EGIDE

A French corporation (*société anonyme*) with a share capital of €15,800,732
Registered office: Site Sactar – 84500 Bollene – France
Avignon Companies Register (RCS) No.: 338 070 352 (Siren)

Combined General Meeting of June 16, 2017
Report of the board of directors for the year ended December 31, 2016
(constituting a summary of the company's situation for the year ended)

To the shareholders,

We have called you to this combined ordinary and extraordinary general meeting in accordance the company's articles of association and the French law on commercial companies to report to you on the activity of the company for the year ended 31 December 2016, the results of its operations and outlook, and submit for your approval the separate parent company and consolidated annual financial statements for the period. These financial statements are attached to this report.

The meeting notices required by law have been properly sent to you and all documents and items provided for by applicable regulations were made available to you in accordance with the required deadlines.

This report will present the following items:

- The company's operations, results and financial position
- Information on the company's legal affairs
- The social and environmental impact of its business
- Information on subsidiaries and associates
- Miscellaneous information about the company

OPERATIONS, RESULTS AND FINANCIAL POSITION

<u>2016 operating highlights</u>

Growth in revenue in 2016 and effective management of the consumption of supplies and staff costs contributed to a positive gross operating profit and a significant decline in the net loss of the period. Cash was used exclusively to finance investments and working capital requirements, and operating cash flows were very marginally negative in 2016.

At the commercial level, Egide SA entered into a Manufacturing and Supply Agreement with Sofradir at the beginning of the year for an initial term of three years, which renews automatically with consent of both parties. In the year under review, the development of the commercial network continued with the recruitment of a sales engineer in the United States to cover the Midwest and mid-Atlantic regions and the signature of two agency agreements, one to represent Egide products in Texas (USA and the other in Turkey. The return to the telecommunications (datacoms) markets led to a first command in July for 40 and 100 Gb/s products with the first deliveries scheduled for the 2017 first half. Finally, sales of HTCC ceramic equipment to the US military market subject to ITAR (International Trade in Arms Regulations) did not meet expectations, as the uncertain political environment linked to the presidential elections in November led to the freezing of many projects. Despite this, communications at the end of June addressing US customers concerned by these "made in USA" ceramic products for military applications allowed Egide USA to initiate discussions with several of the sector's major customers, with the start of sales expected for 2017.

At the industrial level, investments continued with the installation of different pieces of equipment at the Bollène site (tri-cylinder rolling mill, machining lathe and an optical control machine). Renovation work of the building (frontage refurbishment, new windows, external painting,…) covered by the owner was also carried out while the entire air conditioning system was replaced (financed by Egide). At the Cambridge MD site, a second kiln for HTCC ceramic production was installed in order to secure production capacity. The first prototype packages for infrared applications were manufactured and delivered to the customer: qualification was obtained in December and the volume order is expected for the 2017 second quarter. In Trappes, the building lease expired in February 2017 and was not renewed. In its place, a new nine-year lease was signed for a smaller building close to the current building but offering approximately 40% savings in rent, rental charges and related taxes.

In terms of governance, the shareholders' general meeting of 16 June 2016 terminated the functions of Mr. Philippe Brégi, then chairman of the board of directors and appointed two new independent directors Ms. Véronique Laurent-Lasson and Mr. Michel Faure. The board of directors, meeting at the end of this shareholders' meeting, decided to combine the functions of chair and chief executive officer, entrusted to Mr. James F. Collins who has occupied the office of chief executive officer since September 2014.

Presentation of business activity and results

Activity of Egide SA (France)

Revenue in 2016 amounted to €14.27 million compared to €12.34 million in 2015, an increase of 15.6%.

