financial Instruments”, IAS 32 “Financial Instruments: Presentation” and IFRS 7 “Financial Instruments: Disclosures”.

Financial assets include equity instruments at fair value through other items of comprehensive income, the fair value of hedging instruments derivatives held as assets, guarantee deposits paid, loans and receivables, contract assets and cash and cash equivalents at amortized cost.

Current and non-current financial assets measured at amortized cost are written down in line with the expected loss model set out in IFRS 9: impairment of trade receivables is calculated based on historical loss rates, adjusted prospectively for future events that factor in both individual credit risks and the economic outlook on the markets in question.

Financial liabilities include borrowings, other financing facilities and bank overdrafts, guarantee deposits received, contract liabilities and the fair value of hedging instruments-derivatives held as liabilities. Unless they have been hedged at fair value, borrowings and other financial liabilities are measured at the amortized cost calculated using the effective interest rate (EIR).

### *Equity interests*

The equity interests of unconsolidated companies are non-current financial assets classified as “available for sale” and measured at their fair value.

For each investment, at initial recognition, the Group may make an irrevocable decision to present subsequent changes in the fair value of the investment in other comprehensive income.

The principal activity of the unconsolidated subsidiaries consists in the distribution of products manufactured by the consolidated companies.

Subsidiaries that are considered, individually or on an aggregate basis, to be immaterial, are not included in the consolidation scope.

## K - Capital

Ordinary shares are classified as equity instruments. Incidental costs directly attributable to the issuance of ordinary shares or share options are recognized as a deduction from equity, net of tax.

Treasury shares are recorded at their acquisition cost as a reduction in equity. The proceeds of the sale of these securities are posted directly to equity and do not contribute to the income for the fiscal year.

## L - Provisions

In accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, provisions are recognized if at the end of the year the Group has an obligation to a third party that is likely or certain to result in an outflow of resources corresponding to future economic benefits in favor of this third party.

This obligation may be legal, regulatory or contractual. It may also result from the Group’s practices or from public commitments that have created a legitimate expectation in the minds of the third parties concerned that the Group will assume certain responsibilities.

The estimate of the amount shown as provisions corresponds to the outflow of resources that the Group will probably have to cover in order to fulfill its obligation. If this amount cannot be reliably estimated, no provision is recognized; an explanation is then added to the notes to the financial statements.

Contingent liabilities correspond to potential obligations resulting from past events whose existence will only be confirmed by the occurrence of uncertain future events that are partly beyond the control of the company, or correspond to probable obligations for which the outflow of resources is not beyond its control. An explanation is then added to the notes to the financial statements.

In the case of restructuring, an obligation is created provided that the restructuring has been announced, or has commenced and is described in a detailed plan, before the closing date.

If the Company has a reliable timetable, liabilities are discounted if the effect of discounting is significant.

## M - Inventories

Inventories are valued at cost price, or at its probable net resale value if the latter is lower.

The cost price is the acquisition cost or the production cost.

The production cost takes into account the normal level of activity of the production tool.

Indirect costs taken into account when valuing work in progress and finished products include only those relating to production.

Interest expenses are not capitalized.

## N - Consolidated sales

Sales include sales of finished products and services relating to these products, sales of scrap, sales of goods purchased and invoiced shipping costs.

They are recognized in accordance with IFRS 15 “Revenue from Contracts with Customers”, i.e. revenue is recognized once control over a good or service passes to a customer for the amount of consideration to which a seller expects to be entitled once performance obligations have been satisfied.

Given the nature of the products and the Group’s general terms and conditions of sale, Group sales are usually recognized once the performance obligation has been satisfied, on the date the products leave the Group’s warehouse, or at delivery if Mersen is responsible for transporting the products. The products are recognized as revenue once (i) inherent control over performance obligations has been transferred to the customer, (ii) the consideration is expected to be recovered, and (iii) related costs, the possibility that the goods will be returned and the amount of revenue can all be reliably measured.

For the Advanced Materials segment, income from service agreements and construction contracts is recognized in the income statement based on the contract’s state of progress at the reporting date. Revenue is recognized as and when the performance obligations are satisfied. Progress in satisfying the performance obligations is measured based on work completed.

Use of the Percentage of Completion method requires compliance with two qualifying conditions set out in IFRS 15, paragraph 35(C).

Consequently, the Group recognizes revenue over time, if these two criteria are met:

- the asset created by Mersen has no other use apart from that provided for in the contract; and
- the Group has an enforceable right to payment for performance completed to date.

Moreover, the Group presents the contract in the statement of financial position as a contract asset or a contract liability depending on the relationship between the entity's performance and the customer's payment:

- contract assets mainly comprise the Group's accrued entitlements to payments for work completed but not billed at the reporting date,
- contract liabilities mainly comprise prepayments received from customers.

Income from associated activities appear in the statement of income under headings of a similar nature (other income, financial income) or as a deduction from expenses of the same type (commercial, general, administrative, research).

## O - Employee benefits

Post-employment benefits granted by the Group vary, depending on each subsidiary's legal obligations and policy on the matter. They include defined contribution plans and defined benefit plans.

In the case of defined contribution plans, the Group's obligations are limited to the payment of regular contributions to external organizations that provide administrative and financial management of the plans. The charges recorded in connection with these plans correspond to the contributions paid during the reference period.

A defined benefit plan is any post-employment benefit plan other than a defined contribution plan. The Group's liability under defined benefit plans is evaluated separately for each plan by estimating the amount of future benefits acquired by the staff in exchange for services rendered during the current period and previous periods. This amount is updated to determine its present value. The fair value of the plan's assets is then deducted to determine the net liabilities (assets). The Group determines the net interest expense (income) on the net liabilities (assets) for the defined benefits for the period, by applying the discount rate used at the beginning of the fiscal year to evaluate the obligation under the net liabilities (assets).

The Group calculates the discount rate with the help of an independent expert, taking into account market practices.

The calculations are performed each year by a qualified actuary, using the projected unit credit method. If calculations of net liabilities result in an asset for the Group, the amount recognized in connection with this asset may not exceed the discounted value of any economic benefit available in the form of a future repayment by the plan or reductions in future contributions to the plan. All the minimum funding requirements that apply to the Group's plan are taken into account to calculate the current value of the economic benefits. An economic benefit is available for the Group if it is feasible during the lifetime of the plan, or on the settlement dates of the plan's liabilities.

Remeasurement of net liabilities (assets) relating to the defined benefits include actuarial differences, the return on the plan assets (other than the amounts taken into account in the calculation of the net interest on the net liabilities (assets) and the change in the impact of the asset ceiling (other than the amounts taken into account in the calculation of the net interest on the net liabilities (assets), if any). The Group recognizes them immediately as other items of comprehensive income and all the other expenses relating to defined benefit plans are recognized on the statement of income as employee benefit obligations.

If the plan benefits change, the impact associated with past services rendered by personnel is recognized immediately in the statement of income at the time of the change. If a plan is reduced, the profit or the loss resulting from the reduction is also recognized immediately on the statement of income on the date of the reduction.

The Group recognizes the profit or loss resulting from the liquidation of a defined benefit plan at the time of the liquidation. The profit or loss resulting from a liquidation is equal to the difference between the discounted value of the liquidated defined benefit liability, calculated on the liquidation date, and the consideration of the liquidation, including any plan assets transferred and any payment made directly by the Group in connection with the liquidation.

## P - Non-recurring income and expense

Non-recurring income and expense correspond to expenses and income not arising during the normal course of the Company's business activities. This section is intended to recognize the impact of major events that may distort operating performance, and does not include any operating and recurring costs.

Non-recurring income and expense particularly include the following items:

- the proceeds of material and non-recurring sales: property, plant and equipment and intangible assets, equity interests, other financial fixed assets and other assets;
- impairment losses recognized on loans, goodwill, and assets;
- certain provisions;
- reorganization and restructuring expenses
- costs relating to acquisitions as part of a business combination.

## Q - Operating income

Operating income is shown before net finance expenses, taxes and non-controlling interests.

Operating subsidies are presented as a deduction from costs to which the subsidy relates.

## R - Deferred taxes

Accounting restatements or consolidation adjustments may affect the results of the consolidated companies. Temporal differences shown in the statement of financial position between consolidated values and the tax values of the corresponding assets and liabilities give rise to the calculation of deferred taxes.

In accordance with IAS 12, the Group presents deferred taxes in the consolidated statement of financial position separately from other assets and liabilities. Deferred tax assets are recorded on the statement of financial position provided that it is more likely than not that they will be recovered in subsequent years. Deferred tax assets and liabilities are not discounted.

The following factors are taken into account when assessing the Group's ability to recover these assets:

- projections of future taxable income;
- taxable income in previous years.

Deferred tax assets and liabilities are measured using the liability method, i.e., using the tax rate expected to be applied to the fiscal year in which the asset will be realized or the liability settled, on the basis of the tax rates (and tax regulations) that have been adopted or largely adopted at year-end, taking into account future rate rises or cuts.

The measurement of deferred tax assets and liabilities reflects the tax consequences that depend on the extent to which the company expects, at year-end, to recover or settle the carrying value of these assets and liabilities.

## S - Segment Reporting

IFRS 8 on segment information defines an operating segment as a component of an entity:

- that operates businesses from which it is likely to derive income from ordinary activities, and incur costs;
- whose operating income is reviewed regularly by the entity's chief operating decision maker with a view to taking decisions concerning the resources to be allocated to the segment and to assess its performance; and
- for which separate financial information is available.

The internal report made available to the chief operating decision maker, the Executive Committee, and the Board of Directors, corresponds to the managerial structure of the Mersen group, which is based on segmentation by type of business, as follows:

- **Advanced Materials** segment, which includes the Group's three businesses related to carbon materials: graphite specialties for high temperature applications (Graphite Specialties), anti-corrosion equipment (Anticorrosion Equipment), mainly used in the chemicals sector, and power transfer technologies (Power Transfer Technologies).
- **Electrical Power** segment, which includes the Group's two businesses related to the electrical market, namely Solutions for Power Management and electrical protection and control (primarily fuses, industrial fuse holders, and surge protection solutions) (Electrical Protection & Control).

In application of IFRS 8, the Group therefore identifies and presents its operating segments based on the information forwarded internally to the Executive Committee and the Board of Directors.

## T - Earnings per share

Earnings and diluted earnings per share are presented for the total income and for income from continuing operations.

Basic earnings per share are calculated by dividing the net income for the year attributable to the ordinary shares by the weighted average number of ordinary shares outstanding during the fiscal year.

To calculate diluted earnings per share, the net profit attributable to the ordinary shares and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares.

## U - Equity-linked benefits granted to employees

In accordance with IFRS 2 "Share-based Payment", the fair value of share purchase and stock options reserved for employees involving the Group's shares is measured at the grant date.

The value of share purchase and stock options depends in particular on the exercise price, the probability of fulfilling the conditions for the exercise of the option, the lifetime of the option, the current price of the underlying shares, the expected volatility of the share price, the expected dividends and the risk-free interest rate over the life of the option. This value is recorded under staff expenses on a straight-line basis over the vesting period, with a corresponding adjustment to equity for share-settled and debt-settled plans vis-à-vis the personnel for cash-settled plans.

## V - Use of estimates

For the preparation of the consolidated financial statements, the calculation of certain figures shown in the financial statements requires that assumptions, estimates or appraisals be used, in particular when calculating provisions and performing impairment tests. These assumptions, estimates or appraisals are carried out on the basis of the information available or existing situations at the reporting date. These estimates and assumptions are made on the basis of past experience and various other factors. The current sharply deteriorating economic and financial environment makes it difficult to accurately assess business prospects. The actual amounts may subsequently turn out to be different from the estimates and assumptions used.

The actual occurrence of certain events after the reporting date may subsequently differ from the assumptions, estimates and appraisals used in this context.

### *Use of management estimates in the application of the Group's accounting standards*

Mersen may be required to make estimates and to rely on assumptions that affect the carrying amount of assets and liabilities, income and expenses, and also information relating to unrealized assets and liabilities. Future earnings may differ significantly from these estimates.

The underlying estimates and assumptions are determined based on past experience and other factors considered to be reasonable in the circumstances. They thus serve as a basis for the exercise of the judgment required to determine the carrying amounts of assets and liabilities that cannot be obtained directly from other sources. Actual amounts may differ from the estimated values.

The underlying estimates and assumptions are reviewed on an ongoing basis. The impact of changes in accounting estimates is recognized during the period of the change, if this affects this period only, or during the period of the change and future periods if these are also affected by the change.

Notes 2-F1, 2-I and 7 relate to impairment testing of goodwill and other fixed assets. The Group's Management has conducted the tests on the basis of best expectations for future valuations of the businesses of the units concerned, taking into account the discount rate.

Notes 13 and 14 relating to provisions and employee benefit obligations describe the provisions introduced by Mersen. In calculating these provisions, the Group took into account the best estimate of these obligations.

Note 23 relating to the tax burden summarizes the Group's tax situation and is based, especially in France and Germany, on the best estimate that the Group has for future changes in taxable income.

All of these estimates are based on an organized process for gathering projections of future flows, with validation by the operational managers, as well as market data projections based on external indicators, used in accordance with consistent, documented methodologies.

The current climate of economic uncertainty in some countries, as well as the health crisis in China, make estimates more difficult.

## W - New standards applied

**Amendment to IFRS 16 – Covid-19-Related Rent Concessions**

The Group has applied the amendment to IFRS 16 concerning Covid-19-related rent concessions, which exempts lessees (subject to certain conditions) from having to assess whether rent concessions given as a direct consequence of the Covid-19 pandemic are lease modifications. Consequently, these rent concessions have been recognized directly in the consolidated income statement, but they did not represent a material amount in 2020.

**Amendments to IFRS 3**

The Group has applied Definition of a Business (Amendments to IFRS 3) for business combinations carried out since January 1, 2020 when assessing whether an acquired set of activities and assets corresponds to a business or a group of assets. See Note 2-F1 for the accounting methods used and see Note 4 for information about the Group's acquisition of a subsidiary during the year.

Several other new standards also came into effect as from January 1, 2020 but did not have a significant impact on the Group's financial statements.

## X - New standards, amendments and interpretations published but not yet effective

Certain new standards, amendments and interpretations will be effective for annual reporting periods beginning after January 1, 2020. Despite being available for early adoption, the new standards, amendments and interpretations were not applied by the Group in preparing its consolidated financial statements.

They are not expected to have a material impact on those consolidated financial statements.

# Note 3 Financial Risk Management

The Group is exposed to the following risks related to using financial instruments:

- Liquidity risk;
- Interest rate risk;
- Commodity risk;
- Currency risk;
- Credit risk.

This note provides information regarding the Group's exposure to each of the above risks, its objectives, its policy and its procedures for evaluating and managing risks.

Quantitative information is provided in other sections in the consolidated financial statements.

Information on capital management is presented in Note 12.

## Liquidity risk

Mersen has confirmed credit lines and borrowing facilities totaling €462.6 million, of which 59% had been drawn down at December 31, 2020. Based on the amounts drawn down, the average maturity of these credit lines or borrowing facilities is just under 4 years.

Mersen has the following principal financing agreements:

- A multi-currency syndicated bank loan, set up in July 2012 and amended in 2014 and 2017. The amount of this facility is €200 million, repayable in full in July 2024 following the exercise of extension options in 2018 and 2019. The interest payable is at a variable rate, plus a credit margin.
- Bilateral banking loans arranged at the end of 2019 amounting to RMB 170 million, repayable until 2024 and intended to finance the Mersen Group's operations in China.
- A 10-year US private placement (USPP) negotiated in November 2011 with a US investor, on which USD 50 million remained outstanding at December 31, 2019. The investor receives a fixed rate of interest.
- A €60 million German private placement ("Schuldschein") arranged in November 2016 with a pool of European and Asian investors, repayable in full at maturity after seven years. Investors receive interest at a variable rate based on the Euribor plus a credit margin.
- A €130 million German private placement ("Schuldschein") arranged in April 2019 with a pool of European and Asian investors, repayable in full at maturity after seven years. Investors receive fixed-rate interest on a nominal amount of €68 million and variable-rate interest at Euribor plus a credit margin on a nominal amount of €62 million.

In addition, as part of its policy to diversify its sources of financing, in March 2016 and May 2020, respectively, Mersen launched an NEU CP program and an NEU MTN program, amounting to a maximum of €200 million each. At December 31, 2020, the Group had used €30 million of the NEU CP program. This commercial paper has a maturity of less than one year and at its maturity date may be substituted by drawdowns on the Group Syndicated Loan. At the same date, the Group had used €10 million of the NEU MTN program, with maturities in 2022 and 2025.

### *Maturity schedule of confirmed credit lines and borrowings*

| | | | | Maturity | | |
|---|---|---|---|---|---|---|
| *(In millions of euros)* | Amount | Drawdown at Dec. 31, 2020 | Utilization rate Dec. 31, 2020 | Less than 1 year | From 1 to 5 years | More than 5 years |
| Group syndicated loan | 200.0 | 30.0 | 15% | 0.0 | 200.0 | 0.0 |
| NEU MTN | 10.0 | 10.0 | 100% | 0.0 | 10.0 | 0.0 |
| Confirmed credit lines - China | 21.2 | 0.0 | 0% | 0.0 | 21.2 | 0.0 |
| German private placements | 190.0 | 190.0 | 100% | 0.0 | 60.0 | 130.0 |
| US private placement | 40.7 | 40.7 | 100% | 40.7 | 0 | 0.0 |
| Other | 0.6 | 0.6 | 100% | 0.3 | 0.3 | 0.0 |
| **TOTAL** | **462.5** | **271.3** | **59%** | | | |
| **AVERAGE MATURITY (YEAR)** | **4.0**(1) | **4.0**(2) | | | | |

*(1) Maturity calculated on the basis of authorized amounts*
*(2) Maturity calculated on the basis of drawdown amounts*

***Breakdown by maturity of cash flows on drawdowns of confirmed credit facilities and borrowings***

| *(In millions of euros)* DRAWDOWNS | Drawndown at Dec. 31, 2020 | Expected cash flows | Maturity 1-6 months | 6-12 months | More than 1 year |
|---|---|---|---|---|---|
| Group syndicated loan | 30.0 | 30.1 | 30.1 | 0.0 | 0.0 |
| NEU MTN | 10.0 | 10.4 | 0.0 | 0.0 | 10.4 |
| Confirmed credit lines - China | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| German private placements | 190.0 | 203.1 | 1.4 | 1.4 | 200.3 |
| US private placement | 40.7 | 42.7 | 1.0 | 41.7 | 0 |
| Other | 0.6 | 0.6 | 0.1 | 0.1 | 0.4 |
| **TOTAL** | **271.3** | **286.9** | **32.6** | **43.2** | **211.1** |

## Interest rate risk

The interest rate risk management policy is approved by the CEO of the Group on the basis of recommendations made by Mersen's Finance Department. It consists of establishing positions from time to time taking into account variations in interest rates.

When it was acquired by Mersen, Scotland Holytown had an interest rate swap with a nominal amount of GBP 4 million that was arranged on January 15, 2008 to convert the interest on part of its confirmed medium-term debt into a fixed rate. Under this swap, the Company receives interest due to the lender and pays 5.38%. The repayment and duration profile of the swap match those of the debt. At December 31, 2020, the nominal amount stood at GBP 0.6 million.

The 2011 USPP is a fixed-rate instrument paying a 4.85% coupon.

The 2019 German private placement includes a €68 million fixed-interest tranche paying a coupon of 1.582%.

In March 2017 the Company set up an interest rate cap with a nominal value of €25 million in order to hedge part of its confirmed debt against an increase in the Euribor of over 1%.

| *(In millions of euros)* | Amount | Interest rate received | Interest rate paid | Maturity Less than 1 year | From 1 to 5 years | More than 5 years |
|---|---|---|---|---|---|---|
| *GBP* swap | 0.6 | 1-month Libor | 5.38% | 0.3 | 0.3 | 0 |

| *(In millions of euros)* *SWAP* | MTM [(a)] | Expected cash flows | Maturity Less than 1 year | From 1 to 5 years | More than 5 years |
|---|---|---|---|---|---|
| Assets | 0.002 | 0.0 | 0.0 | 0.0 | 0.0 |
| Equity and liabilities | (0.040) | (0.040) | (0.030) | (0.010) | 0.0 |

*(a) Mark-to-market = evaluated at market price.*

| *(In millions of euros)* | Amount | Variable rate | Rate for the year | MTM |
|---|---|---|---|---|
| **Cap (EUR)** | **25** | **6-month Euribor** | **1%** | **0.002** |

### *Sensitivity analysis of the fair value of fixed-income instruments*

The Group does not record any fixed-income financial assets or liabilities at fair value through the statement of income or designate any derivatives (interest rate swaps) as fair value hedges. Accordingly, a change in interest rates at the reporting date would not have any impact on the statement of income.

A change of 50 basis points in the interest rate would have triggered a change in other comprehensive income of €0.003 million (in 2019: €0.01 million). This calculation applies to the GBP 0.6 million interest rate swap and the €25 million interest rate cap.

## Commodity risk

Certain Group companies purchase raw materials or components comprising commodities, such as non-ferrous metals like copper, silver and zinc. Copper and silver are the two metals accounting for a significant volume of purchases (in total, around €35 million) for the Mersen group. Different hedging techniques, such as index-linking of purchase prices, index-linking of selling prices and bank hedging may be applied.

The commodity price risk management policy is validated by the Group's Executive Committee on the basis of recommendations by Mersen's Finance and Purchasing departments, and consists of establishing positions in the form of forward purchasing contracts or zero premium collars.

Around 60% of price risk on copper and 70% of price risk on silver can be covered centrally using bank hedges.

At end-2020, out of the quantities budgeted for 2021, 35% of the copper tonnage and 50% of the silver tonnage that could be hedged was hedged.

An increase or decrease in the price of copper and silver, with relation to closing prices at December 31, 2020 as indicated below, would have resulted in an increase/(decrease) in other comprehensive income and operating income by the amounts indicated below as a result of the commodity hedges.

| | Copper | | Silver | |
|---|---|---|---|---|
| **Impact** *(in millions of euros)* **At December 31, 2020** | **Other items of comprehensive income** | **Gains or losses recognized in operating income** | **Other items of comprehensive income** | **Gains or losses recognized in operating income** |
| Increase of 5% | 0.2 | 0.0 | 0.2 | 0.0 |
| Decrease of 5% | (0.1) | 0.0 | (0.2) | 0.0 |

### *Recognition at year-end 2020 of commodity hedges*

| **MTM**[a] *(stated in millions of euros)* | **Impact on 2020 other comprehensive income** | **Impact on 2020 income** |
|---|---|---|
| MTM of copper and silver hedges | 1.8 | 0.0 |

*(a) Mark-to-market = evaluated at market price.*

Other metals, primarily steel and reactive metals, are essentially used on the Chemical market. They are used for specific customer requirements and their cost is generally reflected in the commercial offer. As a result, changes in prices have a limited impact on the Group's gross margin.

Prices of petroleum-derived products, especially petroleum coke and pitch, which are raw materials used in the manufacture of graphite, have little correlation with oil prices. Energy, primarily electricity and gas, is purchased at fixed rates based on forecasted annual or multi-annual volumes depending on regions.

Changes in energy prices and petroleum derivatives have had little impact on the Group's margins overall, as they are partially or fully offset by reformulation programs.

## Currency risk

### *Fluctuations in the principal currencies used by the Group*

| | JPY | USD | KRW | GBP | RMB |
|---|---|---|---|---|---|
| Average exchange rate from Jan. 1, 2019 to Dec. 31, 2019[a] | 122.06 | 1.1196 | 1304.90 | 0.87731 | 7.7339 |
| Closing exchange rate at Dec. 31, 2019[b] | 121.94 | 1.1234 | 1296.28 | 0.85080 | 7.8205 |
| Average exchange rate from Jan. 1, 2020 to Dec. 31, 2020[a] | 121.78 | 1.1413 | 1345.11 | 0.88921 | 7.8708 |
| Closing exchange rate at Dec. 31, 2020[b] | 126.49 | 1.2271 | 1336.00 | 0.89903 | 8.0225 |

*(a) Exchange rate used to convert the cash flow statement and statement of income.*
*(b) Exchange rate used to translate the statement of financial position.*

The currency risk management policy is validated by the Group's Executive Committee on the basis of proposals made by the Finance Department. It consists of contracting forward exchange rate hedges with leading banks on the basis of a complete inventory of inter- company and non-Group risks.

In its commercial activities, barring exceptional circumstances, Group policy is to hedge currency risks when an order is taken or to hedge a large portion of the annual budget. The primary currency risk concerns intra-Group flows.

In the area of borrowings, Group policy is contract loans in local currencies, except for special cases. Borrowings in foreign currencies arranged by the parent company match loans made in euros subject to hedges (foreign exchange swaps) transforming them into loans in the currencies of the subsidiaries concerned.

For consolidation purposes, the statement of income and cash flow statements of foreign subsidiaries are translated into euros at the average exchange rate for the relevant period, while statement of financial position items are translated at the rate prevailing at the end of each reporting period. The impact of this currency translation can be significant. The principal impact concerns the effect of rate changes of the US dollar on the Group's equity and debt.

The Group's operating income before non-recurring items is exposed to exchange rate variations primarily through the translation of earnings recorded by companies whose currency is not the euro. The primary exposure is with the US dollar. A 10% decline in the value of the USD compared with the average confirmed rate of January through December 2020 would have had a translation impact of a negative €2 million on the Group's current operating income. Conversely, this 10% decline in the value of the US dollar compared with the closing exchange rate for 2020 would have had a translation impact of a negative €5 million on the Group's net debt at December 31, 2020.

Apart from these special cases, hedges are centralized at the level of the parent company. They are carried out under strictly defined procedures. Hedges are valued as described below.

### *EUR / Foreign currency risk*

| **Risks** *(stated in millions of euros)* [(a)] | **JPY** | **USD** | **KRW** | **GBP** | **RMB** |
|---|---|---|---|---|---|
| Sale of foreign currencies | 11.4 | 20.6 | 3.3 | 14.1 | 11.8 |
| Purchase of foreign currencies | (1.6) | (23.1) | (0.2) | (13.2) | (6.4) |
| Potential risks for 2021 | 9.8 | (2.5) | 3.1 | 0.9 | 5.4 |
| Hedges outstanding at December 31, 2020 | (6.0) | 2.0 | (1.1) | 0.0 | (2.9) |
| Net position | 3.8 | (0.5) | 2.0 | 0.9 | 2.5 |
| Impact in euros of a 5% fall in the euro [(b)] | 0.20 | (0.02) | 0.10 | 0.05 | 0.13 |

*(a) Excluding any anticorrosion equipment segment, which is hedged when an order is placed.*
*(b) Sensitivity calculated on the basis of currency exchange rates at December 31, 2020.*

### *USD / Foreign currency risks*

| **Risks** *(stated in millions of US dollars)* [(a)] | **JPY** | **KRW** | **GBP** | **RMB** | **CAD** |
|---|---|---|---|---|---|
| Sale of foreign currencies | 4.3 | 12.3 | 1.1 | 21.3 | 21.6 |
| Purchases of foreign currencies | 0.0 | (2.2) | (12.2) | (23.2) | (25.0) |
| Potential risks for 2021 | 4.3 | 10.1 | (11.1) | (1.9) | (3.4) |
| Hedges outstanding at December 31, 2020 | (3.4) | (4.9) | 8.7 | 1.9 | 3.4 |
| Net position | 0.9 | 5.2 | (2.4) | 0.0 | 0.0 |
| Impact in USD of a 5% fall in the USD [(b)] | 0.05 | 0.27 | (0.13) | 0.00 | 0.00 |

*(a) Excluding any anticorrosion equipment segment, which is hedged when an order is placed.*
*(b) Sensitivity calculated on the basis of currency exchange rates at December 31, 2020.*

### *Recognition at year-end 2020 of currency transactions*

| **MTM** [(a)] *(stated in millions of euros)* | | **Dec. 31, 2020** |
|---|---|---|
| *Mark-to-market* of currency hedges value | Other items of comprehensive income | 0.5 |
| | Other financial items of operating income | 0.2 |

*(a) Mark-to-market = evaluated at market price.*

An increase or decrease in the value of the euro, with relation to closing exchange rates of the USD, JPY and RMB at December 31, 2020 as indicated below, would have resulted in an increase (decrease) of other items of comprehensive income and operating income by the amounts indicated below as a result of the currency hedges.

| | **Increase in the euro against foreign currencies** | | **Decrease in the euro against foreign currencies** | |
|---|---|---|---|---|
| **Impact at December 31, 2020** *(in millions of euros)* | **Other items of comprehensive income** | **Gains or losses recognized in operating income*** | **Other items of comprehensive income** | **Gains or losses recognized in operating income*** |
| USD (change of 5%) | 0.93 | 0.42 | (1.03) | (0.46) |
| JPY (change of 5%) | 0.02 | 0.01 | (0.02) | (0.01) |
| RMB (change of 5%) | 0.03 | 0.02 | (0.03) | (0.01) |

** Excluding inverse impacts related to the revaluation of underlying items recorded in the statement of financial position.*

This analysis is carried on the basis of changes in exchange rates that the Group deems reasonably possible at the reporting date. For the purposes of this analysis, all other variables, especially interest rates, are assumed to have remained constant and the effect of forecasted sales and purchasing has been ignored.

Sensitivities relating to other currency pairs were not recorded due to their immaterial impacts.

***Future impact on income of currency transactions recorded at end December 2020***

| *(Stated in millions of euros)* CURRENCY | Mark-to-market of currency derivatives in other comprehensive income | Impact on income | |
|---|---|---|---|
| | | Under six months | Over six months |
| Assets | 1.1 | 0.4 | 0.7 |
| Equity and liabilities | (0.6) | (0.2) | (0.4) |

***Future cash flows on currency transactions recognized at December 31, 2020***

| CURRENCY *(In millions of euros)* | MTM | Expected cash flows |
|---|---|---|
| Assets | 1.6 | 1.6 |
| Equity and liabilities | (0.9) | (0.9) |

Currency hedges are adjusted as a function of underlying assets and there is therefore no timing difference between maturities.

## Credit risk

The Group set up an insurance program in 2003 with commercial credit insurer Coface covering its principal companies in the United States and Europe against the risk of non-payment for financial or political reasons. Coverage may vary, by customer, between 0 and 95% of invoiced amounts. This program – which has subsequently been extended to China and then South Korea – does not however cover 100% of risk because the insurer excludes certain risks from the coverage.

During 2019 and 2020, the Group continued its assignment of receivables programs regarding several French subsidiaries, which gave rise to assigned receivables amounting to €11.8 million at December 31, 2020 compared with €15.8 million at December 31, 2019. Delegation riders to contracts covering French company assigned receivables were signed with the factoring agent.

The guarantee deposit relating to assigned receivables programs amounts to €0.6 million (derecognized assets with continuous application).

# Note 4 Business combinations recognized in 2020

During the first half of 2020, Mersen acquired all of the shares in Germany company, GAB Neumann GmbH, which specializes in the design, manufacture and sale of graphite and silicon carbide (SiC) heat exchangers for the chemicals market.

The integration of the extensive and recognized expertise of the GAB Neumann teams will help the Group strengthen its footprint in anti-corrosion equipment across German-speaking Europe (Germany, Austria and Switzerland). The addition of their annular groove graphite and silicon carbide heat exchangers to our product portfolio also makes Mersen a unique and central player in exchangers and solutions for today's high value-added pharmaceuticals and specialty chemicals markets.

The new acquisition will enable Mersen to strengthen its position in the chemicals market in Germany – particularly in the replacement segment – and provide its customers around the world with an enriched offer of products and services.

GAB Neumann employs 45 members of staff. It will join the Advanced Materials segment and is expected to contribute around €10 million to annual Group sales.

In July 2020, Mersen acquired the insulation business of the US company Americarb, purchasing the business's production equipment, customer portfolio and GRI brand for approximately US$ 6 million. The purchased production equipment has been installed at Mersen USA GSTN Corp's site in Columbia, Tennessee.

This acquisition has strengthened Mersen's position in felt insulation solutions for the solar, electronics, ceramics and carbon fiber markets, and in operational terms it is an excellent fit given the Group's acquisition of the Columbia site in the United States in 2019. By transferring the production equipment for felt insulation to the Columbia site, the Group has created a center of excellence for the American continent to complement the excellence center in Scotland that serves the European market.

The deal has given Mersen an industrial base in the United States and has consolidated its footprint in the felt insulation market by expanding its customer portfolio in North America. It also means it can reduce the amount of investment planned for the Holytown site in Scotland.

The identifiable assets acquired at the acquisition date comprised inputs (production equipment, technological expertise, a brand, inventory and customer relationships), as well as a production process. The Group determined that these inputs and process together significantly contribute to revenue generation potential and therefore concluded that the acquired set of activities and assets constitutes a business.

The two above-mentioned newly-acquired businesses together generated €12.5 million in revenue between their respective acquisition dates and the year-end, and posted approximately €2 million in operating income and €1.5 million in net income.

### TOTAL ACQUISITIONS

| *In millions of euros* | Acquisition date net assets | Fair value adjustments | Purchase price allocation | Fair value of net assets |
|---|---|---|---|---|
| Non-current assets | 3.7 | (0.5) | 1.0 | 4.2 |
| Current assets | 7.8 | (0.6) | 0.0 | 7.2 |
| Non-current liabilities | (0.2) | 0.0 | 0.0 | (0.2) |
| Current liabilities | (1.7) | (0.2) | 0.0 | (1.9) |
| Net assets | 9.6 | (1.3) | 1.0 | 9.3 |
| Goodwill | | | | 5.1 |
| Non-controlling interests | | | | 0.0 |
| Consideration transferred | | | | 14.4 |

The following intangible assets were identified in connection with the Americarb acquisition:

- Customer relationships (€0.5 million).
- A brand (€0.3 million).
- Technological expertise (€0.2 million).

The goodwill arising on GAB Neumann has been fully allocated to the "Goodwill" line in the consolidated statement of financial position.

There was no goodwill pending allocation at December 31, 2020.

## Note 5 Assets held for sale and discontinued operations

Operations held for sale and discontinued operations recognized in prior periods had no residual material impact on the 2020 consolidated financial statements.

## Note 6 Goodwill

| *In millions of euros* | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Carrying amount at start of period | 280.6 | 276.2 |
| Acquisitions | 5.1 | 0.8 |
| Impairment | (17.0) | |
| Translation adjustments | (11.9) | 3.6 |
| **Carrying amount at end of period** | **256.8** | **280.6** |
| Gross value at end of period | 283.8 | 290.6 |
| Total impairment losses at end of period | (27.0) | (10.0) |

Breakdown by cash-generating unit is given in the table below:

| | Dec. 31, 2019 | Movements during 2020 | | | Dec. 31, 2020 |
|---|---|---|---|---|---|
| *In millions of euros* | Carrying amount | Acquisitions | Cumulative translation adjustments | Impairment losses | Carrying amount |
| Anticorrosion Equipment | 55.3 | 2.6 | (3.0) | (17.0) | 37.9 |
| Graphite Specialties | 93.9 | 2.5 | (2.1) | | 94.3 |
| Power Transfer Technologies | 12.3 | | (0.5) | | 11.8 |
| Electrical Protection & Control | 74.6 | | (4.1) | | 70.5 |
| Solutions for Power Management | 44.5 | | (2.2) | | 42.3 |
| **TOTAL** | **280.6** | **5.1** | **(11.9)** | **(17.0)** | **256.8** |

The figures in the "Acquisitions" column concern the goodwill related to GAB Neumann in the ACE CGU and Americarb in the GS CGU. The Americarb acquisition resulted in the recognition of €1 million worth of intangible assets (see Note 4).

The impairment losses recognized during the year relate to the goodwill allocated to the ACE CGU, as described in Note 7 below.

There was no goodwill pending allocation at December 31, 2020.

# Note 7 Asset impairment tests

Some of the Group's activities, particularly in the Advanced Materials segment, require significant quantities of plant and equipment, especially in order to anticipate demand in markets with high growth prospects. These assets lead to high levels of fixed costs in the Group's overall production cost base. They can also sometimes require long periods to be received and put into production and it is possible for the economic environment to deteriorate during those periods.

The Group is exposed to the risk of overestimating growth in some markets and/or of changes in the economic environment, which could lead to an insufficient utilization rate for the plant and equipment of the activities concerned and erode operating margin. A lasting erosion of operating margin would negatively impact the asset impairment tests.

The Group also has a substantial amount of goodwill (€257 million at end-2020).

## 1. Goodwill

Impairment tests for each of the cash-generating units were carried out at the close of 2020.

In application of IAS 36, the tests were carried on the basis of the value in use determined by applying the discounted cash flow method. The main assumptions used are as follows:

- Five-year cash flows based on the 2021 budget and projections for the four following years.
- The average weighted cost of capital used in discounting future cash flows include Mersen's beta as calculated by analysts and that of the risk-free rate on ten-year French government bonds. Taking into account these parameters as well as a market risk premium and a size-specific premium, the average cost of capital after tax used as the rate for discounting future flows was set at 6.8% (unchanged from 2019). As the risks are reflected in the cash flows for each business and there were no significant events or circumstances requiring the use of different discount rates, a single discount rate was applied for all of the CGUs.
- The perpetual growth rate applied was 2% for the Power Transfer Technologies CGU, 2.5% for the Anticorrosion Equipment CGU, 3% for the Graphite Specialties CGU and 2.5% for the Solutions for Power Management and Electrical Protection & Control CGUs. The perpetual growth rates applied for each CGU are based on the developments in their businesses in their various markets.
- The standard tax rate used was 26.1%.

The impairment tests were carried out at end-2020 excluding the impacts of IFRS 16 and the simulations that were performed including the IFRS 16 impacts gave almost the same results.

The Covid-19 pandemic has considerably reduced the Group's visibility for its markets. It therefore calculated future cash flows based on the detailed projections provided by its business units up to and including 2023, which were extended to 2024 and 2025.

For the Anticorrosion Equipment CGU, which is historically the most exposed to asset impairment losses, a detailed five-year business plan was used, however, covering the period until 2025. The business outlook for chemicals – the Anticorrosion Equipment CGU's main market – deteriorated in 2020 as some customers froze their capital expenditure projects, and there were no positive changes in market trends at the year-end. The Group estimates that the chemicals market could be lastingly affected and has therefore significantly reviewed downward the revenue it expects to generate in that market in the coming years as well as the associated margins. The impairment test for this CGU took into account the impacts of the business adaptation plan launched in late 2020, as well as the impairment losses recognized against non-current assets at December 31, 2020.

The test carried out for the Anticorrosion Equipment CGU revealed that its recoverable amount was €17 million lower than its carrying amount. The Group therefore recognized a €17 million impairment loss against this CGU's goodwill as a non-recurring expense in the 2020 consolidated financial statements (see Note 18).

No impairment losses were recognized for the other four CGUs. The forecast revenue of the Graphite Specialties CGU was also reviewed downward, particularly for the markets affected by the pandemic. The Group applied the assumption that sales levels will very gradually recover for process industries but will be lastingly affected in the aeronautics industry. Consequently, this CGU's operating cash flows have deteriorated since the impairment test performed at December 31, 2019. However, no impairment losses were recognized at end-2020.

**Sensitivity analysis**

The sensitivity of the impairment tests performed at end-2020 was verified based on the following changes in the three main assumptions:

- A 1-point increase in the discount rate.
- A 1-point decrease in the perpetuity growth rate.
- A 1-point decrease in operating profitability in the terminal year.

After adjusting the Anticorrosion Equipment CGU's carrying amount to its recoverable amount, these sensitivity tests revealed additional impairment of between €15 million and €17 million depending on the assumption concerned. They did not reveal any other impairment risks for the other CGUs.

A calculation of sensitivity to the discount rate was conducted such that the recoverable amount was equal to the carrying amount. Discount rates obtained are as follows:

- 14.9% for the Power Transfer Technologies CGU;
- 13.7% for the Solutions for Power Management CGU;
- 12.2% for the Electrical Protection & Control CGU;
- 9.2% for the Graphite Specialties CGU;
- 6.1% for Anticorrosion Equipment CGU.

Goodwill will be tested for impairment again at the 2021 year-end.

## 2. Impairment of specific assets

In accordance with IAS 36, because the current market environment for the Group's businesses (taking into account its plan to adapt its operations to the current economic situation and expected developments in some of its markets) indicate that a risk of impairment exists, the Group carried out a review of its assets to ensure that the carrying amounts of its property, plant and equipment and intangible assets do not exceed their recoverable amounts based on their value in use.

This procedure led to the recognition of €6.9 million in impairment losses as a result of the decrease in forecast revenue for the chemicals and aeronautics markets.

The main assets that were written down and retired were as follows:

- Assets for which there are no reasonable prospects of achieving a reasonable level of utilization: €6.9 million, breaking down as €2.1 million for the Anticorrosion Equipment CGU, €4.5 million for the Graphite Specialties CGU, €0.2 million for the Power Transfer Technologies CGU and €0.1 million for the Electrical Protection & Control CGU.
- Current assets: €1.3 million, mainly relating to inventories (see Note 9) with no economic value in view of their projections, breaking down as €0.9 million for the Anticorrosion Equipment CGU, €0.3 million for the Graphite Specialties CGU and €0.1 million for the Power Transfer Technologies CGU.

These impairments have also been recognized in non-recurring expense.

# Note 8 Property, plant and equipment and intangible assets

| *In millions of euros* | Intangible assets | Land | Buildings | Plant, equipment and other assets | Assets in progress | Right-of-use | Total property, plant and equipment | TOTAL |
|---|---|---|---|---|---|---|---|---|
| **Carrying amount at January 1, 2019** | **35.1** | **30.6** | **76.3** | **171.6** | **22.4** | **0.0** | **300.9** | **336.0** |
| Impact of the first-time application of IFRS 16 | | (3.4) | | | | 43.6 | 40.2 | 40.2 |
| Non-current assets | 4.6 | 0.3 | 1.9 | 25.0 | 38.1 | 17.7 | 83.0 | 87.6 |
| Retirements, disposals and impairment | (3.0) | | | | (2.3) | | (2.3) | (5.3) |
| Depreciation and amortization | (4.0) | (0.1) | (5.3) | (31.9) | | (11.1) | (48.4) | (52.4) |
| Translation adjustments | 0.2 | 0.1 | 0.7 | 2.5 | 0.2 | | 3.5 | 3.7 |
| Impact of changes in scope of consolidation | 0.1 | 4.8 | 3.4 | 5.6 | 0.2 | | 14.0 | 14.1 |
| Assets held for sale and discontinued operations | | | | | | | 0.0 | 0.0 |
| Other movements | 1.2 | | 1.8 | 23.2 | (27.3) | | (2.3) | (1.1) |
| **Carrying amount at December 31, 2019** | **34.2** | **32.3** | **78.8** | **196.0** | **31.3** | **50.2** | **388.6** | **422.8** |
| Gross value at Dec. 31, 2019 | 97.5 | 35.1 | 168.3 | 716.9 | 33.6 | 61.3 | 1,015.2 | 1,112.7 |
| Total depreciation and amortization at Dec. 31, 2019 | (51.3) | (1.6) | (89.5) | (504.4) | **0.0** | **(11.1)** | (606.6) | (657.9) |
| Total impairment losses at Dec. 31, 2019 | (12.0) | (1.2) | 0.0 | (16.5) | (2.3) | 0.0 | (20.0) | (32.0) |
| **Carrying amount at January 1, 2020** | **34.2** | **32.3** | **78.8** | **196.0** | **31.3** | **50.2** | **388.6** | **422.8** |
| Non-current assets | 5.2 | 0.0 | 4.3 | 19.5 | 34.6 | 12.1 | 70.5 | 75.7 |
| Retirements, disposals and impairment | (0.2) | 0.0 | (0.1) | (8.8) | 0.0 | (0.9) | (9.8) | (10.0) |
| Depreciation and amortization | (4.0) | (0.1) | (5.3) | (33.0) | | (11.9) | (50.3) | (54.3) |
| Translation adjustments | (0.7) | (0.9) | (3.7) | (9.2) | (2.6) | (2.8) | (19.2) | (19.9) |
| Changes in scope of consolidation | 1.0 | | | 2.9 | 0.2 | | 3.1 | 4.1 |
| Assets held for sale and discontinued operations | | | | | | | 0.0 | 0.0 |
| Other movements | (0.9) | 0.8 | 1.9 | 19.3 | (20.8) | (0.5) | 0.7 | (0.2) |
| **Carrying amount at December 31, 2020** | **34.6** | **32.1** | **75.9** | **186.7** | **42.7** | **46.2** | **383.6** | **418.2** |
| **Gross value at Dec. 31, 2020** | **102.1** | **35.0** | **170.7** | **747.7** | **45.0** | **70.1** | **1,068.5** | **1,170.6** |
| **Total depreciation and amortization at Dec. 31, 2020** | **(55.3)** | **(1.7)** | **(94.8)** | **(537.4)** | **0.0** | **(23.0)** | **(656.9)** | **(712.2)** |
| **Total impairment losses at Dec. 31, 2020** | **(12.2)** | **(1.2)** | **0.0** | **(23.6)** | **(2.3)** | **(0.9)** | **(28.0)** | **(40.2)** |

Research expenses, or expenses for the research phase of an internal project, are recognized as expenses as they are incurred. Regarding development costs, an intangible asset resulting from development or from the development phase of an internal project, is recognized if, and only if, the Group can demonstrate that these developments satisfy the criteria of the standard.

At December 31, 2020, development costs identified by the Group over the period that satisfy these criteria represent less than 1% of the Group's revenue.

Impairment losses recognized in 2020 related to the business adaptation plan (see Note 7).

## Note 9 Equity interests

At year-end, investments in unconsolidated companies held by consolidated companies represented:

| *In millions of euros* | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Gross value | 9.8 | 9.7 |
| Fair value adjustment in other comprehensive income | (6.3) | (6.0) |
| **TOTAL** | **3.5** | **3.7** |

The principal investments are the following:

| *Company name* | % held | Gross value | Fair value of investments | Provision for contingencies |
|---|---|---|---|---|
| Fusetech | 50% | 2.3 | 1.6 | |
| Mersen Argentina | 98% | 4.3 | 0.0 | |
| Caly Technologies | 49% | 1.0 | 0.0 | 0.2 |
| Mersen Chile Ltd | 100% | 0.6 | 0.4 | |
| Other investments | | 1.6 | 1.5 | |
| **TOTAL** | | **9.8** | **3.5** | **0.2** |

## Note 10 Inventories

| *In millions of euros* | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Raw materials and other supplies | 92.4 | 102.0 |
| Work in progress | 53.0 | 61.5 |
| Finished products | 56.5 | 63.8 |
| **Carrying amount of inventories** | **201.9** | **227.4** |
| Impairment losses | (20.8) | (20.4) |
| **CARRYING AMOUNT OF INVENTORIES** | **181.1** | **207.0** |

The carrying amount of inventories contracted by €25.9 million in 2020. Acquisitions had a €3.6 positive impact and the currency effect was a negative €8.5 million. On a like-for-like scope and exchange rate basis, the year-on-year decrease was therefore €21 million, or 10.1%.

## Note 11 Trade receivables

| *In millions of euros* | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Gross trade receivables | 133.3 | 152.0 |
| Impairment losses | (5.1) | (4.7) |
| Contract assets | 6.9 | 9.8 |
| **Net trade receivables** | **135.1** | **157.1** |

Net trade receivables decreased by €22 million in 2020, with a €7.5 million negative currency effect and newly consolidated companies adding €1.3 million to the total. Consequently, on a like-for-like scope and exchange rate basis, the year-on-year decrease was €15.8 million, or 10.1%.