Applications for infrared products again drove sales for the period (+13.1%) and accounted for 61% of revenue. Microwave applications surged 35% (products for radars) as did the sector for power packages driven by demand from the aeronautics sector. Optronics applications have remained stable in absolute value from one year to the next;

Intercompany billings corresponding to chargebacks between Egide SA and its subsidiaries Egide USA for commercial, financial and technical assistance under the HTCC ceramic project, declined marginally in 2016 from the prior year (from €0.19 million to €0.14 million), with French personnel spending a smaller number of hours at the US site;

The sales mix between the glass-to-metal and the ceramic-to-metal technologies changed slightly. Accordingly, glass-to-metal accounted for 44 % of revenue with sales of €6.22 million in 2016 (41 % in 2015) and ceramic-to-metal 7.68 million, confirming its position as Egide SA's top-selling technology (24% of revenue in 2016 compared to 58% in 2015). Trends for these two technologies are primarily a reflection of the product mix and are not an indication of any underlying trend.

Fees from engineering studies in 2016 amounted to €0.22 million, up from €0.10 million in the prior year. This change is linked solely to a change in the invoicing schedule, with research and development expenditures remaining comparable from one year to the next (approximately €1 million).

France accounted for 53% of Egide SA's sales in 2016 (non-Group) (compared to 58% in 2015); Europe excluding France accounted for 14% and North America 5% of sales in the period. Revenue from other regions in 2016 represented 28 % compared to 26 % in 2015 and concerned, as last year, primarily Israel, China and Thailand.

Egide USA operating highlights

Egide USA had revenue of €8.32 million in 2016 (of which €0.26 million from amounts invoiced by the Group to Egide SA mainly in connection with surface treatment subcontracting) compared to €8.50 million in 2015. This decline in sales (excluding intercompany sales) is the result of the uncertain US economic environment in the second half linked to the presidential elections (with none or few new major contracts and military programs initiated by the outgoing administration) following rather promising business trends in the first half with more than 10% growth n revenue (excluding intercompany sales). Between 2015 and 2016, the average Euro/US dollar exchange rate that declined from 1.1096 to 1.1066 had no impact on the subsidiary's sales when translated into euros.

Power applications continued to account for the major share of sales at 59% of total revenue compared to 62% in 2015. This was followed by infrared applications accounting for 17% of sales and microwave applications at 15%. The latter product range registered growth from the prior year exceeding 60%, confirming the trend displayed by Egide SA.

Products sold use virtually only the glass-to-metal seal (GTMS) technology, as the manufacturing operations for the ceramic-to-metal technology represented an insignificant percentage of sales in 2016. The freezing of large military programs referred to above should nevertheless be lifted in 2017 and this technology is destined to grow in the years ahead. All sales (98 %) of the US subsidiary in 2016 as in 2015 (excluding intercompany sales) originated from the US market.

Parent company results

The annual financial statements of Egide SA for the period ended December 31, 2016 have been prepared in accordance French GAAP based on the principles of conservatism, fair presentation, consistency of presentation, the time period concept and going concern.

Revenue for the period amounted to €14.27 million compared to €12.34 million for the previous period, up 15.6%. Operating income totaled €15.19 million compared to €12.62 million one year earlier.

Operating expenses for the period came to €16.15 million, up from €14.11 million in 2015 or 14.5%. The consumption of raw materials and supplies rose slightly from 33.5% to 35% of production, though solely the result of a change in the product mix, with the performance indicators slightly improving in 2016. Staff costs represented 40.9% of production in 2016 compared to 46.2% in 2015, reflecting the improved overhead absorption but also the reduction in the number of employees. There were only three days of part-time activity in 2016 compared to 16 days in 2015.

Average headcount for the period (fixed-time contracts and permanent contracts) declined from 160 in 2015 to 154 in 2016. It is noted that the average headcount reported in the 2015 financial statements (149 employees) reflected the formula for calculating "equivalent full-time" positions. This formula was modified by statute (ANC 2016-07) in 2016 to indicate only actual individual employees regardless the amount of time worked.