A factoring contract was established in 2009 that concerns the assignment of trade receivables of our main French subsidiaries.

This contract (see Note 3) anticipates a maximum amount of €20.0 million. At December 31, 2020 usage amounted to €11.8 million, compared with €15.8 million at end 2019.

At end-2020, late payments including for factored receivables represented 14.8% of trade receivables before advance payments, versus 13.4% at end-2019. Excluding the Group's recent acquisitions, the 2020 ratio was only slightly higher.

Payments more than 15 days past due represented approximately 4.1%.

Overdue trade receivables broke down as follows at December 31:

| *In millions of euros* | Dec. 31, 2020 | | Dec. 31, 2019 | |
|---|---|---|---|---|
| | Gross | Impairment | Gross | Impairment |
| Receivables not yet due | 108.0 | (1.5) | 129.5 | (0.5) |
| Receivables 0 to 30 days past due | 10.5 | (0.1) | 12.0 | (0.1) |
| Receivables 31 to 120 days past due | 6.3 | (0.5) | 5.4 | (0.7) |
| Receivables 121 days to 1 year past due | 2.5 | (0.8) | 2.7 | (1.1) |
| Receivables more than 1 year past due | 2.2 | (2.2) | 2.4 | (2.3) |
| **NET TRADE RECEIVABLES** | **133.3** | **(5.1)** | **152.0** | **(4.7)** |

Movements related to impairment of trade receivables are as follows:

| *In millions of euros* | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Impairment losses at January 1st | (4.7) | (3.9) |
| Allowance/reversal during the fiscal year | (0.4) | (0.8) |
| **IMPAIRMENT LOSSES AT DECEMBER 31** | **(5.1)** | **(4.7)** |

Provisions for receivables are based on expected losses.

## Note 12 Equity

| *Number of shares (unless stated otherwise)* | Ordinary shares |
|---|---|
| Number of shares at January 1, 2020 | 20,858,227 |
| Capital increase/reduction *(in millions of euros)* | 0.1 |
| Number of shares at December 31, 2020 | 20,864,064 |
| Number of shares in issue and fully paid-up during the period | 5,837 |
| Number of treasury shares canceled | 0 |
| Number of shares in issue and not fully paid-up | 0 |
| Par value of shares *(€)* | 2 |
| Mersen shares held by the Company or by its subsidiaries and associates | 229,872 |

At December 31, 2020, the Company's share capital stood at €41,728,128, divided into 20,864,064 shares, comprising 20,862,155 category A shares (ordinary shares), 1,172 category D shares (preference shares), and 737 category E shares (preference shares), each with a par value of €2.

The theoretical number of voting rights at that date, i.e., excluding treasury shares which do not carry voting rights, was 23,432,569. Since April 3, 2016, a double voting right has been attached to all shares that meet both of the following conditions: (i) they have been held in registered form for at least two years and (ii) they are fully paid up.

To the best of the Company's knowledge, its ownership structure at December 31, 2020 was as follows:

- French institutional investors: 44.2%
- International institutional investors: 41.0%
- Private shareholders: 12.5%
- Employee shareholders: 1.2%
- Treasury shares: 1.1%

In 2020, the following shareholders informed Mersen that they had crossed the following disclosure thresholds provided for by law or in the Company's Articles of Association:

**ACF I Investment (Ardian)**

- January 14: ACF I Investissement (Ardian) disclosed that it had reduced its interest to below the threshold of 10% of the Company's share capital and that it held 2,075,857 Mersen shares, i.e., 9.96% of the share capital and 16.13% of the voting rights.
- Between October 8 and December 22: ACF I Investissement (Ardian) made six disclosures that it had reduced its interest in the Company to below various thresholds. On December 22, it disclosed that it held 1,165,741 Mersen shares, i.e., 5.58% of the share capital and 4.97% of the voting rights.

**Amiral Gestion**

- December 18: Amiral Gestion disclosed that it had raised its interest to above 2% of the Company's share capital and that it held 434,103 Mersen shares, i.e., 2.09% of the share capital and 1.7% of the voting rights.

**BlackRock**

- During the year, BlackRock made fifteen disclosures that it had either reduced or raised its interest to below or above the threshold of 2% of the Company's share capital. On October 29, it disclosed that it held 417,728 Mersen shares, i.e., 2% of the share capital and 1.64% of the voting rights.

**Caisse des Dépôts et Consignations / Bpifrance Participations**

- April 14: the Caisse des Dépôts et Consignations group disclosed that (i) CDC Croissance had individually raised its interest to above the threshold of 4% of the Company's voting rights, and (ii) it held directly and indirectly (through CDC Croissance and Bpifrance Participations) 3,255,757 Mersen shares, i.e., 15.61% of the share capital and 21.74% of the voting rights.
- November 10: the Caisse des Dépôts et Consignations group disclosed that (i) it had passively raised its interest to above the threshold of 22% of the Company's voting rights, via Bpifrance Participations and CDC Croissance, and (ii) it held directly and indirectly (through CDC Croissance and Bpifrance Participations) 3,262,907 Mersen shares, i.e., 15.64% of the share capital and 22.53% of the voting rights.

**FRR**

- December 14: the Fonds de Réserve pour les Retraites (FRR) disclosed that it had raised its interest to above the threshold of 1% of the Company's share capital and that it held 215,049 Mersen shares, i.e., 1.03% of the share capital and 0.87% of the voting rights.

**Henderson**

- March 19: Henderson disclosed that it had raised its interest to above the threshold of 3% of the Company's share capital and that it held 848,199 Mersen shares, i.e., 4.07% of the share capital and 3.35% of the voting rights.
- September 23: Henderson disclosed that it had raised its interest to above the threshold of 4% of the Company's voting rights and that it held 1,018,273 Mersen shares, i.e., 4.88% of the share capital and 4% of the voting rights.
- November 16: Henderson disclosed that it had raised its interest to above the threshold of 5% of the Company's share capital and that it held 1,069,564 shares, i.e., 5.13% of the share capital and 4.38% of the voting rights.

**Invesco**

- November 20: Invesco disclosed that it held 1,021,435 Mersen shares, i.e., 4.89% of the Company's share capital and 4.18% of the voting rights.

**Norges**

- January 16: Norges disclosed that it had reduced its interest to below the threshold of 5% of the Company's share capital and that it held 1,028,377 Mersen shares, i.e., 4.94% of the share capital and 4.07% of the voting rights.
- December 15: Norges disclosed that it had raised its interest to above the threshold of 5% of the Company's share capital and that it held 1,062,246 Mersen shares, i.e., 5.09% of the share capital and 4.38% of the voting rights.
- December 16: Norges disclosed that it had reduced its interest to below the threshold of 5% of the Company's share capital and that it held 1,042,363 Mersen shares, i.e., 4.99% of the share capital and 4.30% of the voting rights.

**Sycomore**

- September 7: Sycomore disclosed that it had raised its interest to above the threshold of 2% of the Company's share capital and that it held 430,253 Mersen shares, i.e., 2.06% of the share capital and 1.69% of the voting rights.
- November 10: Sycomore disclosed that it had raised its interest to above the threshold of 2% of the Company's voting rights and that it held 513,253 Mersen shares, i.e., 2.46% of the share capital and 2.10% of the voting rights.

Since January 1, 2021, the following shareholders have informed Mersen that they have crossed the following disclosure thresholds:

**ACF I Investment (Ardian)**

- Between January 12 and 21, 2021: ACF I Investissement (Ardian) made four disclosures that it had reduced its interest to below various disclosure thresholds. On January 21, it disclosed that it held 409,899 Mersen shares, i.e., 1.97% of the share capital and 1.75% of the voting rights.
- On February 5, ACF I Investissement disclosed that it had sold all of the shares it held in Mersen.

**BlackRock**

- Between January 5 and February 15, 2021, BlackRock made five disclosures that it had raised or reduced its interest to above or below the threshold of 2% of the Company's share capital. On February 11, it disclosed that it held 445,102 Mersen shares, i.e., 2.13% of the share capital and 1.90% of voting rights.

**Caisse des Dépôts et Consignations / Bpifrance Participations**

- January 13: the Caisse des Dépôts et Consignations group disclosed that (i) it had passively raised its interest to above the threshold of 23% of the Company's voting rights, and (ii) it held directly and indirectly (through CDC Croissance and Bpifrance Participations) 3,262,907 Mersen shares, i.e., 15.64% of the share capital and 23.50% of the voting rights.

**Sycomore**

- February 11: Sycomore disclosed that it had raised its interest to above the threshold of 3% of the Company's share capital and that it held 629,830 shares, i.e., 3.02% of the share capital and 2.69% of the voting rights.

## Treasury shares:

At December 31, 2020, 229,872 shares were held in treasury, representing 1.1% of the share capital, including 39,406 shares held pursuant to the liquidity agreement entered into with Exane BNP Paribas.

## Stock options, free shares and free preference shares

### *Stock options*

If all of the stock options outstanding at December 31, 2020 (after taking into account cancellations) were exercised, this would result in the issuance of 55,831 new shares, each with a par value of €2.

### *Free preference shares (executive program)*

- 1,172 category D preference shares (corresponding to a maximum of 128,920 ordinary shares after conversion) have been delivered to beneficiaries under preference share plans.
- 737 category E preference shares have been delivered and 203 have been allocated subject to performance conditions. If all of the performance criteria are met these category E preference shares would represent a maximum 103,400 ordinary shares after conversion.

The total number of ordinary shares that could potentially be delivered under the 2017 and 2018 preference share plans is 232,320, of which 171,820 to members of the Executive Committee (including 29,260 for the Chief Executive Officer).

### *Free shares (executive program)*

The total number of free shares that could potentially be delivered under the 2019 executive plan is 59,000, of which 44,250 to members of the Executive Committee (including 8,850 for the Chief Executive Officer).

### *Free shares (non-executive program)*

The total number of free shares that could potentially be delivered under the 2018 and 2019 free share plans is 150,150.

### *Summary*

The number of free shares that could be delivered, including on the conversion of category D and E preference shares into ordinary shares, is 441,470 new shares, each with a par value of €2, representing 2.1% of the Company's share capital.

If all outstanding stock options were exercised (55,831) and all allocated free shares were delivered (441,470), the maximum dilution of the Company's share capital would be 2.4%.

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

Neither the Company nor its subsidiaries are subject to any specific capital requirements pursuant to external rules or regulations.

With respect to share-based payments, the plans were evaluated in accordance with IFRS 2. The characteristics and assumptions used to value the plans are as follows:

| Characteristics/Assumptions | 2014 plan | 2017 plan | 2018 plan | 2018 plan | 2019 plan | 2019 plan |
|---|---|---|---|---|---|---|
| | Stock options | Free preference shares | Free shares | Free preference shares | Free shares (executive plan) | Free shares |
| Allocation date | 05/21/2014 | 05/18/2017 | 05/17/2018 | 05/17/2018 | 05/17/2019 | 05/17/2019 |
| Availability date | 05/21/2016 | 05/18/2019/ 05/18/2021 | 05/17/2021 | 05/17/2020/ 05/17/2022 | 05/17/2022 | 05/17/2022 |
| Expiration date | 05/21/2021 | 05/19/2021 | 05/18/2021 | 05/18/2022 | 05/18/2022 | 05/18/2022 |
| Adjusted exercise price *(Euro)* | €22.69 | €0.00 | €0.00 | €0.00 | €0.00 | €0.00 |
| Adjusted share price at allocation date *(€)* | €21.30 | €25.15 | €39.50 | €39.50 | €30.90 | €30.90 |
| Estimated life *(number of years)* | 4.5 | 4 | 3 | 4 | 3 | 3 |
| Volatility | 31.00% | 27.7% | 30.00% | 30.00% | 29.39% | 29.39% |
| Dividend per share *(as a % of share price)* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Risk-free interest rate | 0.64% | N/A | N/A | N/A | N/A | N/A |
| Exercise period *(number of years)* | 5 | 2/4 | 3 | 2/4 | 3 | 3 |
| Lock-up period *(number of years)* | 2 | 2/0 | 3 | 2/0 | 3 | 3 |
| Adjusted number of options/shares allocated | 150,000 | 128,920 | 67,050 | 103,400 | 59,000 | 84,000 |
| Estimated annual cancellation rate at the closing | 5% | 5% | 5% | 5% | 5% | 5% |
| % of shares/options vested on achievement of performance conditions | 85% | 100% | 100% | 100% | 100% | 100% |
| Estimated number of options at end of vesting period | 129,375 | 127,179 | 61,628 | 99,266 | 52,218 | 74,345 |
| Valuation of options/shares *(Euro)* | 3.68 | 21.35/22.31 | 36.1 | 33.53/35.03 | 28.24 | € 28.24 |
| Valuation as a % of the allocation-date share price | 17.30% | 84.8%/88.7% | 91.40% | 84.9%/88.7% | 91.40% | 91.40% |

A €2.1 million share-based payment expense was recognized in 2020 for the plans in effect (versus €2.5 million in 2019).

# Note 13 Provisions, contingent liabilities and other liabilities

| | Dec. 31, 2020 | | Dec. 31, 2019 | |
|---|---|---|---|---|
| *In millions of euros* | Non-recurring | Recurring | Non-recurring | Recurring |
| - provision for restructuring | 4.2 | 10.3 | 1.3 | 1.5 |
| - provision for environmental risks | 3.5 | 1.1 | 4.6 | 0.5 |
| - provision for litigation and other expenses | 1.6 | 6.1 | 0.3 | 4.1 |
| **TOTAL** | **9.3** | **17.5** | **6.2** | **6.1** |

| Recurring and non-recurring | Dec. 31, 2019 | Provisions set aside / reversals | Uses | Other | Translation adjustments | Dec. 31, 2020 |
|---|---|---|---|---|---|---|
| - provision for restructuring | 2.8 | 13.2 | (1.3) | (0.1) | (0.1) | 14.5 |
| - provision for environmental risks | 5.1 | 0.6 | (0.7) | (0.1) | (0.3) | 4.6 |
| - provision for litigation and other expenses | 4.4 | 3.8 | (0.6) | 0.3 | (0.2) | 7.7 |
| **TOTAL** | **12.3** | **17.6** | **(2.6)** | **0.1** | **(0.6)** | **26.8** |

Provisions totaled €26.8 million at December 31, 2020 (€12.3 million at December 31, 2019). The €14.5 million year-on-year increase primarily relates to:

- Provisions recognized for the business adaptation plan.
- Provisions recognized in 2020 for (i) trade disputes (mainly in the chemicals market) and (ii) administrative costs in Brazil, as the federal court issued an unfavorable ruling against a large Brazilian corporation in a case similar to the one in which the Group is involved.
- Additional provisions for site clean-up costs at one of the Group's manufacturing facilities. This pollution originated from before the site was owned by the Group.
- Additions to provisions for the restructurings provided for in the Competitiveness Plan, net of reversals of provisions previously recognized for this Plan.

Provisions for environmental risks mainly correspond to €3.5 million in clean-up costs for the Columbia site.

The €7.7 million in provisions for litigation and other expenses include €5.2 million in provisions for claims and disputes.

Certain accrued litigation expenses are classified within operating payables for €0.8 million and in liabilities related to assets sold for €0.5 million.

## Administrative and legal proceedings

### Administrative proceedings in France

In 2013, SNCF launched two procedures against Morgan, SGL, Schunk and Mersen, in the Paris Administrative Court and the Paris Commercial Court respectively. SNCF is attempting to secure redress for losses that it allegedly suffered following practices that were sanctioned in December 2003 by the European Commission in connection with brushes for electric motors and products for mechanical applications. In 2014, the Paris Administrative Court rejected all of the claims lodged by SNCF, which appealed the decision. On June 13, 2019, the Paris Court of Appeal overturned the 2014 Administrative Court ruling. It also decided that it will rule on the case and has issued an injunction for an expert appraisal to be carried out in order to determine the amount of the loss allegedly incurred by SNCF.

Mersen and the other defendants, who contest this ruling, referred the case to the French Supreme Court (Conseil d'Etat) for it to be set aside due to the incorrect application of the law. On October 12, 2020, the Supreme Court rejected the majority of the grounds for setting aside the ruling.

In addition, the appraiser appointed by the Administrative Appeal Court issued its report in July 2020 and the case is still pending before that court. The Group has set aside a provision reflecting its estimate of the risk incurred in connection with these proceedings.

### Criminal proceedings in France

Criminal proceedings that were initiated after the tragic accident on April 7, 2010 at Mersen's site in Gennevilliers are still in progress. On December 22, 2019, a ruling by the examining judge partially dismissed the case and brought Mersen's subsidiary in Gennevilliers ("the Company") and its managing director at that time before the Criminal Court (Tribunal correctionnel). On November 23, 2020, the Nanterre criminal court accepted the arguments of the Company and its managing director at the time and returned the case to the investigation phase due to serious irregularities in the order referring the case to the criminal court. The Company and its managing director at the time of the accident dispute the alleged acts with which they are charged, and will present their case in their defense in the new investigation phase that is now opening.

### Investigation by India's competition authority

In July 2019, India's competition authority launched an investigation into the premises of Group subsidiary Mersen (India) Private Limited over allegations of anti-competitive practices in the supply of carbon brushes to Indian railways in 2010-2014. Mersen India, which contests these allegations, is fully cooperating with the competition authority and has provided all requested information. The investigation is ongoing.

The Group is not aware of any other administrative or legal proceedings, including any pending or potential proceedings, that could have or have had in the last 12 months, a material adverse effect on its business activities, financial position or results of operations.

## Tax and customs proceedings

The Group regularly undergoes tax and customs audits carried out by the tax/customs authorities in the countries in which it operates. In the past, the reassessments issued after tax/customs audits have been for non-material amounts. The most material risks concern Mersen do Brasil and Mersen India Pvt.

The amounts indicated below include interest.

**Proceedings involving Mersen do Brasil**

Mersen do Brasil received notice in June 2013 of a customs audit covering the period from January 2008 to December 2012. The customs authorities issued a reassessment notice for an initial amount (principal and interest) of BRL 7.5 million, increased each year by applying the interest rate issued by the Central Bank of Brazil. At December 31, 2020, the amount of the revised adjustment was BRL 12.4 million, or approximately €1.9 million at the December 31, 2020 exchange rate. This amount is not covered by a provision in the accounts of Mersen do Brasil, as the risk of losing the dispute is deemed very low. A first instance ruling was handed down in favor of the Group on February 8, 2018. However, it was the subject of an ex officio appeal to a second instance court by the Brazilian authorities. It is not possible to estimate when the second instance ruling will be delivered. At the date of this document, there had been no developments in these proceedings.

Mersen do Brasil is also involved in a number of disputes which are at various stages:

- Reassessment of social security contributions (relating to 2007) calculated on the basis of unverified earnings, representing a total of BRL 4.6 million (approximately €0.7 million). A provision for BRL 133 thousand (approximately €21 million) has been set aside in respect of the risk which is considered likely to be paid. This dispute is pending before the Administrative Court.
- Late tax return filing penalties (relating to 2001, 2002 and 2003) representing a total of BRL 4.2 million. A corresponding BRL 4.2 million provision (representing approximately €0.66 million) has therefore been set aside as the Group considers it highly probable that the penalties will have to be paid. Depending on the year in question, the disputes are pending before the Federal Court, or are in the process of appeal before the Federal Court.
- Penalties (relating to 1998) for errors in calculating social security contributions, representing a total of BRL 2.8 million (approximately €450 thousand). A provision for BRL 0.6 million (approximately €97 thousand) has been set aside for the risk as the Group considers it highly probable that the penalties will have to be paid. This dispute is pending before the Federal Court.
- Three disputes representing a total of BRL 2.3 million (approximately €360 thousand). A BRL 0.55 million provision (representing approximately €87 thousand) has been set aside for the risk for which the Group considers it highly probable it will have to pay. These disputes concern (1) the reassessment of tax credits transferred at the time of relocating the São Paulo site (relating to 2011), which has been appealed to the Administrative Court; (2) penalties (relating to 1995) for differences in the tax base for local tax on industrial products, which is pending before the Federal Court; and (3) penalties (relating to 2007) for irregularities in social security returns, which is pending before the Administrative Court.
- Reassessment of entitlement to benefit from a tax-free zone regime (relating to 2004) for BRL 1.8 million (approximately €276 thousand). No provision has been set aside for this, as the related risk of loss is considered low. This dispute is pending before the Administrative Court.
- Penalties (relating to 2004) for erroneous amounts reported in certain tax returns, representing a total of BRL 1.6 million (approximately €248 thousand). No provision has been set aside for this as the related risk of loss is considered low. This dispute is pending before the Administrative Court.
- At the date of this document, there had been no developments in these proceedings.

**Proceedings involving Mersen India Pvt**

Mersen India Pvt's tax returns are subject to annual tax audits. At the date of this document, the overall risk to which the company is exposed totals €47 thousand. This risk relates to the partial reassessment of certain intra-group expenses that were deducted in fiscal years 2011, 2012 and 2013. This dispute is pending before the Appeal Court. The subsidiary is also exposed to a risk representing €81 thousand for customs duties (relating to 2011, 2014, 2016 and 2020), since certain customs import codes used by Mersen India Pvt have been reassessed by local customs authorities. This dispute is pending a second appeal hearing.

At the date of this document, there had been no developments in these proceedings.

Other liabilities in the amount of €2.2 million at December 31, 2020 chiefly comprise liabilities related to property, plant and equipment.

# Note 14 Employee benefits

Under defined contribution plans, the Group is under no obligation to make additional payments on top of the contributions already paid into a fund if the latter does not have sufficient assets to pay out the benefits corresponding to the service provided by employees during the period in progress or during future periods. For these plans, contributions are expensed as incurred.

The Mersen group's principal pension plans are defined benefit plans and are located in the United States (46% of obligations), the United Kingdom (20% of obligations), France (14% of obligations) and Germany (8% of obligations).

There are two pension plans in the United States:

- the "hourly plan" for shop floor employees,
- the "salaried plan" for office employees and closed to new entrants in 2011 because it was replaced by a defined contribution plan. This plan was closed entirely in 2015. The employees are now covered by the defined contribution plan.

These two plans are funded by contributions calculated on the value of the obligation and paid based on a funding plan over seven years. The fund's coverage ratio by assets measured in accordance with local standards is 91.5% for the salaried plan. The hourly plan is covered by plan assets up to 99.5%.

There is a pension plan in the United Kingdom that was closed to new entrants in 2006. Based on local rules and conservative assumptions, it is fully covered by plan assets. Contributions are paid based on a schedule established with the trustees.

These pension funds constitute entities that are legally distinct from the Group. The funds' administrative bodies are composed of employee representatives, retirees and independent directors. They are legally required to act in the best interest of the plan's participants and are responsible for certain fund policies, including the investment, contribution and indexing policies, etc.

In France, the defined benefit plans involve primarily lump-sum retirement payments and long-service awards. These plans are not funded.

There are two pension plans in Germany that are closed to new entrants and are not funded.

The Group's obligations were measured at December 31, 2020 with the assistance of independent actuaries and in accordance with IAS 19.

The rates used for the main countries are summarized below:

| 2020 | Discount rate | Average rate of salary increases | Inflation rate |
|---|---|---|---|
| France | 0.35% | Between 2.0% and 6.25% depending on age | 1.8% |
| Germany | 0.35% | 2.50% | 1.8% |
| United States | 2.5% | Not applicable | Not applicable |
| United Kingdom | 1.35% | 2.9% | 3.2% |

| 2019 | Discount rate | Average rate of salary increases | Inflation rate |
|---|---|---|---|
| France | 0.75% | Between 2.0% and 6.25% depending on age | 1.8% |
| Germany | 0.75% | 2.50% | 1.8% |
| United States | 3.2% | Not applicable | Not applicable |
| United Kingdom | 2.0% | 2.95% | 3.30% |

Mortality assumptions are based on published statistics and mortality tables.

## Reconciliation between assets and liabilities recognized

| | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Actuarial obligation | 195.8 | 196.9 |
| Fair value of plan assets | (124.1) | (121.9) |
| **PROVISION BEFORE IMPACT OF MINIMUM FUNDING REQUIREMENT/ASSET CEILING** | **71.7** | **75.0** |
| Impact of minimum funding requirement/asset ceiling | | |
| **PROVISION AFTER IMPACT OF MINIMUM FUNDING REQUIREMENT/ASSET CEILING** | **71.7** | **75.0** |

## Breakdown of the Group's obligations at December 31 by geographical area

| | France | Germany | United States | United Kingdom | Rest of the world | Total at December 31, 2020 |
|---|---|---|---|---|---|---|
| Projected benefit obligation | 27.2 | 16.1 | 89.8 | 40.0 | 22.7 | 195.8 |
| Fair value of plan assets | (0.4) | | (64.1) | (46.5) | (13.1) | (124.1) |
| **NET AMOUNT RECOGNIZED** | **26.8** | **16.1** | **25.7** | **(6.5)** | **9.6** | **71.7** |

## Movements in the Group's obligations

| | France | Germany | United States | United Kingdom | Rest of the world | Total |
|---|---|---|---|---|---|---|
| **Dec. 31, 2019** | **26.6** | **15.9** | **89.9** | **39.5** | **25.0** | **196.9** |
| Payments made | (1.1) | (0.6) | (3.9) | (1.7) | (1.2) | (8.5) |
| Expenses recognized | 1.1 | 0.2 | 4.1 | 0.8 | 0.0 | 6.2 |
| Translation adjustment | | | (8.2) | (2.2) | (1.0) | (11.4) |
| Actuarial gains and losses | 0.8 | 0.6 | 7.9 | 3.6 | (0.1) | 12.8 |
| Changes in scope of consolidation | | | | | | 0.0 |
| Other movements | (0.2) | | | | | (0.2) |
| **DEC. 31, 2020** | **27.2** | **16.1** | **89.8** | **40.0** | **22.7** | **195.8** |

## Change in plan assets

| | France | Germany | United States | United Kingdom | Rest of the world | Total |
|---|---|---|---|---|---|---|
| **Dec. 31, 2019** | **0.6** | **0.0** | **62.9** | **45.3** | **13.1** | **121.9** |
| Return on plan assets | | | 1.7 | 0.8 | 0.2 | 2.7 |
| Employer contribution | | | 2.1 | | 0.6 | 2.7 |
| Employee contribution | | | | | | 0.0 |
| Payment of benefits | | | (3.9) | (1.7) | (0.6) | (6.2) |
| Actuarial gains and losses | | | 7.2 | 4.6 | 0.3 | 12.1 |
| Translation adjustment | | | (5.9) | (2.5) | (0.5) | (8.9) |
| Other movements | (0.2) | | | | | (0.2) |
| **DEC. 31, 2020** | **0.4** | **0.0** | **64.1** | **46.5** | **13.1** | **124.1** |

The plan assets cover primarily the United States plans (52% of total plan assets, with 76% invested in equities and 24% in bonds) and the United Kingdom plans (37% of total plan assets, with 13% invested in equities, 84% in government bonds and 3% in real estate and cash).

## Net expense recognized

The net expense recognized for these plans in 2020 was €3.5 million, compared with €5.2 million in 2019:

| | France | Germany | United States | United Kingdom | Rest of the world | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|---|---|---|---|---|
| Current service cost | 1.5 | 0.3 | 0.8 | 0.1 | 1.1 | 3.8 | 3.6 |
| Interest cost | 0.1 | 0.1 | 2.5 | 0.7 | 0.4 | 3.8 | 5.4 |
| Expected return on plan assets | | | (1.7) | (0.8) | (0.2) | (2.7) | (3.8) |
| Administrative costs | | | 0.8 | | | 0.8 | 0.9 |
| Plan amendments/curtailments/settlements | (0.5) | | | | (1.5) | (2.0) | (0.9) |
| Other movements | | (0.2) | | | | (0.2) | 0.0 |
| **NET EXPENSE FOR THE PERIOD** | **1.1** | **0.2** | **2.4** | **0.0** | **(0.2)** | **3.5** | **5.2** |

The decrease in 2020 in the net expense recognized for post-employment benefit plans was primarily due to provision reversals recorded as a result of the business adaptation plan and expected staff departures in France and Switzerland.

The change in actuarial gains and losses arising on the measurement of obligations and plan assets breaks down as follows:

| | France | Germany | United States | United Kingdom | Rest of the world | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|---|---|---|---|---|
| Adjustments linked to changes in demographic assumptions | | | (0.6) | 0.0 | 0.0 | (0.6) | (1.4) |
| Adjustments linked to changes in financial assumptions | 0.9 | 0.6 | 7.8 | 3.7 | 0.0 | 13.0 | 22.7 |
| Experience adjustments to obligations | (0.1) | | 0.5 | (0.1) | (0.7) | (0.4) | (0.5) |
| Experience adjustments to plan assets | | | (7.0) | (4.6) | 0.3 | (11.3) | (11.5) |
| **ACTUARIAL GAINS AND LOSSES** | **0.8** | **0.6** | **0.7** | **(1.0)** | **(0.4)** | **0.7** | **9.3** |

## Sensitivity analysis

A 0.5-point increase in the discount rates applied would lead to a €13.0 million decrease in the projected benefit obligation.

A 0.5-point increase in the inflation rate would reduce the projected benefit obligation by €1.7 million.

These sensitivities correspond to the impact on the gross projected benefit obligation without taking into account any corresponding offsetting effect on plan assets.

The breakdown of sensitivities by country is presented in the table below.

| Impact on the obligation in the case of | 0.5 point increase in the discount rate | 0.5 point increase in the inflation rate |
|---|---|---|
| France | (1.6) | 0.0 |
| Germany | (0.9) | 0.8 |
| United Kingdom | (3.0) | (2.9) |
| United States | (6.1) | 0.0 |
| Rest of the world | (1.4) | 0.4 |
| **TOTAL** | **(13.0)** | **(1.7)** |

# Note 15 Net debt

In accordance with IFRS 16, lease liabilities are not included in the calculation of financial debt.

**Analysis of total net debt at Dec. 31, 2020**

| *In millions of euros* | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Long- and medium-term borrowings | 230.9 | 235.4 |
| Current financial liabilities [(a)] | 74.2 | 27.3 |
| Financial current accounts | 0.2 | 0.7 |
| Bank overdrafts | 11.6 | 16.5 |
| **TOTAL GROSS DEBT** | **316.9** | **279.9** |
| Current financial assets [(b)] | (26.0) | (16.5) |
| Cash and cash equivalents | (110.7) | (45.2) |
| **TOTAL NET DEBT** | **180.2** | **218.2** |

*(a) Including €30 million in commercial paper issued under the NEU CP program and €40.7 million in US private placement notes which mature in November 2021 and may be substituted at maturity by drawdowns on the Group Syndicated Loan.*
*(b) Including 24.7 million of good quality Chinese bank drafts. Poor quality bank drafts are classified under Other operating receivables.*

Total consolidated net debt at December 31, 2020 amounted to €180.2 million compared with €218.2 million at year-end 2019.

This year-on-year decrease reflects a €37 million rise in gross debt to €316.9 million, offset by a €65 million increase in cash. The higher amount of cash means that the Group can meet its repayment obligations for its current financial liabilities. Out of the €316.9 million in gross debt, €271.4 million corresponded to the use of confirmed credit lines and borrowings and €30 million to commercial paper issued under the NEU CP program, and the remainder primarily stemmed from the utilization of unconfirmed lines (bank overdrafts and other lines).

## Net debt/equity

| *(In millions of euros)* | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Total net debt | 180.2 | 218.2 |
| Net debt/equity [(a)] | 0.33 | 0.37 |

*(a) Calculated using the covenant method.*

Net debt amounted to 33% of equity at December 31, 2020, compared with 37% at December 31, 2019.

## Reconciliation between changes in net debt shown in the balance sheet and the cash flow statement

| *In millions of euros* | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| **Prior year debt** | **218.2** | **215.5** |
| Cash generated/(used) by operating and investing activities after tax | (78.5) | (61.3) |
| Non-recurring items (restructuring, litigation, etc.) | 6.6 | 5.5 |
| Net cash inflows/(outflows) attributable to changes in the scope of consolidation | 13.6 | 19.4 |
| **Cash generated by the operating and investing activities of continuing operations** | **(58.3)** | **(36.4)** |
| Cash generated by the operating and investing activities of divested and discontinued operations | 0.0 | 0.2 |
| Increase/decrease in capital | 3.5 | (1.4) |
| Dividends paid | 0.1 | 22.1 |
| **Interest payments** | **7.4** | **7.9** |
| Lease payments | 13.5 | 12.7 |
| Translation adjustments and other | (5.6) | 2.2 |
| Change in scope with no cash impact in the period | 1.4 | (4.6) |
| Other changes | 0.0 | 0.0 |
| **DEBT AT YEAR-END** | **180.2** | **218.2** |

## Financial covenants at December 31, 2020

In connection with its various confirmed borrowings at Group level and in China, Mersen is required to comply with a number of obligations typically included in these types of contract, including the ratio of net financial debt to EBITDA(a) calculated before the application of IFRS 16. Should it fail to comply with some of these obligations, the banks or investors (for the private placements) may require Mersen to repay the relevant borrowings ahead of schedule. Under the cross-default clauses, early repayment of one significant loan may trigger an obligation for the Group to repay other loans and borrowings.

Mersen must comply with the following financial covenants at June 30 and December 31 each year:

### *Financial covenants [(a)] (consolidated financial statements)*

| | Net debt/EBITDA[(b)] | | | Net debt/equity | | | EBITDA/net interest | | |
|---|---|---|---|---|---|---|---|---|---|
| Confirmed credit lines and borrowings | Ratio | Dec. 31, 2020 | Dec. 31, 2019 | Ratio | Dec. 31, 2020 | Dec. 31, 2019 | Ratio | Dec. 31, 2020 | Dec. 31, 2019 |
| US private placement | < 3.5 | 1.65 | 1.50 | < 1.3 | 0.33 | 0.37 | > 3 | 12.93 | 14.95 |
| German private placement | | | | | | | n.a | | |
| Group syndicated loan | | | | | | | | | |
| Confirmed credit lines - China | | | | | | | | | |

*(a) Method for calculating the covenants: in line with the applicable accounting rules, when calculating the net debt for the purpose of the financial statements, closing exchange rates are used to determine the euro-equivalent value of debt denominated in foreign currencies. Net debt has to be recalculated at the average EUR/USD exchange rate for the period if there is a difference of more than 5% between the average exchange rate and the closing rate. To calculate the covenants at June 30, the convention is for EBITDA or gross operating income to be deemed to be EBITDA reported for the first six months of the year multiplied by two.*
*(b) EBITDA before the application of IFRS 16.*

The Group complies with all of its financial covenants.

At December 31, 2020, there were no material borrowings or liabilities secured by assets or guaranteed by third parties.

## Breakdown by currency of total net debt at December 31, 2020

Total gross debt at December 31, 2020 stood at €316.9 million and is broken down by currency as follows:

| *(By currency)* | % |
|---|---|
| EUR | 63.5 |
| USD | 21.1 |
| GBP | 8.4 |
| RMB | 1.6 |
| Other | 5.4 |

31.8% of net debt is denominated in US dollars.

## Breakdown by currency of the drawdowns on credit lines and confirmed long- and medium term borrowings including the short-term portion at December 31, 2020

Operating receivables and payables all mature in less than one year. A breakdown of borrowings by maturity is shown below.

| *(In millions of euros)* | Total | 1 year | 1 to 5 years | > 5 years |
|---|---|---|---|---|
| Borrowings in USD | 40.7 | 40.7 | 0.0 | 0.0 |
| Borrowings in EUR | 230.0 | 30.0 | 70.0 | 130.0 |
| Borrowings in GBP | 0.6 | 0.3 | 0.3 | 0.0 |
| Borrowings in RMB | 0.0 | 0.0 | 0.0 | 0.0 |
| **TOTAL** | **271.3** | **71.0** | **70.3** | **130.0** |
| Amortization of issuance costs at the EIR[a] | (0.7) | | | |
| Fair value of interest-rate derivatives | 0.0 | | | |
| **TOTAL** | **270.6** | | | |

*(a) Effective interest rate*

Of the €70.3 million in debt due to mature in between one and five years' time, €50 million had a maturity of less than two years at December 31, 2020. The Group will be able to redeem the USD tranche of the US private placement (€40.7 million), maturing in November 2021 out of available cash.

| *(In millions of euros)* | Total | O/w maturity < 5 years | O/w maturity > 5 years |
|---|---|---|---|
| Debt | 316.9 | 186.9 | 130.0 |
| Financial assets | (136.7) | (136.7) | 0.0 |
| **Net position before hedging** | **180.2** | **50.2** | **130.0** |
| Fixed-rate debt* | 134.4 | 66.4 | 68.0 |
| **Net position after hedging** | **45.8** | **(16.2)** | **62.0** |

** Including an interest rate cap for a nominal amount of €25 million.*

Total net debt at December 31, 2020 breaks down as follows by type of interest rate:

| **(By interest rate)** | % |
|---|---|
| Fixed | 74.6 |
| Variable | 25.4 |

Assuming Mersen's debt and exchange rates remain unchanged at their December 31, 2020 level and taking into account the swaps held in the portfolio, an increase of 100 basis points in variable interest rates would increase the Group's annual interest costs by around €0.5 million. This impact is chiefly related to debt in EUR, as debt in USD is primarily fixed-rate debt.

## Note 16 Right-of-use assets and lease liabilities

The Group is a lessee of various real estate assets (offices, plants and warehouses), which represent the majority of its lease liabilities in value terms. In terms of the number of leases, however, movable assets account for the majority (primarily vehicles and forklift trucks). At December 31, 2020, right-of-use assets recognized in the statement of financial position totaled €46.2 million.

| Right-of-use assets | Land and buildings | Other | Total |
|---|---|---|---|
| At January 1, 2020 | 45.3 | 4.9 | 50.2 |
| Depreciation and impairment for the period | (9.4) | (3.4) | (12.8) |
| Additions or modifications to right-of-use assets | 7.1 | 4.5 | 11.6 |
| Translation adjustments | (2.4) | (0.4) | (2.8) |
| **AT DECEMBER 31, 2020** | **40.6** | **5.6** | **46.2** |

At December 31, 2020, lease liabilities recognized in the statement of financial position totaled €46.6 million.

In 2020, lease payments totaled €13.5 million and the financing component recognized in net financial income/(expense) amounted to €2.7 million.

| Lease liabilities | |
|---|---|
| At January 1, 2020 | 48.1 |
| Commitments generated by additions or modifications to right-of-use assets | 12.1 |
| Lease payments made in the period | (13.5) |
| Financing component of lease commitments | 2.7 |
| Translation adjustments | (2.8) |
| **AT DECEMBER 31, 2020** | **46.6** |

Total depreciation and impairment of right-of-use assets came to €12.8 million in 2020, breaking down as €11.9 million in depreciation and €0.9 million in impairment.

| Amount included in net income | |
|---|---|
| Depreciation and impairment | (12.8) |
| Financing component of lease commitments | (2.7) |

At December 31, 2020, the Group held a number of leases that meet the exemption criteria under IFRS 16 (short-term and low-value leases). These contracts mainly correspond to leases of low-value assets. Future minimum lease payment obligations under these leases were not material at December 31, 2020.

# Note 17 Fair value of financial instruments

The following tables show the fair value of the Group's financial assets and liabilities and their carrying amount in the statement of financial position, as well as their ranking in the fair value hierarchy for instruments measured at fair value: they do not provide information about the impairment of financial assets and liabilities that are not measured at fair value, insofar as their carrying amount corresponds to a reasonable approximation of the impairment loss.

| 12/31/2020 | | Carrying amount | | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Statement of financial position sections and category of instrument | Note | Fair value of hedging instruments | Fair value through "Other items of comprehensive income" | Financial assets at amortized cost | Other financial liabilities | Total carrying amount | Level 1 | Level 2 | Level 3 | TOTAL |
| **Financial assets measured at fair value** | | | | | | | | | | |
| Unlisted investment securities | 9 | | 3.5 | | | 3.5 | | | 3.5 | 3.5 |
| Derivatives held as current and non-current assets | 3 | 3.4 | | | | 3.4 | | 3.4 | | 3.4 |
| | | **3.4** | **3.5** | **0.0** | **0.0** | **6.9** | **0.0** | **3.4** | **3.5** | **6.9** |
| **Financial assets not measured at their fair value** | | | | | | | | | | |
| Current and non-current financial assets | 15 | | | 29.7 | | 29.7 | | | | |
| Trade receivables | 11 | | | 128.2 | | 128.2 | | | | |
| Cash and cash equivalents | 15 | | | 110.7 | | 110.7 | | | | |
| | | **0.0** | **0.0** | **268.6** | **0.0** | **268.6** | | | | |
| **Financial liabilities measured at their fair value** | | | | | | | | | | |
| Derivatives held as current and non-current liabilities | 3 | (0.9) | | | | (0.9) | | (0.9) | | (0.9) |
| | | **(0.9)** | **0.0** | **0.0** | **0.0** | **(0.9)** | **0.0** | **(0.9)** | **0.0** | **(0.9)** |
| **Financial liabilities not measured at fair value** | | | | | | | | | | |
| Bank borrowings | 15 | | | | (230.9) | (230.9) | | (233.6) | | |
| Financial current accounts | 15 | | | | (0.2) | (0.2) | | | | |
| Bank overdrafts | 15 | | | | (11.6) | (11.6) | | | | |
| Current financial liabilities | 15 | | | | (74.2) | (74.2) | | | | |
| Trade payables | | | | | (56.1) | (56.1) | | | | |
| | | **0.0** | **0.0** | **0.0** | **(373.0)** | **(373.0)** | | | | |
| **Carrying amount by category** | | **2.5** | **3.5** | **268.6** | **(373.0)** | **(98.4)** | | | | |

| December 31, 2019 | | Carrying amount | | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Statement of financial position sections and category of instrument | Note | Fair value of hedging instruments | Fair value through "Other items of compre-hensive income" | Financial assets at amortized cost | Other financial liabilities | Total carrying amount | Level 1 | Level 2 | Level 3 | TOTAL |
| **Financial assets measured at fair value** | | | | | | | | | | |
| Unlisted equity interests | 9 | | 3.7 | | | 3.7 | | | 3.7 | 3.7 |
| Derivatives held as current and non-current assets | 3 | 1.4 | | | | 1.4 | | 1.3 | | 1.3 |
| | | **1.4** | **3.7** | **0.0** | **0.0** | **5.1** | **0.0** | **1.3** | **3.7** | **5.0** |
| **Financial assets not measured at fair value** | | | | | | | | | | |
| Current and non-current financial assets | 15 | | | 20.7 | | 20.7 | | | | |
| Trade receivables | 11 | | | 147.3 | | 147.3 | | | | |
| Cash and cash equivalents | 15 | | | 45.2 | | 45.2 | | | | |
| | | **0.0** | **0.0** | **213.2** | **0.0** | **213.2** | | | | |
| **Financial liabilities measured at fair value** | | | | | | | | | | |
| Derivatives held as current and non-current liabilities | 3 | (0.3) | | | | (0.3) | | (0.3) | | (0.3) |
| | | **(0.3)** | **0.0** | **0.0** | **0.0** | **(0.3)** | **0.0** | **(0.3)** | **0.0** | **(0.3)** |
| **Financial liabilities not measured at fair value** | | | | | | | | | | |
| Bank borrowings | 15 | | | | (235.4) | (235.4) | | (235.4) | | |
| Financial current accounts | 15 | | | | (0.7) | (0.7) | | | | |
| Bank overdrafts | 15 | | | | (16.5) | (16.5) | | | | |
| Current financial liabilities | 15 | | | | (27.3) | (27.3) | | | | |
| Trade payables | | | | | (60.6) | (60.6) | | | | |
| | | **0.0** | **0.0** | **0.0** | **(340.5)** | **(340.5)** | | | | |
| **Carrying amount by category** | | **1.1** | **3.7** | **213.2** | **(340.5)** | **(122.5)** | | | | |

Regarding financial derivative instruments (including foreign exchange forward contracts and interest rate swaps): the market comparable measurement technique is used. Fair value is based on brokers' quoted prices. Similar contracts are negotiated on an active market and their price reflects transactions that include similar instruments.

## Note 18 Other non-recurring income and expenses

Other non-recurring income and expenses break down as follows:

| *In millions of euros* | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Business adaptation plan | (25.4) | |
| Impairment of *ACE* goodwill | (17.0) | |
| Litigation and other gains and expenses | (5.4) | (1.7) |
| Acquisition-related expenses and site start-up costs | (2.9) | (1.9) |
| Competitiveness plan | (0.7) | (2.3) |
| Cancellation of the capitalization of the "electric vehicles" project | | (5.3) |
| **TOTAL** | **(51.4)** | **(11.2)** |

At December 31, 2020, non-recurring income and expenses amounted represented a net expense of €51.4 million and mainly included:

- €25.4 million in expenses related to the business adaptation plan and €17 million in impairment losses recognized against goodwill allocated to the ACE CGU.
- €2.9 million in acquisition-related expenses (mainly concerning GAM Neumann and Americarb) and start-up costs for the Columbia site.
- €5.4 million in costs related to claims and litigation, mainly trade disputes, and other material non-recurring expenses.
- €0.7 million in additions to provisions (net of reversals) relating to the competitiveness plan.

At end 2019, non-recurring income and expenses stood at €11.2 million and included primarily:

- A €5.3 million impairment loss recognized against capitalized development costs concerning the hybrid protection project for the electric vehicle market. This impairment loss was recognized because the Group no longer believed that sales of the product concerned would be sufficient following a breakdown in negotiations with a major car manufacturer in 2019.
- €2.3 million in expenses related to the competitiveness plan.
- €1.9 million in acquisition-related costs, mainly concerning AGM Italy, GAB Neumann and the Columbia site in the United States (including site start-up costs of €0.8 million).
- €1.7 million in costs related to claims and litigation, mainly concerning trade disputes and other material and non-recurring expenses, including a provision for the dispute with SNCF.

The costs related to the business adaptation plan and the competitiveness plan were measured based on a formal process drawn up and overseen by the Group Executive Committee.