The CICE wage tax credit was registered as a €0.19 million deduction from staff costs in 2016 (€0.18 million in 2015). Because Egide was again qualified as an SME as from the beginning of 2015, the tax credit will be refunded in 2017.

External charges rose from €3.43 million in 2015 to €3.89 million in 2016. The main line items that increased concern technical subcontracting linked to the product mix, increased sales and the surface treatment activity entrusted to Egide USA for certain references as well as sales commissions linked to growth in revenue. It is noted that half the compensation paid by Egide USA to Mr. James F. Collins is charged back to Egide SA in exchange for his function as the chief executive officer of the group; the corresponding expenses are registered under "external personnel" rather than staff costs.

An impairment test had been performed on December 31, 2005 which involved the measurement of value in use of fixed assets based on business plans produced at the end of 2005 and the resulting cash flow projections. This test resulted in the recognition of an impairment charge of €1.08 million for fiscal 2005. No additional impairment charges have been recognized since. Pursuant to the impairment test performed on December 31, 2016, no additional impairment charges were recognized in the period and the level of impairment was accordingly maintained. Amounts for the depreciation and amortization of fixed assets remained relatively stable at €0.23 million (€0.21 million in 2015).

Research and development expenditures remained stable at approximately €1.1 million. These expenditures are not capitalized and are fully expensed.

The operating loss was €0.96 million, down from €1.49 million one year earlier. Accordingly, despite growth in revenue and improvements at the level of staff costs, it has not yet been possible to reach the breakeven target.

Net financial expenses represented a marginal loss for the period of €0.07 million compared to a net financial income of €0.19 million in 2015 In 2016, this represented primarily interest and similar expenses plus a marginal currency effect. In 2015, this currency effect that was positive (+ €0.23 million) largely offset interest expense.

The pretax current operating loss was €1.03 million compared to a loss of €1.30 million the prior year.

Net exceptional items for 2016 amounted to €0.68 million compared to zero in 2015. This consisted of a rebate of social security charges from prior periods.

Tax credits on research and development expenditures recognized in the period amounted to €0.28 million in 2016 compared to €0.24 million one year earlier.

In light of these items, a net loss of €0.68 million was recorded for 2016 compared to a loss of €1.05 million in 2015.

At December 31, 2016, the company had total assets of €11.52 million compared to €11.38 million for 2014. Cash at year-end amounted to €1.05 million compared to €2.59 million on January 1, 2016. Financial debt of €0.91 million at 31 December 2016 consisted of the €0.60 million "Sofired – PME Défense" loan obtained in December 2015, €0.28 million and pre-financing from Bpifrance of the CICE wage tax credit and the balance of the PRME "job protection" loan *(Prêt Régional au Maintien de l'Emploi*) granted by the Provence-Alpes-Côte d'Azur region and the Vaucluse department for €0.03 million.

The table of results provided for by article R225-102 paragraph 2 of the French commercial code and the table of portfolio securities at year-end are attached to this report.

Consolidated results

At December 31, 2016, the following companies were consolidated by Egide Group, it being specified that the Group does not have any branch offices:

- Egide SA, the parent company (consisting of a main establishment located in Bollène and a secondary establishment in Trappes, France)
- Egide USA LLC, a direct wholly-owned subsidiary,
- Egide USA Inc, wholly-owned through Egide USA LLC,

For Egide SA, income and expenses are presented solely in euros. Sales in foreign currency (US dollar) account for approximately 13 % of the French entity's revenue and are offset by purchases in foreign currency from foreign suppliers. For the subsidiary Egide USA, all income and expenses are presented in US dollars. The very limited fluctuation in the Euro/US dollar exchange rates between 2015 and 2016 (with average exchange rates of respectively 1.1096 and 1.1066) had no significant impact on consolidated results. For that reason, the foreign exchange position was not hedged at the Group level.