# Note 19 Segment reporting

## Operating income

| *In millions of euros* | Advanced Materials (AM) | | Electrical Power (EP) | | Total for continuing operations | |
|---|---|---|---|---|---|---|
| | **Dec. 31, 2020** | **Dec. 31, 2019** | **Dec. 31, 2020** | **Dec. 31, 2019** | **Dec. 31, 2020** | **Dec. 31, 2019** |
| Sales to third parties | 476.4 | 545.4 | 370.8 | 404.8 | 847.2 | 950.2 |
| Proportion of total | 56.2% | 57.4% | 43.8% | 42.6% | 100.0% | 100.0% |
| **Segment operating income before non-recurring items** | **57.7** | **82.3** | **27.9** | **38.0** | **85.6** | **120.3** |
| Recurring unallocated costs | | | | | **(17.0)** | **(18.2)** |
| **Segment operating margin before non-recurring items*** | **12.1%** | **15.1%** | **7.5%** | **9.4%** | | |
| Operating income from continuing operations | | | | | 68.6 | 102.1 |
| Operating margin from continuing operations before non-recurring items | | | | | 8.1% | 10.8% |
| Segment non-recurring income and expenses | (43.2) | (6.1) | (7.7) | (5.1) | (50.9) | (11.2) |
| **Segment operating income** | **14.5** | **76.2** | **20.2** | **32.9** | **34.7** | **109.1** |
| Segment operating margin* | 3.0% | 14.0% | 5.4% | 8.1% | | |
| EBITDA margin (1) | 19.8% | 21.8% | 11.9% | 13.0% | 14.5% | 16.3% |
| Non-recurring unallocated costs | | | | | (0.5) | 0.0 |
| **Operating income from continuing operations** | | | | | **17.2** | **90.9** |
| Operating margin from continuing operations | | | | | 2.0% | 9.6% |
| Net financial expense | | | | | (12.0) | (13.2) |
| Current and deferred income tax | | | | | (14.0) | (17.9) |
| **Net income from continuing operations** | | | | | **(8.8)** | **59.8** |

** Segment operating margin = Operating income/Segment sales to third parties.*
*(1) The Group's EBITDA represents combined segment operating income before non-recurring items plus segment depreciation and amortization.*

## Breakdown of sales and sales trends by geographical area

| *In millions of euros* | Dec. 31, 2020 | % | Dec. 31, 2019 | % |
|---|---|---|---|---|
| France | 62.7 | 7% | 77.3 | 8% |
| Rest of Europe | 223.9 | 27% | 243.9 | 26% |
| North America | 281.3 | 33% | 329.8 | 35% |
| Asia-Pacific | 253.6 | 30% | 262.9 | 28% |
| Rest of the world | 25.7 | 3% | 36.3 | 3% |
| **TOTAL** | **847.2** | **100%** | **950.2** | **100%** |

No single customer accounts for over 10% of the Group's sales. The number one customer accounted for 3% of the Group's sales.

The Group's activities are not subject to any significant seasonal variation.

## Segment assets

| *In millions of euros* | AM | EP | Dec. 31, 2020 |
|---|---|---|---|
| Net non-current assets | 470.7 | 211.5 | 682.2 |
| Inventories | 124.8 | 56.3 | 181.1 |
| Trade receivables | 67.4 | 60.8 | 128.2 |
| Contract assets | 6.9 | | 6.9 |
| Other operating receivables | 13.3 | 7.3 | 20.6 |
| **TOTAL SEGMENT ASSETS** | **683.1** | **335.9** | **1,019.0** |
| Deferred tax assets | | | 25 |
| Non-current portion of current tax assets | | | 9.1 |
| Current portion of current tax liabilities | | | 2.5 |
| Other current assets | | | 0 |
| Current financial assets | | | 26.0 |
| Current derivatives | | | 3.4 |
| Financial assets | | | 0 |
| Cash and cash equivalents | | | 110.7 |
| Assets held for sale and discontinued operations | | | 0 |
| **TOTAL UNALLOCATED ASSETS** | | | **176.7** |
| **TOTAL** | | | **1,195.7** |

### Segment liabilities

| *In millions of euros* | AM | EP | Dec. 31, 2020 |
|---|---|---|---|
| Trade payables | 29.2 | 26.9 | 56.1 |
| Contract liabilities | 22.1 | 1.5 | 23.6 |
| Other payables and other liabilities | 56.4 | 33.3 | 89.7 |
| Non-current and current provisions | 20.8 | 6.0 | 26.8 |
| Employee benefits | 51.7 | 20.0 | 71.7 |
| **TOTAL SEGMENT LIABILITIES** | **180.2** | **87.7** | **267.9** |
| Deferred tax liabilities | | | 24.7 |
| Long and medium-term borrowings | | | 230.9 |
| Lease liabilities | | | 46.6 |
| Non-current derivatives | | | 0.0 |
| Current portion of current tax liabilities | | | 4.3 |
| Other current financial liabilities | | | 74.2 |
| Current derivatives | | | 0.9 |
| Financial current accounts | | | 0.2 |
| Bank overdrafts | | | 11.6 |
| Liabilities related to assets held for sale and disc. op. | | | 0.7 |
| **TOTAL UNALLOCATED LIABILITIES** | | | **394.1** |
| **TOTAL** | | | **662.0** |

## Note 20 Payroll costs and headcount

Group payroll costs (including social security contributions, provisions for pension obligations and retirement compensation) came to €277.6 million in 2020 compared with €285.1 million in 2019.

### Headcount of consolidated companies at end of period by geographical area

| Geographical area | Dec. 31, 2020 | % | Dec. 31, 2019 | % |
|---|---|---|---|---|
| France | 1,340 | 21% | 1,364 | 20% |
| Rest of Europe | 1,037 | 16% | 1,047 | 15% |
| North America (+ Mexico) | 1,950 | 30% | 2,033 | 30% |
| Asia | 1,585 | 25% | 1,796 | 27% |
| Rest of the world | 522 | 8% | 564 | 8% |
| **TOTAL** | **6,434** | **100%** | **6,804** | **100%** |

The Group's headcount decreased by 370 people in 2020, reflecting:

- A decrease of 370 employees, mainly in India, the United States, Mexico and China
- An increase of 44 employees, due to the acquisition of GAB Neumann

### Headcount of consolidated companies at the year-end broken down by category

| Categories | Dec. 31, 2020 | % | Dec. 31, 2019 | % |
|---|---|---|---|---|
| Engineers and managers | 1,525 | 24% | 1,592 | 23% |
| Technicians and supervisors | 1,384 | 21% | 1,366 | 20% |
| Employees | 236 | 4% | 307 | 5% |
| Blue-collar workers | 3,289 | 51% | 3,539 | 52% |
| **TOTAL** | **6,434** | **100%** | **6,804** | **100%** |

## Note 21 Operating income

An analysis of operating income by category of income and expense is shown in the following table:

| *In millions of euros* | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Product sales | 816.7 | 916.0 |
| Trading sales | 30.5 | 34.2 |
| **TOTAL SALES** | **847.2** | **950.2** |
| Other operating revenues | 5.7 | 5.7 |
| Cost of trading sales | (21.4) | (23.9) |
| Raw material costs | (227.8) | (261.7) |
| Costs on other operating revenues | (3.2) | (2.7) |
| Manufacturing costs | (154.0) | (162.3) |
| Salaries, incentives and profit-sharing | (277.6) | (285.1) |
| Other expenses | (51.9) | (67.5) |
| Financial components of operating income | (2.6) | (3.6) |
| Depreciation and amortization | (52.9) | (51.3) |
| Impairment losses and provisions | (43.2) | (6.6) |
| Gains/(losses) on asset disposals | (1.1) | (0.3) |
| **OPERATING INCOME** | **17.2** | **90.9** |

The impairment losses and provisions recognized in 2020 relate to (i) the business adaptation plan (€17.5 million in provisions for costs and €7.3 million in asset impairment losses), and (ii) the goodwill allocated to the ACE CGU (€17 million in impairment losses). In 2019, this item mainly included€5.3 million in impairment losses recognized against capitalized development costs concerning the hybrid protection project for the electric vehicle market.

Further information about provisions is provided in Note 13.

## Note 22 Financial income and expense

| *In millions of euros* | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Amortization of bond issuance expenses | (0.3) | (0.3) |
| Interest on debt | (5.9) | (6.6) |
| Short-term financial expense | (1.5) | (1.2) |
| Commission on debt | (0.5) | (0.5) |
| Ineffective portion of interest-rate hedges | (0.1) | (0.1) |
| Financing component of lease commitments | (2.7) | (2.9) |
| Net interest income from employee benefits | (1.0) | (1.6) |
| Interest income from bank deposits | | |
| **NET FINANCE EXPENSE** | **(12.0)** | **(13.2)** |

The net finance expense above includes the following items from assets and liabilities that are not stated at fair value on the statement of income:

**Recognized directly in equity**

| *In millions of euros* | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Change in fair value of currency hedges | (0.1) | 1.1 |
| Change in fair value of interest rate hedges | 0.1 | 0.0 |
| Change in fair value of commodity hedges | 1.4 | 0.3 |
| Impact on changes recognized in equity | (0.4) | (0.2) |
| **Net finance costs recognized directly in equity, net of tax** | **1.0** | **1.2** |

## Note 23 Income tax

| *In millions of euros* | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Current income tax | (10.9) | (15.7) |
| Deferred income tax | (1.6) | (1.8) |
| Withholding tax | (1.5) | (0.4) |
| **Total tax expense** | **(14.0)** | **(17.9)** |

The Group has:

- one consolidated tax group in France;
- one consolidated tax group in the United States;
- two consolidated tax groups in Germany;
- one consolidated tax group in the United Kingdom (Group relief).

In 2020, the Group reported €5.2 million in income from continuing operations before tax and its income tax charge amounted to €14 million. This reflects:

- The fact that certain expenses recognized during the year were not tax deductible, particularly the ACE goodwill impairment loss.
- Significant non-recurring expenses recorded in relation to the business adaptation plan which do not give rise to tax savings in some regions, including France. The related increase in tax losses was not recognized in view of the improbability of sufficient future taxable profit being generated in the regions concerned to utilize those tax losses.
- The fact that additional tax losses in France were not recognized due to the eroded earnings outlook for certain sites (particularly those serving the chemicals and aeronautics markets).

Excluding the three items above, the tax rate on the Group's continuing operations was 21% in 2020 (23% in 2019).

This year-on-year decrease was attributable to factors that were non-material on an individual basis, such as permanent differences in France and tax incentives in China (rate reduction, super deduction for R&D expenses).

## Analysis of income tax expense

| *In millions of euros* | Dec. 31, 2020 |
|---|---|
| **Net income** | **(8.8)** |
| Net income from assets held for sale/discontinued operations | 0.0 |
| **Net income from continuing operations** | **(8.8)** |
| Income tax expense/(benefit) on continuing operations | (14.0) |
| **TOTAL INCOME TAX EXPENSE/(BENEFIT)** | **(14.0)** |
| **TAXABLE INCOME** | **5.2** |
| Current tax rate in France | 32.02% |
| Theoretical tax benefit/(expense) (taxable income x current income tax rate in France) | (1.7) |
| Difference between income tax rate in France and other jurisdictions | 0.6 |
| Transactions qualifying for a reduced rate of taxation | |
| Permanent timing differences | (0.1) |
| Impact of limiting deferred tax assets | (13.8) |
| Other | 1.1 |
| **ACTUAL INCOME TAX BENEFIT (EXPENSE) RECOGNIZED** | **(14.0)** |

** Notably including the utilization of tax losses for which no deferred tax assets had been recognized (mainly in China).*

The impact of limiting deferred tax assets (€13.8 million) includes impairments of the net deferred tax asset position on losses, specifically in France, and China.

The deferred tax assets and liabilities recognized in the statement of financial position are as follows:

| *In millions of euros* | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Deferred tax assets | 25.0 | 29.3 |
| Deferred tax liabilities | (24.7) | (30.3) |
| **Net position** | **0.3** | **(1.0)** |

Deferred tax movements during fiscal 2020 were as follows:

| *(in millions of euros)* | Dec. 31, 2019 | Net income | Other comprehensive income | Other | Translation adjustment | Dec. 31, 2020 |
|---|---|---|---|---|---|---|
| Employee benefit obligations | 14.0 | | 0.3 | 0.0 | (1.7) | 12.6 |
| Depreciation of non-current assets | (31.0) | (1.8) | 0.0 | 0.0 | 4.4 | (28.4) |
| Tax-regulated provisions | 0.3 | 1.1 | 0.0 | 0.0 | 0.0 | 1.4 |
| Impact of tax losses | 17.9 | (6.0) | 0.0 | 0.0 | 0.0 | 11.9 |
| Impairment losses | (0.5) | 0.6 | 0.0 | 0.0 | (0.1) | 0.0 |
| Other | (1.7) | 4.5 | (0.4) | 0.8 | (0.4) | 2.8 |
| **DEFERRED TAX IN THE STATEMENT OF FINANCIAL POSITION - NET POSITION** | **(1.0)** | **(1.6)** | **(0.1)** | **0.8** | **2.2** | **0.3** |

** (- liabilities / + assets)*

Deferred tax assets were recognized based on their recoverability. France and Germany were the main countries affected.

Given the short-term outlook on certain markets and geographic regions and in line with local tax rules and/or market practices, certain tax losses were not capitalized as deferred taxes. These tax losses mainly arose in France (€99 million), China (€20 million), Germany (€12 million), Morocco (€7 million) and Brazil (€3 million).

## Note 24 Earnings per share

Basic and diluted earnings/(loss) per share are presented below:

| Continuing operations and discontinued operations | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Numerator: Net income/(loss) used to compute basic earnings/(loss) per share (net income/(loss) for the period in millions of euros) | (12.0) | 57.3 |
| Denominator: weighted average number of ordinary shares used to compute basic earnings/(loss) per share | 20,634,192 | 20,727,550 |
| Maximum effect of dilutive potential ordinary shares: unexercised options | 497,301 | 631,321 |
| Weighted average number of ordinary shares used to calculate diluted earnings/(loss) per share | 21,131,493 | 21,358,871 |
| Basic earnings/(loss) per share *(€)* | (0.58) | 2.76 |
| Diluted earnings/(loss) per share *(€)* | (0.57) | 2.68 |

Basic earnings/(loss) per share from continuing operations is the same as overall basic earnings/(loss) per share as the Group did not recognize any net income from discontinued operations in 2020 or 2019.

After adjusting net income for the items set out below, earnings per share for 2020 and 2019 would be as follows:

| Continuing operations and discontinued operations | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Basic earnings per share *(€)* | 1.67 | 2.95 |
| Diluted earnings per share *(€)* | 1.63 | 2.86 |

| Adjustments to net income/(loss) | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| **NET INCOME/(LOSS)** | **(12.0)** | **57.3** |
| Non-recurring expenses for the business adaptation plan, net of tax | 25.4 | 0.0 |
| ACE goodwill *impairment* losses | 17.0 | 0.0 |
| Impairment of deferred tax assets recognized for tax losses | 4.1 | 0.0 |
| Impairment of capitalized development costs related to the electric vehicles market, net of tax | | 3.9 |
| **ADJUSTED NET INCOME** | **34.5** | **61.2** |

## Note 25 Dividends

In view of the Covid-19 pandemic, based on the recommendation of the Board of Directors, the shareholders at the Annual General Meeting held on May 14, 2020 did not vote for a dividend payment for 2019.

The dividend proposed in respect of fiscal 2020 stands at €0.65 per share, representing an aggregate amount of 13.5 million.

# Note 26 Related party disclosures

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

Mersen SA belongs to the Mersen group, which encompasses 93 consolidated and unconsolidated companies in 34 countries.

Transactions between the Group's consolidated companies are eliminated for consolidation purposes.

## 1 - Relations with unconsolidated subsidiaries

Group sales to unconsolidated subsidiaries amounted to €5 million in 2020 (€5.4 million in 2019).

At December 31, 2020, the management and administrative fees charged to unconsolidated subsidiaries by the Group (deducted from administrative costs) amounted to €0.1 million, the same amount as for 2019.

The amounts receivable by the Group from its unconsolidated subsidiaries came to €1.2 million at December 31, 2020, while amounts payable were less than €0.7 million.

At December 31, 2020, Mersen granted shareholders' advances to unconsolidated subsidiaries amounting to €0.1 million (€0.1 million at end 2020).

## 2 - Compensation and benefits paid to key executives

The table below includes annual compensation for the Group's Chief Executive Officer for 2020.

| *(In millions of euros)* | **Dec. 31, 2020** | **Dec. 31, 2019** |
|---|---|---|
| Salaries, bonuses, benefits in kind | 0.7 | 0.9 |
| Top-up pension plan payments(1) | 0.2 | 0.2 |
| Other long-term employee benefits | | |
| **TOTAL** | **0.9** | **1.1** |

*(1) By contract, the Chief Executive Officer is entitled to the benefit of a top-up pension plan, defined as follows: provided that the person is still employed by the Group upon his/her retirement, this regime guarantees a top-up pension income of 10-20%, depending on length of service, of the basic reference salary during the final three years prior to retirement plus a flat-rate of 50% of the maximum bonus. The actuarial obligation was assessed at December 31, 2020 at €5 million (€4.6 million at December 31, 2019).*

Should his appointment be terminated, the Chief Executive Officer will receive a severance payment of no more than 0.5 times the total gross compensation and benefits paid to him in respect of the 36-month period preceding termination, subject to the attainment of performance criteria. He will also receive a monthly no-compete payment equal to 50% of his last gross fixed monthly compensation, payable over 12 months.

In addition, the following share-based payments were granted to the Chief Executive Officer:

- Stock options: 30,000 stock options were granted to the Chief Executive Officer in 2014. The options attributed in 2007 and 2009 expired in 2017 and 2019 respectively.

| | **2014 Plan Tranche 13** |
|---|---|
| Date of the Management Board's meeting | May 21, 2014 |
| Total number of shares allocated | 30,000 |
| Subscription price | 22.69 |
| Start of option exercise period | May 2016 |
| Expiration date | May 2021 |

- Free shares: table of past allocations to the Chief Executive Officer below: no free shares were allocated to the Chief Executive Officer in respect of the 2015, 2016, 2017 and 2018 plans.
- Free preference shares: table of past allocations to the Chief Executive Officer. Shares allocated in 2015 were definitively allocated in 2019.

| | **2016 plan** |
|---|---|
| Date of Board of Directors' meeting | May 11, 2016 |
| Total number of preference shares allocated | 188 |
| Minimum equivalent in number of ordinary shares after conversion subject to achievement of performance criteria | |
| Maximum equivalent in number of additional ordinary shares after conversion subject to the achievement | 1,880 |
| of performance criteria and share price trends. | 18,800 |
| Reference price at allocation date | |
| Ordinary shares subject to achievement of performance criteria | 10.92 |
| Ordinary shares | 1.52 |
| Definitive allocation date (end of the vesting period) | May 11, 2018 |
| End of lock-up period | May 11, 2020 |

| | **2017 plan** |
|---|---|
| Date of Board of Directors' meeting | May 18, 2017 |
| Total number of preference shares allocated | 189 |
| Minimum equivalent in number of ordinary shares after conversion subject to achievement of performance criteria | |
| Maximum equivalent in number of additional ordinary shares after conversion subject to the achievement | 1,890 |
| of performance criteria and share price trends. | 18,900 |
| Reference price at allocation date | |
| Ordinary shares subject to achievement of performance criteria | 21.35 |
| Ordinary shares | 6.44 |
| Definitive allocation date (end of the vesting period) | May 18, 2019 |
| End of lock-up period | May 18, 2021 |

| | **2018 plan** |
|---|---|
| Date of Board of Directors' meeting | May 17, 2018 |
| Total number of preference shares allocated | 77 |
| Minimum equivalent in number of ordinary shares after conversion subject to achievement of performance criteria | |
| Maximum equivalent in number of additional ordinary shares after conversion subject to the achievement | 770 |
| of performance criteria and share price trends. | 7,700 |
| Reference price at allocation date | |
| Ordinary shares subject to achievement of performance criteria | 33.53 |
| Ordinary shares | 12.41 |
| Definitive allocation date (end of the vesting period) | May 17, 2020 |
| End of lock-up period | May 17, 2022 |

Free shares allocated in 2019 to each executive corporate officer

| | **2019 plan** |
|---|---|
| Date of Board of Directors' meeting | May 17, 2019 |
| Total number of free shares allocated | 8,850 |
| Reference price at allocation date | 20.86 |
| Definitive allocation date (end of the vesting period) | May 17, 2022 |
| End of lock-up period | May 18, 2022 |

## 3 - Other agreements

The Group has not entered into any agreements or commitments with other parties aside from the one described above concerning the non-compete clause, termination of term in office and pension plan of the Chief Executive Officer, Luc Themelin.

# Note 27 Off-balance sheet commitments

## A - Financial commitments and liabilities

| *(in millions of euros)* | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| **Commitments received** | | |
| Guarantees and endorsements | 0.0 | 0.0 |
| Other commitments received | 0.0 | 0.0 |
| **TOTAL** | **0.0** | **0.0** |
| **Commitments given** | | |
| Collateralized debts and commitments | 0.0 | 0.0 |
| Market guarantees | 19.5 | 22.4 |
| Payment guarantee on acquisitions | 0.0 | 0.0 |
| Other guarantees | 8.3 | 9.0 |
| Other commitments given | 5.5 | 2.8 |
| **TOTAL** | **33.3** | **34.2** |

The above table summarizes the Group's off-balance sheet commitments.

### *Nature*

The c. €3 million year-on-year decrease in market guarantees reflects the lower business levels in the chemicals market, particularly in China and the United States.

The "other guarantees" item, which amounted to €8.3 million, notably includes an €8 million guarantee covering the maximum daily drawings by subsidiaries under the European cash pooling arrangements.

### *Maturity*

Off-balance sheet commitments with a maturity of over one year amounted to €17.3 million. They include the €8 million guarantee linked to the European cash pooling system, which remains in force for as long as the cash pooling agreements are in place. The term of market guarantees is generally less than one year but a number have been given for a longer contractual period, which never exceeds three years.

### *Control*

Under the Group's internal control organization, Group companies are not authorized to enter into transactions giving rise to off-balance sheet commitments without obtaining the prior approval of the Group's Finance department and, where appropriate, of the Board of Directors. Nonetheless, certain Group companies have the option of issuing market guarantees not exceeding €150,000 with a maturity of less than two years without prior authorization in the normal course of their business activities. These guarantees are listed in the documents completed by the companies as part of the account consolidation procedure.

As far as the Company is aware, no material off-balance sheet commitments under the accounting standards in force have been omitted.

## B - Title retention clause

None.

## Note 28 Subsequent events

On February 15, 2021, Mersen announced that it had acquired full control of Fusetech – a company based in Kaposvar, Hungary – by buying out the stake 50% held by the Hager group.

This operation enables Mersen to strengthen its manufacturing efficiency on Europe's electric fuse market, and to integrate a high-performance site for the manufacture of some of its future product ranges in accordance with European standards (IEC).

The transaction is valued at approximately €4 million, excluding any future earn-out payments. The company currently has some 300 employees who work at a 6,000 sq.m site. In 2020, Fusetech generated external sales of approximately €7 million.

## Note 29 Approval of the financial statements

The Group's consolidated financial statements for the year ended December 31, 2020 were approved by the Board of Directors at its meeting on March 10, 2021.

## Note 30 Fees paid to the Statutory Auditors and members of their networks by the Group

| | KPMG | | Deloitte | |
|---|---|---|---|---|
| | Statutory Auditors and their network | | Statutory Auditors and their network | |
| | Fees | % | Fees | % |
| **Audit of individual company financial statements and consolidated financial statements and limited review of half-yearly financial statements** | | | | |
| • Entity | 185 | 19% | 187 | 17% |
| • Entities audited | 719 | 74% | 755 | 70% |
| **SUB-TOTAL A** | **904** | **93%** | **942** | **87%** |
| **Other regulatory and legally required services** | | | | |
| • Entity | 0 | 0% | 0 | 0% |
| • Entities audited | 3 | 0% | 39 | 4% |
| **SUB-TOTAL B** | **3** | 0% | **39** | 4% |
| **Other services provided at the request of the entity** | | | | |
| • Entity | 0 | 0% | 7 | 1% |
| • Entities audited | 64 | 7% | 91 | 8% |
| **SUB-TOTAL C** | **64** | **7%** | **98** | **9%** |
| **OTHER NON-AUDIT SERVICES (1) SUB-TOTAL D = B + C** | **67** | **7%** | **137** | **13%** |
| **TOTAL (E = A + D)** | **971** | **100%** | **1,079** | **100%** |

# Statutory Auditors' report on the consolidated financial statements

## For the year ended December 31, 2020

*This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English-speaking readers. This report includes information specifically required by European regulations or French law, such as information about the appointment of Statutory Auditors. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Shareholders of Mersen SA,

## Opinion

In compliance with the engagement entrusted to us by your General Meeting, we have audited the accompanying consolidated statements of Mersen SA for the year ended December 31, 2020.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group at December 31, 2020 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit and Accounts Committee.

## Basis for opinion

### Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements" section of our report.