The main components of comprehensive income for the period are as follows:

IFRS (€m)	**2015**	**2016**
Revenue	20.59	22.17
Gross operating profit	(1.09)	+ 0.11
Operating profit/(loss)	(1.48)	(0.56)
Net financial income (expense)	0.11	(0.13)
Net income/(loss)	(1.38)	(0.69)
Other comprehensive income	(0.07)	(0.03)
Comprehensive income	(1.45)	(0.72)

Consolidated revenue amounted to €22.17 million generating a gross operating profit of €0.11 million (compared to an operating shortfall of €1.09 million in 2015 on revenue of €20.59 million). Both the operating and the net losses for the period were significantly reduced in relation to the prior year.

The improvement in the consumption of supplies from 44% to 41% of sales and staff costs from 43% to 41% of sales (with the Group's average headcount declining from 233 in 2015 to 226 in 2016), as well as growth in revenue contributed to a better absorption of fixed costs. These factors had a positive impact on gross operating profit which amounted to €0.11 in 2016. External charges increased very marginally from the prior year largely due to sales commissions. Allowances for depreciation rose reflecting the full-year impact of HTCC ceramic equipment in the United States compared to only three months in 2015.

In compliance with IFRS, the €0.28 million research tax credit of Egide SA was recognized under "operating income". The CICE wage tax credit of Egide SA was recognized as a deduction from "staff costs" for €0.19 million. All R&D expenditures were fully expensed in the income statement (€1.06 million in 2016 and €1.03 million in 2015).

On that basis, the operating loss for 2016 (€0.56 million) was reduced by more than 60% in relation to the previous period (€1.48 million).

Net financial expense included borrowing costs (interest expense linked to the use of factoring by the two Group entities plus interest expense on the US loan) for €0.21 million in 2015, as in 2016. Foreign exchange transactions generated a gain amounting to €0.07 million in 2016 compared to €0.31 million in 2015.

The net loss for the period was reduced by 50% in relation to the previous period from €1.38 million two €0.69 million.

Comprehensive income includes translation losses and gains from financial statements of subsidiaries presented in foreign currencies and actuarial gains and losses on provisions for employee benefits. In light of these items, a comprehensive loss of €0.72 million was recorded for 2016, down from €1.45 million in 2015.

In the statement of financial position, there has been no unamortized goodwill since December 31, 2003. Current cash amounted to €1.08 million, compared to €2.77 million at December 31, 2015. These funds are used in the period mainly for capital investments amounting to €1.02 million and the financing of working capital requirements for €1.25 million. The financing capacity was close to breakeven in 2016 and net sources of funds derived from factoring companies and financial institutions (finance leases) amounted to €0.58 million.

Long-term debt of €1.85 million (€2.19 million at the end of 2015) consisted of:

- A 15-year-long loan obtained by Egide USA to finance the purchase of its industrial building subject to two covenants that were respected at year-end (€1.08 million)
- A 7-year Sofired PME Défense loan obtained by Egide SA in 2015 with a 2 year grace period (€0.60 million)
- Finance lease agreements (€0.17 million)

Current debt represented trade receivables financing from factoring entities (€2.80 million), the current portion of long-term debt (€0.24 million), and pre-financing from Bpifrance of the research tax credit and CICE wage tax credit obtained by Egide SA (€0.49 million). It is specified that Egide does not use financial instruments giving rise to any particular risk.

Working capital represented 77 days of sales compared to 68 days in 2015. This increase reflects mainly the stock increase at Egide SA in preparation for the expected increase in billings in the 2017 first quarter and the increase in trade receivables linked to strong sales at the end of 2016.

Presentation of the financial position

Growth in sales and good cost controls contributed to a positive gross operating profit in 2016 and a significant reduction in the Group's operating and net losses in relation to the previous period. The internal financing capacity is now close to breakeven.

The French entity remains largely under breakeven (with an operating loss of €0.32 million at Egide SA) whereas the US entity has incurred the costs of operating the HTCC ceramic manufacturing line that generated limited sales in 2016 (operating loss of €0.28 million).

At December 31, 2016, all Group companies had positive cash balances. Cash and cash equivalents at year end amounted to €1.08 million with €1.05 million for Egide SA and €0.03 million for Egide USA. The refunds of Egide SA research tax credits (RTC 2012 and 2015) and the wage tax credit (CICE 2015) bolstered the cash position by €0.68 million in 2016. For 2017, Egide SA and Egide USA will continue to make use of factoring arrangements to finance their working capital requirements. Expected refunds for research tax credits and the CICE wage tax credit amount to €0.37 million.

At the end of 2016, Group debt (excluding factoring entities) amounted to €2.57 million (€1.41 million for Egide SA and €1.16 million for Egide USA) compared to €2.38 million at December 31, 2015. For information, Egide USA's loan is subject to two covenants, both of which were in compliance at the end of 2015 and 2016.

In 2017, Egide USA's financing provided mainly by the Bank of America (a real estate loan and a factoring credit line) will be replaced by a US$3.25 million credit facility from Midcap Business Credit. This facility with a maturity of three years will be used to pay back in full the Bank of America debt. It will be guaranteed by Egide USA's building, inventory and trade receivables and accompanied by a covenant (Ebitda ratio on interest + current portion of long-term debt > 1) calculated on a three month rolling basis The portion based on the real estate (US$1.25 million will be repaid in monthly installments of €10,417 starting from the loan agreement's execution date. The residual balance owed at the end of three years will be refinanced.

Post-closing events

In January 2017, the company carried out a capital increase with preferential subdivision rights in the amount of €7.2 million to finance the acquisition of the operating assets and liabilities of Thermal Management Solutions LLC, based in San Diego California.

As this capital increase was oversubscribed at 117.3%, the board of directors exercised the extension option for 15% the initial amount, thus increasing the amount to €8.2 million. In consequence, Santier Inc., a wholly-owned subsidiary of Egide USA LLC, itself wholly owned by Egide SA, was created for the purpose of receiving the operating assets and liabilities thus acquired. This new subsidiary has been conducting operations within the Egide Group since February 28, 2017.

The Group moreover reported consolidated revenue (unaudited) for the 2017 first quarter of €6.45 million, up 12.2 % in relation to the 2016 first half and up 19.9 % from the 2016 fourth quarter. This revenue includes €0.75 million in sales by Santier Inc in March 2017. Like-for-like, revenue in relation to 2016 was down less than 1% in relation to the 2016 first quarter and up 5.9% on a sequential basis.

In the 2016 first quarter, Egide SA contributed 60%, Egide USA 29% and Santier Inc. 11% to consolidated revenue.

First-quarter sales break down as follows:

- Thermal imaging: 41 % (compared to 46% in the 2015 first quarter)
- Optronics: 12 % (compared to 11 %)
- Microwave: 17 % (compared to 10 %)
- Power management: 22 % (compared to 27 %)
- Other electronics: 8 % (compared to 6 %)

Outlook

In 2016, Egide registered growth in sales for the second consecutive year, with the book-to-bill ratio above 1, meaning that order intake outpaced sales billings. This growth and the work of the different teams contributed to improved performances by the Group resulting in a 60% decrease in the operating loss and a positive gross operating profit.

In 2017, the Group will continue to roll out its development plan, and namely supply HTCC ceramic components from the Cambridge site, propose components on a volume basis to the Optronics sector from the Bollène site, integrate the activities of the San Diego site recently included in the Group scope and increase our customer base by leveraging our existing commercial network.

In this context, capital investments will continue at the Bollène site in order to increase production output and capacity for high-volume applications and the qualification of the HTCC ceramic line of Cambridge (Maryland) will be extended to other North American customers in the infrared sector. Order intake is expected to remain at a level of growth above previous years whereas compliance with indicators for performance, on-time delivery and customer return rates will remain key factors for ensuring the profitability of each of the Group entities.