### Independence

We conducted our audit engagement in compliance with the independence rules provided for in the French Commercial Code (Code de commerce) and the French Code of Ethics (Code de déontologie) for Statutory Auditors, for the period from January 1, 2020 to the date of our report, and, in particular, we did not provide any non-audit services prohibited by Article 5(1) of Regulation (EU) No. 537/2014.

## Justification of assessments – Key audit matters

Due to the global crisis related to the Covid-19 pandemic, the financial statements of this period have been prepared and audited under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organization and the performance of the audits.

It is in this complex and evolving context that, in accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgment, were the most significant in our audit of the consolidated financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the consolidated financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the consolidated financial statements.

### Measurement of goodwill

#### Notes 2-F1, 2-V, 6 and 7 to the consolidated financial statements

##### Description of risk

At December 31, 2020, the net value of goodwill amounted to €257 million against a total balance sheet of €1.196 million.

As indicated in Note 2-F1 to the consolidated financial statements, goodwill is tested for impairment whenever there is an internal or external indication of a loss of value or otherwise at least once a year by comparing the carrying amount of the relevant assets with their value in use.

Value in use is determined from discounted projections of future operating cash flows over five years, and a terminal value. The discount rate used for these calculations is the weighted average cost of capital after tax for each cash generating unit (CGU). Details of the assumptions used are provided in Note 7 to the consolidated financial statements.

These impairment tests were conducted taking into account the macro-economic uncertainty resulting from the Covid-19 health crisis and the assumptions regarding the exit of the crisis made by the Directors. As indicated in Note 7, the tests gave rise to the recognition of an impairment of goodwill of the Anticorrosion Equipment cash generating unit for an amount of €17 million.

We deemed the measurement of goodwill to be a key audit matter due to the materiality of these assets in the consolidated financial statements and the method of determining their value in use, which relies primarily on estimates, in turn requiring management to use assumptions and judgments, as described in Note 2-V to the consolidated financial statements.

The methods used to perform impairment tests are described in Note 2-F1 and details about the assumptions used are given in Note 7 to the consolidated financial statements.

#### How our audit addressed this risk

We verified the methods used to perform the impairment tests and, in particular:

- examined the process for drawing up and approving business plans;
- analyzed the consistency of cash flow forecasts with past performance, the market outlook, and the forecasts provided to the Board of Directors;
- with the guidance of our valuation experts, assessed the reasonableness of the assumptions used by management to determine the discount rate;
- reviewed the sensitivity analyses performed for the impairment tests.

Lastly, we also verified the appropriateness of the disclosures provided in the notes to the consolidated financial statements.

## Provisions for claims and disputes

### Notes 2-L, 2-V and 13 to the consolidated financial statements

#### Description of risk

The Group operates in multiple countries, therefore requiring it to comply with the regulations applicable in those countries. The products manufactured by the Group are subject to specifications, and non-compliance with those specifications can expose the subsidiaries to liability claims from customers pertaining to defective products or late penalties for project-related sales. Accordingly, the Group undertakes an assessment of the risks arising out of liabilities, disputes or litigation related to its activities that are liable to have a material impact on its business and financial position.

As described in Notes 2-L, *"Provisions"*, 2-V, *"Use of estimates"*, and 13, *"Provisions, contingent liabilities and other liabilities"*, to the consolidated financial statements, provisions and liabilities relating to ongoing claims and litigation amounted to around €7.7 million at December 31, 2020, and correspond to management's best estimate of the risk.

Given the degree of judgment required from management to assess the risks corresponding to the Group's legal, regulatory, contractual and constructive obligations, we deemed these provisions to be a key audit matter.

#### How our audit addressed this risk

We familiarized ourselves with (i) the procedures implemented by the Group to identify and catalog all claims made against it and that are liable to have a material impact on its business and financial position, (ii) the resulting risk assessment prepared by the Group, and (iii) the corresponding documentation.

Where applicable, we corroborated the Group's analyses with the written confirmation obtained from the Group's outside legal counsel.

We examined the principal risks identified and assessed the reasonableness of management's risk assessment.

Lastly, we also verified the appropriateness of the disclosures provided in the notes to the consolidated financial statements.

# Specific verifications

As required by legal and regulatory provisions and in accordance with professional standards applicable in France, we have also verified the information pertaining to the Group presented in the Board of Directors' management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

We attest that the Group management report includes the consolidated non-financial information statement required under Article L. 225-102-1 of the French Commercial Code. However, in accordance with Article L. 823-10 of the French Commercial Code, we have not verified the fair presentation and consistency with the consolidated financial statements of the information given in that statement, which will be the subject of a report by an independent third party.

# Other verifications and information pursuant to legal and regulatory requirements

## Presentation of the consolidated financial statements to be included in the annual financial report

Pursuant to paragraph III of Article 222-3 of the AMF's General Regulations, the Company's management informed us of its decision to postpone the application of the single electronic reporting format, as defined by European Delegated Regulation No. 2019/815 of December 17, 2018, to reporting periods beginning on or after January 1, 2021. Accordingly, this report does not contain a conclusion on the compliance of the presentation of the consolidated financial statements to be included in the annual financial report referred to in paragraph I of Article L. 451-1-2 of the French Monetary and Financial Code (Code monétaire et financier) with this format.

## Appointment of the Statutory Auditors

We were appointed Statutory Auditors of Mersen SA by the General Meetings held on June 5, 1986 for Deloitte & Associés, taking into account the acquisitions or mergers of firms since that date, and May 12, 2004 for KPMG.

At December 31, 2020, Deloitte & Associés and KPMG were in the thirty- fifth and the seventeenth consecutive year of their engagement, respectively.

# Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for preparing consolidated financial statements giving a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for implementing the internal control procedures it deems necessary for the preparation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting, unless it expects to liquidate the Company or to cease operations.

The Audit and Accounts Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems, relating to accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

# Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements

## Objective and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions taken by users on the basis of these consolidated financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of the Company's management.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgment throughout the audit. They also:

- identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of the internal control procedures relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the consolidated financial statements;

- assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the consolidated financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The Statutory Auditors are responsible for the management, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed thereon.

## Report to the Audit and Accounts Committee

We submit a report to the Audit and Accounts Committee which includes, in particular, a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit and Risk Committee includes the risks of material misstatement that, in our professional judgment, were the most significant in the audit of the consolidated financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit and Accounts Committee with the declaration provided for in Article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in Articles L. 822-10 to L. 822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors *(Code de déontologie de la profession de commissaire aux comptes)*. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit and Accounts Committee.

The Statutory Auditors

| | |
|---|---|
| Paris La Défense, March 10, 2021 | Paris La Défense, March 10, 2021 |
| KPMG Audit | Deloitte & Associés |
| *Département de KPMG S.A.* | |
| Catherine Porta | Laurent Odobez |
| *Partner* | *Partner* |

# 7 PARENT COMPANY FINANCIAL STATEMENTS

# STATEMENT OF INCOME

| *(In thousands of euros)* | 2020 | 2019 |
|---|---|---|
| **OPERATING REVENUES (1)** | | |
| Revenues | | |
| Other revenues | 1,465 | 1,379 |
| **TOTAL SALES** | **1,465** | **1,379** |
| Operating subsidies | 0 | 0 |
| Reversals of operating provisions | 0 | 262 |
| Transferred operating costs | 735 | 518 |
| Other income | 16,098 | 21,871 |
| **TOTAL 1** | **18,298** | **24,030** |
| **OPERATING EXPENSES (2)** | | |
| Other purchases | 1 | 1 |
| External charges | 15,403 | 16,786 |
| Taxes other than income tax | 591 | 376 |
| Wages and salaries | 837 | 1,038 |
| Social security charges | 1,023 | 384 |
| Depreciation, amortization and charges to provisions: | | |
| - against fixed assets: depreciation and amortization | 30 | 30 |
| - for liabilities and charges: charges to provisions | 356 | 505 |
| Other expenses | 311 | 344 |
| **TOTAL 2** | **18,552** | **19,464** |
| **OPERATING INCOME/(LOSS) (TOTAL 1 - 2)** | **(254)** | **4,565** |

| *(In thousands of euros)* | 2020 | 2019 |
|---|---|---|
| **FINANCIAL INCOME (3)** | | |
| Income from participating interests | 28,975 | 39,998 |
| Other income from fixed assets | 5 | 8 |
| Other interest and related income | 3,141 | 2,132 |
| Reversals of depreciation, amortization and charges to provisions | 370 | 2,102 |
| Foreign exchange gains | 8,703 | 5,904 |
| **TOTAL 3** | **41,194** | **50,144** |
| **FINANCIAL EXPENSE (4)** | | |
| Depreciation, amortization and charges to provisions | 42,207 | 16,109 |
| Interest and related expenses | 6,981 | 7,002 |
| Foreign exchange losses | 6,239 | 8,084 |
| **TOTAL 4** | **55,427** | **31,194** |
| **NET FINANCIAL INCOME (3 - 4)** | **(14,233)** | **18,950** |
| **INCOME BEFORE TAX AND NON-RECURRING ITEMS** | **(14,487)** | **23,515** |
| **NON-RECURRING INCOME** | | |
| Management transactions | 0 | 465 |
| Capital transactions | 3,654 | 3,124 |
| Reversals of provisions and transferred costs | 100 | 0 |
| **TOTAL 5** | **3,754** | **3,589** |
| **NON-RECURRING EXPENSE** | | |
| Management transactions | 31 | 13 |
| Capital transactions | 3,301 | 3,823 |
| Depreciation, amortization and charges to provisions | 300 | 13 |
| **TOTAL 6** | **3,632** | **3,849** |
| **NET NON-RECURRING INCOME/(EXPENSE) (TOTAL 5 - 6)** | **122** | **(260)** |
| **INCOME TAX** | **(2,523)** | **(1,021)** |
| **NET INCOME FOR THE YEAR** | **(11,842)** | **24,276** |
| **TOTAL INCOME** | **63,246** | **77,763** |
| **TOTAL EXPENSE** | **75,088** | **53,487** |

# STATEMENT OF FINANCIAL POSITION

## ASSETS

| *(In thousands of euros)* | Dec. 31, 2020 Gross | Dec. 31, 2020 Depreciation and amortization | Dec. 31, 2020 Net | Dec. 31, 2019 Net |
|---|---|---|---|---|
| **FIXED ASSETS** | | | | |
| **Intangible fixed assets** | | | | |
| Concessions, patents, licenses, brands | 7,618 | 7,618 | 0 | 0 |
| Intangible assets in progress | 849 | | 849 | |
| **SUB-TOTAL** | **8,467** | **7,618** | **849** | **0** |
| **Property, plant and equipment** | | | | |
| Other | 368 | 203 | 164 | 194 |
| Property, plant and equipment in progress | 0 | | 0 | 0 |
| Advances and down payments | 0 | | 0 | 0 |
| **SUB-TOTAL** | **368** | **203** | **164** | **194** |
| **Financial fixed assets** | | | | |
| Equity interests | 598,151 | 151,686 | 446,465 | 457,668 |
| Loans and advances to equity interests | 147,997 | | 147,997 | 129,092 |
| Other fixed assets | 5 | | 5 | 5 |
| Other | 4,195 | 500 | 3,695 | 4,144 |
| **SUB-TOTAL** | **750,348** | **152,186** | **598,162** | **590,909** |
| **TOTAL A** | **759,183** | **160,007** | **599,176** | **591,103** |
| **CURRENT ASSETS** | | | | |
| **Advances and down payments paid on orders** | **0** | | **0** | **4** |
| Trade receivables and related accounts | 4,201 | | 4,201 | 1,253 |
| Other | 87,035 | | 87,035 | 70,169 |
| Investment securities | 1,748 | | 1,748 | 1,313 |
| Cash and cash equivalents | 30,311 | | 30,311 | 995 |
| **ACCRUALS** | | | | |
| Prepaid expenses | 684 | | 684 | 613 |
| **TOTAL B** | **123,979** | | **123,979** | **74,347** |
| Deferred costs C | 628 | | 628 | 882 |
| Foreign currency translation losses D | 6,532 | | 6,532 | 7,571 |
| **TOTAL (A+B+C+D)** | **890,322** | **160,007** | **730,315** | **673,903** |

## EQUITY AND LIABILITIES

| *(In thousands of euros)* | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| **SHAREHOLDERS' EQUITY** | | |
| Share capital | 41,728 | 41,716 |
| Issue premium | 215,043 | 214,937 |
| Merger premium | 8,252 | 8,252 |
| Revaluation reserve | 3,252 | 3,252 |
| Unavailable reserves | 5,490 | 5,462 |
| Statutory reserve | 4,172 | 4,158 |
| Other reserves | 82,119 | 82,148 |
| Retained earnings | 24,411 | 149 |
| Net income for the year | (11,842) | 24,276 |
| Tax-regulated provisions | 235 | 236 |
| **TOTAL A** | **372,860** | **384,587** |
| **PROVISIONS FOR LIABILITIES AND CHARGES** | | |
| Provisions for liabilities | 5,338 | 440 |
| Provisions for charges | 5,243 | 4,587 |
| **TOTAL B** | **10,581** | **5,027** |
| **FINANCIAL LIABILITIES [(a)]** | | |
| Bond issues | 2,329 | 2,329 |
| Borrowings from credit institutions [(b)] | 110 | 482 |
| Other borrowings | 301,899 | 260,666 |
| Advances and down payments received on orders in progress | 370 | 299 |
| Trade payables and related accounts | 905 | 1,502 |
| Tax and social security liabilities | 1,289 | 2,039 |
| Amounts due on fixed assets | 1 | 1 |
| Other financial liabilities | 36,079 | 9,028 |
| **ACCRUALS** | | |
| Prepaid income | 0 | 0 |
| **TOTAL C** | **342,982** | **276,346** |
| Foreign exchange translation gains D | 3,892 | 7,943 |
| **TOTAL (A+B+C+D)** | **730,315** | **673,903** |

*(a) Due in over one year: 42,696; due in less than one year: 233,352*
*(b) Including current bank loans and overdrafts: 10,946*

# Notes to the statement of financial position and statement of income

## Summary of the notes to the financial statements

# Note 1 Accounting principles and methods

The financial statements of Mersen SA for fiscal year 2020 have been prepared in accordance with the provisions of French law, in particular Regulation No. 2014-03 of the *Autorité des Normes Comptables* (French accounting standards authority).

The principal accounting methods used are as follows:

## A - Share issuance costs

Share issuance costs are set off in full against share issue premiums.

## B - Intangible fixed assets and property, plant and equipment

Fixed assets are stated at acquisition or production cost.

They are depreciated or amortized over their estimated useful life.

Differences between depreciation/amortization for tax and accounting purposes are recognized under accelerated depreciation/amortization and recorded under non-recurring expenses, with a corresponding adjustment to tax-regulated provisions under liabilities on the statement of financial position.

Generally speaking, the following useful lives are adopted:

- software and other intangible fixed assets: 5 years
- fixtures and fittings: 10 years
- office equipment and furniture: 5 years or 10 years

Where there is evidence of impairment, an impairment test is conducted comparing the net carrying amount of the intangible fixed asset or of the item of property, plant and equipment with its current value. Where this current value has fallen below net carrying amount, an impairment loss is recognized to bring the net carrying amount into line with its current value. No such impairment losses were recognized during the fiscal year.

## C - Equity interests and other fixed assets

Gross value comprises the contribution value or acquisition cost of the asset. An impairment loss may be recognized where the carrying amount of an asset exceeds its value in use, with the latter determined by reference to:

- primarily, the share of each subsidiary's equity; and
- where necessary, the economic value determined by reference to the future cash flows including the activity carried out and the outlook for developments.

Expenses related to the acquisition of equity interests and other fixed assets are included in the cost of securities.

Impairment losses and reversals of impairment in investments, as well as provisions related to participating interests, are recorded under financial items. When equity interests are sold, the reversals of impairment on them are recognized under non-recurring items so as not to unbalance net financial income and non-recurring items.

## D - Current assets - receivables

Doubtful receivables are written down to reflect the probable loss.

## E - Foreign currency transactions

At the statement of financial position date, foreign currency assets and liabilities are stated at the official exchange rate at December 31. A corresponding adjustment is recorded under foreign currency translation gains or losses.

Unrealized foreign currency gains or losses do not affect net income. This said, a provision is set aside to cover the risk arising from unhedged unrealized foreign currency losses related to these foreign currencies.

## F - Provisions for liabilities and charges

Provisions for liabilities and charges are set aside to cover litigation, disputes, and guarantee and risk-related commitments arising during the normal course of the Company's business and likely to give rise to an outflow of resources.

Accordingly, provisions were set aside to cover all significant risks that due to the situation or events known at December 31, 2020 were likely to occur.

## G - Costs deferred over several periods

Bond issuance costs are allocated over the estimated average life of the relevant borrowing.

## H - Pension obligations and retirement indemnities

Top-up pension obligations under "closed" defined benefit plans covering part of the workforce are recognized in the form of a provision. Obligations to still active employees are recorded under provisions for liabilities and charges. Obligations to retired employees are transferred to a deferred cost account.

A provision for charges is set aside to cover the Company's commitment arising from top-up pension obligations specifically related to the Group's senior managers.

Retirement indemnities and long-service awards payable under collective bargaining agreements are recognized under provisions for liabilities and charges.

Retirement indemnities and long-service awards are calculated on an annual basis by independent actuaries in accordance with the provisions of the collective bargaining agreement for the French chemicals industry and the CNC recommendation issued on April 1, 2003. The projected unit credit method is used for this purpose. It takes into account – using actuarial assumptions – the employee's probable future length of service, level of salary costs, life expectancy and the rate of staff turnover. The obligation is discounted at an appropriate discount rate. The obligation is partially funded through payments to an external organization under a collective life insurance policy, the assets of which are stated at fair value.

Retirement indemnities are recognized using the corridor method.

The principal assumptions used in this calculation are as follows:

- future salary costs are calculated based on current salaries including an annual rate of salary increases of 2.00% and additional age-related increases;
- changes in actuarial assumptions are taken into account only where they fall outside the corridor and are amortized over the expected average remaining working life of plan members;
- discounting to present value at a rate of 1.65%;
- an average cost ratio of 40% to 45%;
- staff turnover calculated by age bracket;
- return on plan assets: 2.50%;
- mortality table used: TGH - TGHF05.

## I - Share repurchases

The shares repurchased by Mersen under the liquidity agreement entered into with a financial institution are reported under other fixed assets, in line with French accounting regulations.

An impairment loss in these shares is recognized when the cost of acquiring the shares exceeds the average share price during the final month of the fiscal year.

Any shares repurchased in order to be canceled in the future are also recognized under fixed assets for their acquisition value.

When these repurchased shares are sold under a liquidity agreement, gains and losses are recognized under non-recurring items.

The Company may also repurchase treasury shares on the market in order to grant them to certain employees. These are recorded as investment securities at their acquisition value, in accordance with French law.

## J - Non-recurring items

The Company has adopted the official French chart of accounts. Non-recurring items encompass items not arising during the normal course of the Company's business. Accordingly, non-recurring items comprise the carrying amount of and proceeds from the disposal of fixed assets, accelerated tax depreciation and non-recurring fixed asset write-downs, non-recurring indemnities, fines and penalties, as well as expenses related to these nonrecurring events.

## K - Share subscription options and bonus share allotments

The Company has put in place share subscription option and bonus share allotment plans for certain employees.

When share subscription options are exercised by beneficiaries, the new shares are issued and accounted for in the same manner as a conventional issue of shares. The share premium is equal to the difference between the subscription price paid by the employee and the increase in the share capital.

When free shares are allotted to beneficiaries, the new shares are issued and accounted for in the same manner as an increase in capital through the capitalization of reserves. The par value of the shares is added to the share capital account, and the surplus is recorded under unavailable reserves.

The Company may also repurchase treasury shares on the market. In this case, a provision for expenses is recorded when this is likely to give rise to an outflow of resources for the Company and is equal to the loss expected upon allotment of the securities to the employees affected by the plan.

# Note 2 Analysis and commentary

Mersen SA recorded a net loss of €11.8 million in 2020, in an unprecedented situation caused by the Covid-19 pandemic. The net loss primarily stemmed from (i) lower income received from subsidiaries and (ii) impairment losses (with no cash impact) recognized against equity interests. The Company's financial structure remained solid however, with shareholders' equity of €373 million at December 31, 2020 and €76 million in net debt (representing a 7% year-on-year decrease). Mersen did not pay any dividends in 2020 due to the lack of visibility for its operating subsidiaries' activities in the second quarter of the year, when many governments had imposed national lockdowns.

## Statement of income

### *Sales and other income*

Other revenues (€1,465 thousand) primarily derive from services billed in France and abroad. Other income (€16,098 thousand) relates primarily to royalties from trademarks and intangibles. Royalties from trademarks decreased by €5,739 thousand from €21,343 thousand in 2019 to €15,604 thousand, reflecting the lower profitability reported by the Group's subsidiaries due to Covid-19.

### *Operating income/(loss)*

Overall, this item represented a loss of €254 thousand, corresponding to the holding company's operating costs less income from the Mersen trademark.

### *Net financial income/(expense)*

Mersen S.A. ended 2020 with net financial expense of €14,233 thousand compared with net financial income of €18,950 thousand in 2019. This sharp negative swing was attributable to lower financial income from subsidiaries and affiliates and significant impairment losses recognized against Mersen's interests in these companies due to the unprecedented health crisis.

### *Non-recurring items*

The Company posted net non-recurring income of €122 thousand in 2020 versus a €260 thousand net non-recurring expense in 2019, resulting mainly from the lower cost of buying back Mersen S.A. shares under the share repurchase program.

### *Income tax*

The Company recorded a 2020 income tax benefit of €2,523 thousand resulting from the consolidation of Mersen and its French subsidiaries for tax purposes.

## Statement of financial position

In addition to the notes shown below, the following comments apply:

### *Financial fixed assets*

The €8,598 thousand year-on-year increase in the net value of financial fixed assets chiefly derives from (i) increases in loans to subsidiaries (€18,925 thousand), and (ii) capital increases carried out by some subsidiaries (€24,994 thousand), offset by (iii) €36,197 thousand in additional impairment losses recognized against equity interests.

### *Debt*

Total net debt at December 31, 2020 was down on 2019:

| *(In thousands of euros)* | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Bank overdrafts | 2 | 194 |
| Bond issue | 2,329 | 2,329 |
| Other borrowings | 300,747 | 259,508 |
| Other financial liabilities [(a)] | 32,074 | 24,639 |
| **Total debt** | **335,152** | **286,670** |
| Cash and cash equivalents | (32,059) | (2,308) |
| Other receivables [(b)] | (75,872) | (69,998) |
| **Marketable securities, cash and cash equivalents** | **(107,931)** | **(72,305)** |
| **Loans to subsidiaries** | **(147,335)** | **(128,410)** |
| **Other financial fixed assets** | **(3,695)** | **(4,148)** |
| Net debt | 76,191 | 81,807 |
| o/w: - due in over one year | 52,665 | 61,090 |
| - due in less than one year | 23,526 | 20,717 |

*(a) Financial advances received recognized under "Other financial liabilities".*
*(b) Financial advances made recognized under "Other receivables".*

Out of the €335 million in total gross debt at December 31, 2019, €263 million stems from the use of confirmed credit lines and borrowings, €40 million from use of the commercial paper program and the remainder chiefly from the use of non-confirmed lines (bank overdrafts and other lines).

# Note 3 Fixed assets

| *(In thousands of euros)* | FIXED ASSETS | | | | DEPRECIATION, AMORTIZATION AND CHARGES TO PROVISIONS | | | |
|---|---|---|---|---|---|---|---|---|
| **Accounts** | **Gross value at beginning of period** | **Increases** | **Decreases** | **Gross value at end of period** | **Total at beginning of period** | **Increases** | **Decreases** | **Total at end of period** |
| **Intangible fixed assets** | | | | | | | | |
| Start-up costs | | | | | | | | |
| Concessions, patents, licenses, brands, processes, rights | 7,618 | | | 7,618 | 7,618 | | | 7,618 |
| Assets in progress | | 849 | | 849 | | | | |
| **TOTAL 1** | **7,618** | 849 | | **8,467** | **7,618** | | | **7,618** |
| **Property, plant and equipment** | | | | | | | | |
| Buildings and technical installations | | | | | | | | |
| Other property, plant and equipment | 367 | 1 | | 368 | 173 | 30 | | 203 |
| Assets in progress | | | | | | | | |
| Advances and down payments | | | | | | | | |
| **TOTAL 2** | **367** | **1** | | **368** | **173** | **30** | | **203** |
| **Financial fixed assets** | | | | | | | | |
| Equity interests | 575,462 | 24,994 | (2,305) | 598,151 | 117,794 | 36,197 | (2,305) | 151,686 |
| Loans and advances to equity interests | 129,092 | 60,220 | (41,315) | 147,997 | | | | |
| Other fixed assets | 5 | | | 5 | | | | |
| Other financial fixed assets | 4,156 | 14,389 | (14,350) | 4,195 | 12 | 500 | (12) | 500 |
| **TOTAL 3** | **708,715** | **99,603** | **(57,970)** | **750,348** | **117,806** | **36,697** | **(2,317)** | **152,186** |
| **TOTAL** | **716,699** | **100,453** | **(57,970)** | **759,183** | **125,596** | **36,727** | **(2,317)** | **160,007** |

## Note 4 Provisions

| *(In thousands of euros)* Accounts | Amount at beginning of period | Charges | Reversals of provisions used | Reversals of provisions not used | Amount at end of period |
|---|---|---|---|---|---|
| **Tax-regulated provisions** | | | | | |
| Accelerated tax depreciation | 236 | | (1) | | 235 |
| **TOTAL 1** | **236** | | **(1)** | | **235** |
| **Provisions for liabilities and charges** | | | | | |
| Retirement indemnities | 81 | 31 | | | 112 |
| Long-service awards | 6 | 1 | | | 7 |
| Senior manager pensions | 2,964 | 324 | | | 3,289 |
| Professional fees | 800 | 300 | | | 1,100 |
| Risk related to liability guarantee | 500 | | | | 500 |
| Risk related to CL PI | 70 | | | | 70 |
| Risk related to Mersen ARG | 370 | | (370) | | 0 |
| Risk related to Mersen Maroc | | 2,627 | | | 2,627 |
| Personnel costs | 235 | | | | 235 |
| Foreign exchange loss | 0 | 2,641 | | | 2,641 |
| **TOTAL 2** | **4,956** | **5,924** | **(370)** | | **10,580** |
| **Provisions for impairment** | | | | | |
| Mersen France SB equity interest | 35,790 | 20,000 | | | 55,790 |
| Mersen Pagny equity interest | 14,377 | 5,000 | | | 19,377 |
| Mersen Gennevilliers equity interest | 0 | 5,700 | | | 5,700 |
| Mersen Maroc equity interest | 3,113 | 2,773 | | | 5,886 |
| Yverdon equity interest | 0 | 2,200 | | | 2,200 |
| Mersen ARG equity interest | 962 | 524 | | | 1,486 |
| Mersen Russia equity interest | 2,305 | | (2,305) | | 0 |
| Flohe receivables | 0 | 500 | | | 500 |
| Other equity interests | 61,247 | | | | 61,247 |
| Treasury shares | 12 | | (12) | | 0 |
| Mersen Rus short-term credit facility | 0 | | | | 0 |
| **TOTAL 3** | **117,806** | **36,697** | **(2,317)** | | **152,186** |
| **TOTAL** | **122,998** | **42,621** | **(2,688)** | | **163,002** |

The Mersen Russia equity investments were fully impaired at the end of 2019. Following the definitive liquidation in July 2020, the gross value as well as the impairment inventory of these shares have been removed from the balance sheet of Mersen SA.

## Note 5 Maturity schedule of assets and liabilities

| *(In thousands of euros)* **Amounts due to the Group** | **Gross statement of financial position value** | **Due in one year or less** | **Due in over one year** |
|---|---|---|---|
| Loans and advances to equity interests | 147,997 | 248 | 147,749 |
| Other financial fixed assets | 5,540 | 5,040 | 500 |
| Trade receivables | 4,201 | 4,201 | |
| Other receivables | 87,035 | 81,085 | 5,950 |
| Prepaid expenses | 684 | 684 | |
| **TOTAL** | **245,457** | **91,258** | **154,199** |

| *(In thousands of euros)* **Amounts payable by the Group** | **Gross statement of financial position value** | **Due in one year or less** | **Due in over one year** | **Due in over five years** |
|---|---|---|---|---|
| Bond issue | 2,329 | 2,329 | | |
| Borrowings from credit institutions | 110 | 110 | | |
| Other borrowings | 301,899 | 101,899 | 70,000 | 130,000 |
| Advances and down payments received on orders in progress | 370 | 370 | | |
| Trade payables and related accounts | 905 | 905 | | |
| Tax and social security liabilities | 1,289 | 835 | | 454 |
| Amounts due on fixed assets | 1 | 1 | | |
| Other financial liabilities | 36,079 | 36,079 | | |
| Prepaid income | | | | |
| **TOTAL** | **342,982** | **142,528** | **70,000** | **130,454** |

## Note 6 Revaluation reserve

| *(In thousands of euros)* | |
|---|---|
| **Revaluation reserves** | |
| At beginning of period | 3,252 |
| Reversed during period | 0 |
| At end of period | 3,252 |

## Note 7 Accrued income and expenses

*(In thousands of euros)*

| | | |
|---|---|---|
| **1. Amount of accrued income included in the statement of financial position items below** | | |
| Loans and advances to equity interests | | 248 |
| Other financial fixed assets | | |
| Other receivables | | 436 |
| Cash and cash equivalents | | 770 |
| **TOTAL** | | **1,454** |
| **2. Amount of accrued expenses included in the statement of financial position items below** | | |
| Borrowings from credit institutions | | 1,153 |
| Other borrowings | | 877 |
| Operating trade payables and related accounts | | 359 |
| Tax and social security liabilities | | 1,243 |
| Investment trade payables and related accounts | | 0 |
| Other financial liabilities | | 339 |
| **TOTAL** | | **3,971** |
| **3. Amount of prepaid income and expenses** | **Expenses** | **Income** |
| Operating items | 684 | 0 |
| Financial items | 0 | 0 |
| **TOTAL** | **684** | **0** |
| **4. Costs deferred over several periods** | | |
| Bond issuance expenses at Jan. 1, 2020 | 882 | |
| 2020 bond issuance expenses | 0 | |
| 2020 amortization of bond issuance costs | (255) | |
| **TOTAL** | **627** | |

## Note 8 Share capital

### Share Capital

At December 31, 2020, the Company's share capital amounted to €41,728,128, divided into 20,864,064 shares, including 20,862,155 category A shares, 1,172 category D shares, and 737 category E shares, each with a par value of €2.

### Stock options and free share grants

Mersen managers are regularly offered the opportunity to take part in stock option plans and/or free share plans, with vesting conditions based on the manager concerned remaining with the Group for a certain period of time and the achievement of internal and/or external targets.

In a press release dated April 21, 2020, the Group announced that it would not be setting up any such plans in 2020.

A stock option plan was set up on May 21, 2014, which expired in May 2020.

A free share plan was set up on May 17, 2018 and two free share plans were set up on May 17, 2019.

Three free preference share plans were set up on May 11, 2016, May 18, 2017 and May 17, 2018 respectively.

The preference shares granted under the 2016 plan were converted into ordinary shares in 2020.

The employee categories benefiting from these options or free shares were approved by the Executive Committee of the Group.

The free share allotment plans and the exercise of the stock options plans can be carried out through the issuance of new shares. As a result, no expenses or liabilities were recognized during the fiscal year in respect of these plans.

When the shares are repurchased on the market, a provision for expenses is recorded when this is likely to give rise to an outflow of resources to the employee, in the amount corresponding to the charge expected for the Company.

The characteristics of the stock options plans are as follows:

| Characteristics/Assumptions | 2014 Stock option plan |
|---|---|
| Allotment date | 05/21/2014 |
| Availability date | 05/21/2016 |
| Expiration date | 05/21/2021 |
| Adjusted exercise price *(€)* | 22.69 |
| Adjusted share price at allotment date *(€)* | 21.30 |
| Estimated life *(number of years)* | 4.5 |
| Volatility | 31.0% |
| Dividend per share *(as a % of share price)* | 3.0 |
| Risk-free interest rate | 0.64% |
| Exercise period *(number of years)* | 5 |
| Lock-up period *(number of years)* | 2 |
| Adjusted number of options/share allotments | 150,000 |
| Estimated annual cancellation rate at year-end 2014 | 5.0% |
| Estimated annual cancellation rate at year-end 2015 | 5.0% |
| % of shares/options vested following satisfaction of the performance condition | 85 |
| Estimate of the number of options/shares ultimately vested in 2014 | 142,505 |
| Estimate of the number of options/shares ultimately vested in 2015 | 129,375 |
| Estimate of the number of options/shares ultimately vested in 2016 | 112,200 |
| Estimate of the number of options/shares ultimately vested in 2017 | 112,200 |
| Estimate of the number of options/shares ultimately vested in 2018 | 112,200 |
| Estimate of the number of options/shares ultimately vested in 2019 | 112,200 |
| Estimate of the number of options/shares ultimately vested in 2020 | 112,200 |
| Valuation of options/shares | €3.68 |
| Valuation as a % of the share price on allotment | 17.3% |

The characteristics of the bonus share allotment plans are as follows:

| Characteristics/Assumptions | 2018 Bonus share plan |
|---|---|
| Allotment date | 05/17/2018 |
| Availability date | 05/17/2021 |
| Expiration date | 05/18/2021 |
| Adjusted exercise price *(€)* | 0.00 |
| Share price at allotment date *(€)* | 39.50 |
| Estimated life *(number of years)* | 3 |
| Volatility | 30.0% |
| Dividend per share *(as a % of share price)* | 3.0 |
| Risk-free interest rate | N/A |
| Exercise period *(number of years)* | 3 |
| Lock-up period *(number of years)* | 3 |
| Number of options/shares allotted | 67,050 |
| Estimated annual cancellation rate at year-end 2017 | |
| Estimated annual cancellation rate at year-end 2018 | 5.0% |
| Estimated annual cancellation rate at year-end 2019 | 5.0% |
| % of shares/options vested after performance condition satisfied [(a)] | 100 |
| Estimate of the number of options/shares vested in 2017 | |
| Estimate of the number of options/shares vested in 2018 | 59,343 |
| Estimate of the number of options/shares vested in 2019 | 61,628 |
| Estimate of the number of options/shares vested in 2020 | 64,871 |
| Valuation of options/shares | €36.10 |
| Valuation as a % of the share price on allotment | 91.4% |

*(a) The performance conditions for the 2017 free share plan were fully met. The provisional performance condition for the 2018 free share plan was fully met.*

| Characteristics/Assumptions | 2019 executive plan Free shares | 2019 plan Free shares |
|---|---|---|
| Allotment date | 05/17/2019 | 05/17/2019 |
| Availability date | 05/17/2022 | 05/17/2022 |
| Expiration date | 05/18/2022 | 05/18/2022 |
| Adjusted exercise price *(€)* | 0.00 | 0.00 |
| Share price at allotment date *(€)* | 30.90 | 30.90 |
| Estimated life *(number of years)* | 3 | 3 |
| Volatility | 29.39% | 29.39% |
| Dividend per share *(as a % of share price)* | 3.0 | 3.0 |
| Risk-free interest rate | N/A | N/A |
| Exercise period *(number of years)* | 3 | 3 |
| Lock-up period *(number of years)* | 3 | 3 |
| Number of options/shares allotted | 59,000 | 84,000 |
| Estimated annual cancellation rate at year-end 2019 | 5.0% | 5.0% |
| % of shares/options vested after performance condition satisfied [(a)] | 100 | 100 |
| Estimate of the number of options/shares vested in 2019 | 52,218 | 74,345 |
| Estimate of the number of options/shares vested in 2020 | 54,967 | 78,257 |
| Valuation of options/shares | €28.24 | €28.24 |
| Valuation as a % of the share price on allotment | 91.4% | 91.4% |

*(a) The provisional performance condition for the 2019 free share plan was fully met.*

| Characteristics/Assumptions | 2016 free preference share plan |
|---|---|
| Allotment date | 05/11/2016<br>05/11/2018 |
| Availability date | 05/11/2020 |
| Expiration date | 05/12/2020 |
| Adjusted exercise price *(€)* | 0.00 |
| Adjusted share price at allotment date *(€)* | 12.87 |
| Estimated life *(number of years)* | 4 |
| Volatility | 25.9% |
| Dividend per share *(as a % of share price)* | 3.0 |
| Risk-free interest rate | N/A |
| Exercise period *(number of years)* | 2 – 4 |
| Lock-up period *(number of years)* | 2 – 0 |
| Adjusted number of preference shares allotments | 1,172 |
| Adjusted number of ordinary share allotments | 128,920 |
| Estimated annual cancellation rate at year-end 2015 | N/A |
| Estimated annual cancellation rate at year-end 2016 | 5.0% |
| % of shares/options vested after performance condition satisfied [(a)] | 100 |
| Estimate of the number of ordinary shares ultimately vested in 2015 | N/A |
| Estimate of the number of ordinary shares ultimately vested in 2016 | 117,429 |
| Estimate of the number of ordinary shares ultimately vested in 2017 | 123,610 |
| Estimate of the number of ordinary shares ultimately vested in 2018 | 126,854 |
| Estimate of the number of ordinary shares ultimately vested in 2019 | 128,355 |
| Estimate of the number of ordinary shares ultimately vested in 2020 | 115,170 |
| Valuation of guaranteed ordinary shares [(c)] | €10.92 - €11.41 |
| Valuation of non-guaranteed ordinary shares [(c)(b)] | €1.52 - €1.59 |
| Valuation as a % of the guaranteed ordinary share price on allotment [(c)] | 84.8% - 88.7% |
| Valuation as a % of the non-guaranteed ordinary share price on allotment [(c)] | 11.8% - 12.3% |

*(a) The provisional performance condition for the 2016 free preference share plan was fully met.*
*(b) The non-guaranteed shares are subject to performance conditions.*
*(c) French residents – Non-French residents*

| Characteristics/Assumptions | 2017 Free preference share plan | 2018 Free preference share plan |
|---|---|---|
| Allotment date | 05/18/2017<br>05/18/2019 | 05/17/2018<br>05/17/2020 |
| Availability date | 05/18/2021 | 05/17/2022 |
| Expiration date | 05/19/2021 | 05/18/2022 |
| Adjusted exercise price *(€)* | 0.00 | 0.00 |
| Adjusted share price at allotment date *(€)* | 25.15 | 39.50 |
| Estimated life *(number of years)* | 4 | 4 |
| Volatility | 27.7% | 30.0% |
| Dividend per share *(as a % of share price)* | 3.0 | 3.0 |
| Risk-free interest rate | N/A | N/A |
| Exercise period *(number of years)* | 2 - 4 | 2 – 4 |
| Lock-up period *(number of years)* | 2 - 0 | 2 – 0 |
| Adjusted number of preference shares allotments | 1,172 | 940 |
| Adjusted number of ordinary share allotments | 128,920 | 103,400 |
| Estimated annual cancellation rate at year-end 2017 | 5.0% | N/A |
| Estimated annual cancellation rate at year-end 2018 | 5.0% | 5.0% |
| Estimated annual cancellation rate at year-end 2019 | 5.0% | 5.0% |
| % of shares/options vested after performance condition satisfied (a) | 20 | 0 |
| Estimate of the number of ordinary shares ultimately vested in 2017 | 117,782 | N/A |
| Estimate of the number of ordinary shares ultimately vested in 2018 | 123,981 | 94,303 |
| Estimate of the number of ordinary shares ultimately vested in 2019 | 127,179 | 99,266 |
| Estimate of the number of ordinary shares ultimately vested in 2020 | 35,025 | 9,261 |
| Valuation of guaranteed ordinary shares (c) | €21.35 - €22.31 | €33.53 - €35.03 |
| Valuation of non-guaranteed ordinary shares (c)(b) | €6.44 - €6.73 | €12.41 - €12.97 |
| Valuation as a % of the guaranteed ordinary share price on allotment (c) | 84.9% - 88.7% | 84.9% - 88.7% |
| Valuation as a % of the non-guaranteed ordinary share price on allotment (c) | 25.6% - 26.8% | 31.4% - 32.8% |

*(a) The achievement rates for the provisional performance conditions set for the 2017 and 2018 free preference share plans are 20% and 0% respectively.*
*(b) The non-guaranteed shares are subject to performance conditions.*
*(c) French residents – Non-French residents*

## Statement of changes in equity

*(In thousands of euros)*

| | |
|---|---|
| **Opening equity at January 1, 2020** | **384,587** |
| Net income for the year | (11,842) |
| Change in tax-regulated provisions | 0 |
| Issue of new shares | 115 |
| Dividend payment | 0 |
| **Closing equity at December 31, 2020** | **372,860** |

The Group did not pay any dividends in 2020 due to the Covid-19 crisis.

# Note 9 Commitments

## Commitments and contingencies

*(In thousands of euros)*

| | |
|---|---|
| **Commitments given** | |
| Guarantee *for* euro cash pooling arrangement | 8,000 |
| Guarantee for the syndicated and bilateral loans to Chinese companies | 21,190 |
| Counter guarantee given to Mersen Deutschland Holding on guarantees | 8,000 |
| Counter guarantee given to Mersen USA BN on guarantees | 9,000 |
| Security deposit paid to Ganton covering the Mersen USA Newburyport subsidiary | 4,075 |
| Rental guarantee covering Mersen Hittisau building | 4,415 |
| Lease for Mersen SA building | 231 |
| Other guarantees and deposits | 1,250 |
| **TOTAL** | **56,161** |
| **Commitments received** | **0** |
| **TOTAL** | **56,161** |

## Other reciprocal commitments

*(In thousands of euros)*

| | |
|---|---|
| **Reciprocal commitments given** | |
| Currency hedges | 40,742 |
| Commodity hedges | 1,840 |
| **TOTAL** | **42,582** |
| **Reciprocal commitments received** | |
| Currency hedges | 97,336 |
| Commodity hedges | 1,840 |
| **TOTAL** | **99,176** |

Commitments received not matched by commitments given correspond for the most part to euro-denominated loans to subsidiaries that have been swapped for loans in the subsidiaries' functional currencies.

## Employee benefits

### *Retirement indemnities, long-service awards and defined-benefit top-up pension plans*

*(In thousands of euros)*

| | |
|---|---|
| Present value of plan obligations at 12/31/2020 | 6,406 |
| Mathematical value of plan assets | (388) |
| Unrecognized actuarial gains and losses | (2,044) |
| **TOTAL** | **3,974** |

## Note 10 Leases

The Company did not hold any finance leases in progress at December 31, 2020.

## Note 11 Executive compensation

The compensation and benefits paid to members of the Group's management and supervisory bodies for 2020, either directly by the Company or indirectly by certain subsidiaries, came to €974 thousand.

Net pension obligations for senior managers came to €4,960 thousand.

## Note 12 Average headcount

| | Salaried employees | Seconded employees |
|---|---|---|
| Executives | 3 | 0 |
| Supervisors and technicians | 2 | 0 |
| **TOTAL** | **5** | **0** |

## Note 13 Analysis of tax expense

| *(In thousands of euros)* | Income before tax | Tax payable |
|---|---|---|
| Current | (14,487) | 0 |
| Non-recurring | 122 | 0 |
| Net tax benefit | | 2,523 |

### Increase and decrease in future tax liability

| *(In thousands of euros)* | Beginning of period | Change during period | End of period |
|---|---|---|---|
| Accelerated tax depreciation | 2 | (1) | 1 |
| Provision for GPC pension obligations | 605 | (98) | 507 |
| Top-up pension provision | 100 | (34) | 66 |
| Provision for senior manager pension obligations | 2,964 | 325 | 3,289 |
| Retirement indemnities | 81 | 31 | 112 |
| Long-service awards | 6 | 1 | 7 |
| Paid vacation | 18 | 0 | 18 |
| Class action professional fees | 800 | 300 | 1,100 |
| Tax base or future tax credit (significant items) | 4,576 | 524 | 5,100 |
| Group French tax deficit | 120,930 | 5,832 | 126,762 |
| Total | 125,506 | 6,356 | 131,862 |
| Future long-term tax rate (2021) | 28.41% | | 28.41% |
| Future long-term tax rate (after 2022) | 25.83% | | 25.83% |
| Amount of future tax receivable | 32,506 | | 40,542 |

## Note 14 Tax consolidation

As of January 1, 2013, Mersen forms a consolidated tax group as defined in Article 223 A *et seq.* of the French General Tax Code *(Code général des impôts)*. This tax group chiefly comprises Mersen France SB, Mersen France La Mure, Mersen France Gennevilliers, Mersen France Amiens, Mersen France PY, Mersen Corporate Services, Mersen Angers, Boostec and Idealec.

Tax expense is calculated for each subsidiary every year as if the company were not a member of the tax group. This tax expense thus takes into account the losses recorded by the subsidiary during the period for which it has belonged to the tax group, which it can offset pursuant to ordinary law.

No arrangements have been made for repayment of tax to a loss-making subsidiary based on each subsidiary's current situation. In addition, no compensation is provided for should a loss-making subsidiary leave the Group.

The tax benefit recorded by the parent company primarily reflects tax payments made by subsidiaries in profit less the tax liability payable by the tax group to the tax administration.

Subsidiaries are jointly and severally liable for payment of their tax to the French treasury, should Mersen default on payment.

## Note 15 Foreign currency translation

| *(In thousands of euros)* | Amounts | O/w differences offset by hedges or by overall foreign exchange position | Other | Provisions for liabilities and charges |
|---|---|---|---|---|
| On financial fixed assets | 6,533 | 6,533 | | (2,641) |
| On receivables | | | | |
| On miscellaneous borrowings | | | | |
| Other financial liabilities | | | | |
| **TOTAL** | **6,533** | **6,533** | | (2,641) |
| On financial fixed assets | | | | |
| On miscellaneous borrowings | (3,892) | (3,688) | (204) | |
| **TOTAL** | **(3,892)** | **(3,688)** | **(204)** | 0 |
| On bank currency hedging (unrealized loss) | 0 | | | 0 |
| **TOTAL** | **2,641** | 2,845 | (204) | **(2,641)** |

## Note 16 Treasury shares

Under the liquidity agreement established with Exane BNP, the Company held 39,406 treasury shares at December 31, 2020. The Group also held 80,572 shares to be allocated to employee free share allotment plans.

# Note 17 Information about non-recurring items

## Non-recurring income

| *(In thousands of euros)* | |
|---|---|
| **Management transactions** | |
| Personal pensions for non-active workers | |
| Other | 0 |
| **SUB-TOTAL** | 0 |
| **Capital transactions** | |
| Gains on the sale of treasury shares | 3,654 |
| **SUB-TOTAL** | **3,654** |
| Other | 100 |
| **SUB-TOTAL** | **100** |
| **TOTAL** | **3,754** |

## Non-recurring expenses

| *(In thousands of euros)* | |
|---|---|
| **Management transactions** | |
| GPC pensions for non-active workers | 31 |
| **SUB-TOTAL** | **31** |
| **Capital transactions** | |
| Losses on the sale of treasury shares | 3,301 |
| **SUB-TOTAL** | **3,301** |
| Additions to provisions | 300 |
| **SUB-TOTAL** | **300** |
| **TOTAL** | **3,632** |

# Note 18 Information about risk factors

The financial risk management policy is approved by the Chief Executive Officer based on proposals submitted by the finance department. Currency and commodity hedging transactions are carried out subject to strictly defined procedures.

## Liquidity risk

Mersen has the following principal financing agreements:

- A multi-currency syndicated bank loan, set up in July 2012 and amended in 2014 and 2017. The amount of this facility is €200 million, repayable in full in July 2024 following the exercise of extension options in 2018 and 2019. The interest payable is at a variable rate, plus a credit margin.
- Bilateral banking loans arranged at the end of 2019 amounting to RMB 170 million, repayable until 2024 and intended to finance the Mersen Group's operations in China.
- A 10-year US private placement (USPP) negotiated in November 2011 with a US investor, on which USD 50 million remained outstanding. The investor receives a fixed rate of interest.
- A €60 million German private placement ("Schuldschein") arranged in November 2016 with a pool of European and Asian investors, repayable in full at maturity after seven years. Investors receive interest at a variable rate based on the Euribor plus a credit margin.
- A €130 million German private placement ("Schuldschein") arranged in April 2019 with a pool of European and Asian investors, repayable in full at maturity after seven years. Investors receive fixed-rate interest on a nominal amount of €68 million and variable-rate interest at Euribor plus a credit margin on a nominal amount of €62 million.
- A multi-currency syndicated bank loan, set up in July 2012 and amended in 2014 and 2017. The amount is €200 million and it has a five-year maturity, repayable in full in 2023.
- A USD 100 million US private placement (USPP) negotiated in November 2011 with a US investor, comprising one tranche of USD 50 million with a 10-year term and one tranche of USD 37.2 million with an eight-year term, both with a bullet structure. The investor receives a fixed rate of interest.
- A €60 million German private placement ("Schuldschein") arranged in November 2016 with a pool of European and Asian investors, repayable in full at maturity after seven years. Investors receive interest at a variable rate based on the Euribor plus a credit margin.
- Furthermore, as part of its policy to diversify its funding sources, in March 2016 Mersen set up a €200 million commercial paper program. As at December 31, 2020, €40 million of the program had been used, of which €30 million is due in less than one year and €10 million between one and five years. On maturity, these amounts can be substituted by drawdowns from the Group Syndicated Loan.

## Interest rate risk

The interest rate risk management policy consists in establishing positions from time to time in line with the direction of interest rates.

## Commodity risk

Certain Group companies purchase raw materials or components comprising commodities, such as non-ferrous metals like copper, silver and zinc. Copper and silver are the two metals accounting for the largest purchases.

The commodity price risk management policy currently consists in arranging forward commodity purchases with prime banking institutions. These are passed on symmetrically to the subsidiaries involved in commodity purchasing.

## Currency risk

The currency risk management policy consists, based on a complete inventory of inter-company and external risks, in arranging forward currency purchases with prime banking institutions.

Except in special cases, the hedges arranged with banks are centralized with the parent company and passed on symmetrically to the relevant subsidiaries to hedge trading flows based either on specific orders or on annual budgets.

# Note 19 Consolidation

Mersen is fully consolidated by the Mersen group.

# List of subsidiaries and shareholdings investments

| *(In thousands of euros)* **Detailed information (gross carrying amount exceeding 1% of the share capital)** | **Share capital** | **Shareholders' equity excluding the share capital** | **% of share capital owned** | **Carrying amount in Mersen's books: Gross** | **Carrying amount in Mersen's books: Net** | **Dividends received by the company** | **Loans and advances, net** | **Guarantees and sureties given** |
|---|---|---|---|---|---|---|---|---|
| Mersen France SB SAS | 47,179 | (9,347) | 100 | 92,589 | 36,799 | | 32,000 | |
| Mersen France Amiens SAS | 22,477 | 5,027 | 100 | 25,402 | 25,402 | 2,285 | | |
| Mersen France Gennevilliers SAS | 10,151 | (11,491) | 100 | 28,896 | 23,196 | | | |
| Mersen Corporate Services SAS. (France) | 3,574 | 1,622 | 100 | 3,646 | 3,646 | 100 | | |
| Mersen France PY SAS | 10,339 | (7,617) | 100 | 43,321 | 23,944 | | | |
| Mersen Boostec (France) | 3,243 | 11,476 | 95.07 | 11,792 | 11,792 | | | |
| Mersen Deutschland Frankfurt GMBH (Germany) | 10,021 | 2,825 | 10 | 1,635 | 1,635 | | | |
| Mersen Deutschland Holding GmbH & Co KG (Germany) KG (Germany) | 28,726 | (3,813) | 100 | 28,700 | 19,236 | | 9,000 | 8,000 |
| Mersen Argentina SA (Argentina) | 12 | (107) | 97.99 | 1,501 | 16 | | | |
| Mersen Oceania Pty Ltd (Australia) | 686 | 2,926 | 100 | 702 | 702 | | | |
| Mersen do Brasil Ltda (Brazil) | 8,970 | (5,655) | 100 | 25,172 | 5,296 | | | |
| Mersen Canada Dn Ltee/Ltd (Canada) | 1,229 | 1,930 | 100 | 1,322 | 1,322 | 2,826 | 6,301 | |
| Mersen China Holding Co Ltd (China) | 125,013 | (4,038) | 100 | 114,742 | 92,526 | | | 21,190 |
| Mersen Korea Co. Ltd (South Korea) | 3,652 | 8,268 | 100 | 12,060 | 11,540 | 1,683 | | |
| Cirprotec (Spain) | 1,063 | 6,353 | 100 | 16,458 | 16,458 | 2,359 | | |
| Mersen Ibérica SA (Spain) | 2,404 | 5,281 | 50.02 | 682 | 682 | 115 | | |
| Mersen Ibérica Bcn SA (Spain) | 2,043 | 3,080 | 100 | 2,396 | 2,396 | | | |
| Mersen USA Holding (United States) | 39,262 | (10,967) | 100 | 68,926 | 68,926 | 12,812 | 63,655 | 9,000 |
| Mersen UK Holdings Ltd (United Kingdom) | 6,897 | 4,065 | 100 | 903 | 903 | | | |
| Mersen Scot. Holding Ltd (United Kingdom) | 73,694 | (7,593) | 100 | 75,409 | 75,409 | | 11,012 | |
| Mersen India Pvt Ltd (India) | 580 | 12,286 | 100 | 11,443 | 11,225 | | | |
| Mersen Italia Spa (Italy) | 5,500 | 884 | 100 | 10,613 | 6,095 | | 8,800 | |
| Mersen Fma Japan KK (Japan) | 396 | 9,542 | 8.70 | 2,977 | 917 | 97 | | |
| Mersen Maroc SARL (Morocco) | 2,824 | (1,658) | 100 | 5,886 | 0 | | | |
| Mersen Mexico Monterrey S. de R.L. de C.V. (Mexico) | 1,175 | (101) | 100 | 1,149 | 1,149 | | | 450 |
| Mersen South Africa Pty Ltd (RSA) | 58 | 260 | 54.77 | 813 | 813 | | | |
| Mersen Nordic AB (Sweden) | 199 | 1,428 | 100 | 551 | 551 | | | |
| Mersen Istanbul Sanayi Urunleri AS (Turkey) | 1,265 | 1,792 | 100 | 5,016 | 2,907 | | | |
| Mersen Leclanché Capacitors | 18 | 1,073 | 100 | 2,171 | (29) | | | |
| **Aggregate information (regarding other subsidiaries and participating interests)** | | | | | | | | |
| **Subsidiaries (at least 50%-owned)** | | | | | | | | |
| In France | | | | 1 | | | | |
| Outside France | | | | 1,097 | 887 | 27 | | |
| **Shareholdings (10% to 50%-owned)** | | | | | | | | |
| Outside France | | | | 180 | 124 | | | |
| **Other shareholdings (less than 10%-owned)** | | | | 0 | 0 | | | |
| **TOTAL** | | | | **598,151** | **446,465** | **22,303** | **130,767** | **39,440** |

Note: Information on sales and income has been omitted intentionally because of the serious harm that could result from its release in a highly-competitive international environment.

# Statutory Auditors' report on the parent company financial statements
## For the year ended December 31, 2020

*This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English-speaking readers. This report includes information specifically required by European regulations or French law, such as information about the appointment of Statutory Auditors. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Shareholders of Mersen SA,

## Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying financial statements of Mersen SA for the year ended December 31, 2020.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company at December 31, 2020 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit and Accounts Committee.

## Basis for opinion

### Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the financial statements" section of our report.

### Independence

We conducted our audit engagement in compliance with the independence rules provided for in the French Commercial Code (Code de commerce) and the French Code of Ethics (Code de déontologie) for Statutory Auditors, for the period from January 1, 2020 to the date of our report, and, in particular, we did not provide any non-audit services prohibited by Article 5(1) of Regulation (EU) No. 537/2014.

## Justification of assessments – Key audit matters

Due to the global crisis related to the Covid-19 pandemic, the financial statements of this period have been prepared and audited under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organization and the performance of the audits.

It is in this complex and evolving context that, in accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgment, were the most significant in our audit of the financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the financial statements.

## Valuation of participating interests

*Notes 1-C , 3 and 4 to the financial statements*

## Description of risk

The balance of participating interests at December 31, 2020 amounted to €446 million out of a total of €730 million, making them one of the largest assets on the balance sheet. Participating interests are initially stated at cost and are impaired based on their value in use, corresponding to the amount the Company would be prepared to pay for the interest if it were to acquire it outright.

As indicated in Note 1-C to the financial statements, the Company estimates the value in use of each interest at the end of the reporting period to determine whether it has fallen below the carrying amount.

The analysis undertaken depends on a multi-criteria approach taking into account:

- the share of each subsidiary's equity;
- where necessary, the economic value determined by reference to the future cash flows including the activity carried out and its future prospects.

Accordingly, due to the inherent uncertainty relating to (i) the method of determining value in use, which relies primarily on estimates, in turn requiring management to use assumptions and judgments, and (ii) the achievement of these forecasts, we deemed the valuation of participating interests to be a key audit matter.

## How our audit addressed this risk

In order to assess the reasonableness of the estimated value in use of participating interests and based on the information provided to us, our audit work consisted primarily in verifying that the appropriate method and underlying data were used by management to make the estimates, and, depending on the subsidiary concerned:

***For valuations based on historical data:***

- verifying that recorded equity can be reconciled with the financial statements of the entities concerned.

***For valuations based on forecast data:***

- obtaining forecast future cash flows from operations of the entities concerned, as established by local management, and assessing their consistency with the forecasts prepared by general management;
- checking the consistency of the assumptions used with the economic environment at the end of the reporting period and at the date of preparation of the financial statements;
- verifying that the values based on forecast cash flows were adjusted to account for the debts of the entity in question.

We also tested the accuracy of management's calculations of value in use.

## Specific verifications

In accordance with professional standards applicable in France, we have also performed the specific verifications required by French law.

### Information given in the management report and in the other documents provided to the shareholders with respect to the Company's financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the Board of Directors' management report and in the other documents provided to the shareholders with respect to the Company's financial position and the financial statements.

We attest to the fair presentation and the consistency with the financial statements of the information given with respect to the payment terms referred to in Article D. 441-6 of the French Commercial Code.

### Report on corporate governance

We attest that the Board of Directors' report on corporate governance sets out the information required by Articles L. 225-37-4, L. 22-10-10 and L. 22-10-9 of the French Commercial Code.

Concerning the information given in accordance with the requirements of Article L. 22-10-9 of the French Commercial Code relating to compensation and benefits paid or awarded to the company officers and any other commitments made in their favor, we have verified its consistency with the financial statements or with the underlying information used to prepare these financial statements, and, where applicable, with the information obtained by the Company from controlled companies within its scope of consolidation. Based on this work, we attest to the accuracy and fair presentation of this information.

Concerning the information given in accordance with the requirements of Article L. 22-10-11 of the French Commercial Code relating to those items your Company has deemed liable to have an impact in the event of a takeover bid or exchange offer, we have verified its consistency with the underlying documents that were disclosed to us. Based on this work, we have no matters to report with regard to this information.

### Other information

In accordance with French law, we have verified that the required information concerning the identity of the shareholders and holders of the voting rights has been properly disclosed in the management report.

# Other verifications and information pursuant to legal and regulatory requirements

## Presentation of the financial statements to be included in the annual financial report

Pursuant to paragraph III of article 222-3 of the AMF's General Regulations, the Company's management informed us of its decision to postpone the application of the single electronic reporting format, as defined by European Delegated Regulation No. 2019/815 of December 17, 2018, to reporting periods beginning on or after January 1, 2021. Accordingly, this report does not contain a conclusion on the compliance of the presentation of the annual financial statements to be included in the annual financial report referred to in paragraph I of Article L. 451-1-2 of the French Monetary and Financial Code (Code monétaire et financier) with this format.

## Appointment of the Statutory Auditors

We were appointed Statutory Auditors of Mersen SA by the General Meetings held on June 5, 1986 for Deloitte & Associés, taking into account the acquisitions or mergers of firms since that date, and May 12, 2004 for KPMG.

At December 31, 2020, Deloitte & Associés and KPMG were in the thirty- fifth and the seventeenth consecutive year of their engagement, respectively.

# Responsibilities of management and those charged with governance for the financial statements

Management is responsible for preparing financial statements giving a true and fair view in accordance with French accounting principles, and for implementing the internal control procedures it deems necessary for the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting, unless it expects to liquidate the Company or to cease operations.

The Audit and Accounts Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems, relating to accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

# Responsibilities of the Statutory Auditors relating to the audit of the financial statements

## Objective and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions taken by users on the basis of these financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of the Company's management.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgment throughout the audit. They also:

- identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of the internal control procedures relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the financial statements;

- assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

## Report to the Audit and Accounts Committee

We submit a report to the Audit and Accounts Committee which includes, in particular, a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit and Accounts Committee includes the risks of material misstatement that, in our professional judgment, were the most significant in the audit of the financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit and Accounts Committee with the declaration provided for in Article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in Articles L. 822-10 to L. 822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit and Accounts Committee.

The Statutory Auditors

Paris La Défense, March 10, 2021
KPMG Audit
Département de KPMG S.A.

Catherine Porta
*Partner*

Paris La Défense, March 10, 2021
Deloitte & Associés

Laurent Odobez
*Partner*

# Five-year financial summary

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| **1. Share capital at year-end** | | | | | | |
| Share capital *(in € thousands)* | 41,728 | 41,716 | 41,536 | 41,274 | 40,944 | 41,234 |
| Number of shares outstanding | 20,864,064 | 20,858,277 | 20,768,118 | 20,637,041 | 20,471,854 | 20,692,054 |
| Par value of shares *(€)* | 2 | 2 | 2 | 2 | 2 | 2 |
| **2. Overall result of operations** *(in € thousands)* | | | | | | |
| Income before tax, depreciation, amortization, charges to provisions and employee profit-sharing | 28,058 | 37,548 | 20,028 | 23,810 | 45,244 | 32,395 |
| Income tax | 2,886 | 1,021 | (2,792) | (3,441) | (2,319) | (2,168) |
| Employee profit sharing | 0 | 0 | 0 | 0 | 0 | 0 |
| Net income after tax, depreciation, amortization and charges to provisions | (11,842) | 24,276 | 16,691 | 18,137 | 25,838 | 14,296 |
| Total earnings paid out [(a)] | 0 (***) | 19,728 | 18,691 | 15,478 | 10,236 | 10,317 |
| **3. Overall result of operations per share** *(€)* | | | | | | |
| Net income after tax and employee profit-sharing, but before depreciation, amortization and charges to provisions | 1.48 | 1.85 | 1.10 | 1.32 | 2.32 | 1.67 |
| Net income after tax, depreciation, amortization and provisions | (0.58) | 1.16 | 0.80 | 0.88 | 1.26 | 0.69 |
| Dividend paid on each share | 0.65 (*) | 0 (***) | 0.95 | 0.75 | 0.50 | 0.50 |
| **4. Employees** | | | | | | |
| Average headcount | 5 | 5 | 5 | 5 | 5 | 5 |
| Total payroll costs *(in € thousands)* | 1,004 | 1,120 | 1,661 (**) | 1,098 | 1,289 | 1,077 |
| Amount paid for welfare benefits *(in € thousands)* | 1,023 | 384 | 438 | 431 | 495 | 358 |

*(a) In January 2016, reduction in the number of securities for 55,200 shares.*
*(*) Subject to the decision of the Annual General Meeting.*
*(**) Overall payroll costs for Mersen SA in 2018 were impacted by the one-off tax-free bonus awarded by the Mersen group to some French employees, totaling €450 thousand.*
*(***) No dividend was paid in 2020 due to the Covid-19 crisis.*

# 8 ADDITIONAL INFORMATION & GLOSSARIES

# Information included by reference

The following information is included by reference in this annual report:

## 1. Fiscal 2019

Included in universal registration document no. D-20-0119 submitted to the Autorité des Marchés Financiers on March 10, 2020 (https://www.mersen.com/sites/default/files/publications-media/2020-03-en-urd-2019-mersen_0.pdf) are:

- the consolidated financial statements for fiscal 2019 prepared in accordance with the IFRSs in force in 2019, together with the Statutory Auditors' reports on the consolidated financial statements, pages 209 to 212;
- the annual financial statements for 2019, together with the Statutory Auditors' reports on the annual financial statements, pages 234 to 237;
- the 2019 management report, pages 75 to 96.

## 2. Fiscal 2018

Included in annual report no. D.19-01-134 submitted to the Autorité des Marchés Financiers on March 12, 2019 (https://www.mersen.com/sites/default/files/publications-media/2019-03-drf-en-mersen-reference-document.pdf) are:

- the consolidated financial statements for fiscal 2018 prepared in accordance with the IFRSs in force in 2018, together with the Statutory Auditors' reports on the consolidated financial statements, pages 152 to 208;
- the annual financial statements for 2018, together with the Statutory Auditors' reports on the annual financial statements, pages 210 to 236;
- the 2018 management report, pages 76 to 97.

# Officer responsible for the reference document

Luc Themelin, Chief Executive Officer

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

# Statement by the officer

I certify that, having taken all reasonable care to ensure that such is the case, the information contained in this document is, to the best of my knowledge, in accordance with the facts and contains no omission likely to affect its import.

I certify that, to the best of my knowledge, these financial statements have been prepared in accordance with the relevant accounting standards and give a true and fair value of the assets and liabilities, financial position and the results of operations of the Company and of all the entities included in the consolidation, and that the management report on pages 75 to 99 presents a faithful picture of the business trends, earnings and financial position of the Company and of all the entities included in the consolidation, as well as a description of the principal risks and uncertainties they are facing.

The consolidated accounts regarding the fiscal year ending December 31, 2020, presented in this document, were addressed in a report by the auditors, which appears on pages 221 to 224.

I obtained an end-of-assignment letter from the Statutory Auditors, Deloitte & Associés and KPMG Audit ID, stating that they have completed their verification of the information related to the financial position and financial statements provided in the annual report, and read through this entire report.

Luc Themelin

# Auditors

## 1. Statutory Auditors

**Deloitte & Associés**
185, avenue Charles-de-Gaulle
92200 Neuilly-sur-Seine

Date of first term: 1986

Date of last renewal: 2016

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2021)

Represented by Laurent Odobez

**KPMG Audit, Département de KPMG SA**
Tour Eqho – 2 avenue Gambetta
F-92066 Paris La Défense

Date of first term: 2004

Date of last renewal: 2016

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2016)

Represented by Philippe Cherqui

## 2. Alternate Auditors

**BEAS**
195, avenue Charles-de-Gaulle
92200 Neuilly-sur-Seine Cedex

Date of first term: 2004

Date of last renewal: 2016

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2021)

**Salustro Reydel**
Tour Eqho – 2 avenue Gambetta
F-92066 Paris La Défense

Date of first term: 2016

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2021)

# Independant Third Party

**Bureau Veritas Exploitation**
Le Guillaumet
60, avenue du Général de Gaulle
92046 Paris La Défense cedex

Represented by Jacques Matillon

# Glossaries

## Finance

| | |
|---|---|
| Average capital employed | Weighted average capital employed for the past five quarters (in order to limit the effects of exchange rate fluctuations at end-of-period versus average). |
| Bonus preference shares | Free preference shares |
| Capital employed | Sum of property, plant and equipment and intangible assets, working capital requirement and receivables net of current tax and net derivatives. |
| EBITDA | Earnings before interest, taxes, depreciation and amortization |
| EPS | Dividend per share |
| Free cash-flow | Net cash generated by operating activities after capital expenditure. |
| Gearing | Net debt-to-equity ratio calculated using the method required by the covenants contained in Mersen's confirmed loans. |
| Gross [income/margin] rate | Ratio of dividend per share proposed for the year to Group net income per share for the year, calculated based on the average number of ordinary shares excluding treasury shares at December 31 of the current year. |
| Gross [income/margin] rate restated | Restated payout: ratio of dividend per share proposed for the year to Group net income per share for the year, restated for non-recurring items, calculated based on the average number of ordinary shares excluding treasury shares at December 31 of the current year. |
| Leverage | Net debt-to-EBITDA ratio calculated using the method required by the covenants contained in Mersen's confirmed loans. |
| Like-for-like growth | Determined by comparing sales for the year with sales for the previous year, restated at the current year's exchange rate, excluding acquisitions and/or disposals. |
| Net debt | Gross financial debt net of cash and cash equivalents and current financial assets. |
| NEU MTN | Negotiable European Medium Term Note |
| Operating income before non-recurring items | As defined in recommendation 2009.R.03 of the French national accounting board (CNC). |
| ROCE | Return On Capital Employed: ratio of recurring operating income to average weighted capital employed, excluding right-of-use assets. |
| URD | Universal Registration Document |
| USPP | US Private placement |
| WCR | Working capital requirement (WCR): sum of trade receivables and related accounts, inventories and other current receivables less trade payables and related accounts. |
| WCR rate | Working capital to sales ratio: ratio of working capital requirement to sales for the quarter, multiplied by four. |

# Business

| | |
|---|---|
| ACE | Anti-corrosion equipment |
| AM | Advanced Materials |
| BEV | Battery electric vehicle |
| BS (British Standard) | British Standardization organization |
| DACH | DACH region (Germany, Austria and Switzerland) |
| DIN (Deutsches Institut für Normung) | German Standardization organization |
| EP | Electrical power |
| EPC | Electrical Protection & Control |
| GAREAT | Insurance and Reinsurance Management of Attacks and Terrorist Acts Risks |
| GS | Graphite Specialties |
| HEV | Hybrid electric vehicle |
| ICPE | Installations classified as environmentally friendly |
| IEC | International Electrotechnical Commission |
| ITAR | International Traffic in Arms Regulation |
| Mersen Excellence Journey | Continuous improvement plan acorss all Group functions |
| OEM | Original Equipment Manufacturer |
| OFAC | Office of Foreign Assets Control |
| CSP | Company savings plan |
| pHEV | Plug-in hybrid electric vehicle |
| PTT | Power Transfer Technologies |
| PVC | Polyvinyl chloride |
| SiC | Silicon carbide |
| SPM | Solutions for Power Management |
| UL | US Standardization organization |
| UNIFE | Association for the European Rail Supply Industry |

# CSR

| | |
|---|---|
| BAT | Best Available Technologies |
| CFE | French corporate property tax |
| CGNR | Governance, Nomination and Remuneration Committee |
| CHSCT | Health & Safety Committee |
| CVAE | French companies' added value contribution |
| CSR | Corporate Social Responsibility |
| GDPR | General Data Protection Regulation |
| GHG | Greenhouse gases |
| GPEC | Forward human resources planning process |
| EHS | Environmental health & safety |
| LMS | Learning Management System (Mersen Academy) |
| LTIR | Lost Time Incident Rate |
| MAR | Market Abuse Regulations |
| RoHS (Restriction of Hazardous Substances Directive) | European Directive seeking to limit the use of 6 hazardous substances |
| SIR | Severity Injury Rate |
| WiN | Women in Mersen |

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