The expected weight of the US market in relation to the rest of the world has led to a reorganization of the commercial division with the creation of North America and Europe-Asia regions. The business development manager of Santier Inc. will assume responsibility for sales in the United States and

Canada where the key market opportunities are represented by the defense sector subject to ITAR (International Traffic in Arms Regulations) whereas the Group's current business manager will focus on European and Asian markets, including Russia and India which are under development.

In terms of applications, the strategy will focus on positioning the Group in the optoelectronic market for TOSA/ROSA 40 and 100 Gb/s packages (transmitters and receivers for optical communications used in data centers and long-distance and metropolitan fiber optics networks), consolidating positions in the thermal imaging sector, while extending market share for ITAR-compliant products through the HTCC ceramic production line established in Cambridge (Maryland) and profiting from increased US defense budgets that have until now been curtailed.

The recent integration of the activities of Santier, a manufacturer of dissipative materials, will open up new commercial opportunities in this market, particularly in Europe and Asia where the company has limited or no presence. In addition, it will strengthen Group sales addressing the ITAR-compliant US military markets.

These lines of development will be pursued while respecting the primary objective that has been set by the Group, namely limiting cash burn throughout the year while improving operating cash flow (or Ebitda).

Information on risks

Market risks (foreign exchange, interest rate, equity, credit)

Liquidity risk

As Egide currently has sufficient liquid resources to settle its debts on maturity, the company is consequently able to meet its current liabilities with its current assets.

Exchange rate risk

In 2016, exports accounted for 66 % of Egide's revenue, including 39% to North America where sales are invoiced in US dollars. Concerning the 18 % of sales to non-European countries, amounts are invoiced in either euros or US dollars. In the period, Egide SA invoiced sales of US$2.0 million (exchange value of €1.8 million) and Egide USA Inc. invoiced sales of US$8.9 million (€8.1million). In 2016, the US dollar/euro exchange rate (averaging 1.1066 for the year compared to 1.1096 in 2015) had no significant impact on Group sales

Inflows from sales in US dollars received directly by Egide SA (US$1.8 million in 2016) were used in payment of purchases for components from US suppliers for the same amount (US$1.8 million in 2016). The positive balance in US dollars is maintained in dollar denominated bank accounts. In the event of insufficient currencies, dollars are purchased at the prevailing exchange rate using account balances in euros. Inflows from US dollar-denominated sales received by factoring companies are converted into euros at the prevailing rate of the day while financing for invoices issued in US dollars are also obtained in euros. In consequence, the corresponding risk is therefore at the level of the exchange rate on the translation date. No specific hedging arrangement have been put into place as the cost of such arrangements remain too high.

For the US subsidiary, all purchases and sales are in US dollars. At the end of the reporting period, the Group's foreign exchange risk will be accordingly limited to the result of the period of Egide USA converted into euros for consolidation as well as its US dollar denominated cash balance.

Interest rate risk

In 2006, Egide SA set up two factoring agreements factoring agreements for domestic and export trade receivable accounts. The corresponding monthly financing commission applied by the factors to amounts financed is based on the Euribor average 3 month rate at the end of the prior month subject to a 0.60 % minimum. These contracts are not derecognized. In May 2012, Egide USA Inc. obtained a credit facility from Bank of America based on the value of trade receivables and inventories subject to a rate of interest determined as follows: BBA Libor daily floating rate + 3.50 %.

Regional loans were obtained in July 2010 by Egide SA from the Provence Alpes Côte d'Azur region, for €0.20 million and from the Vaucluse department for €0.10 million for job retention aid. The loan granted by the French department was paid back in full on December 31, 2016. The regional loan carried no interest rate risk as it is interest free and repayable in 7 years with a grace period of two years.

A €0.60 million "Sofired – PME Défense" loan was obtained in December 2015 from Bpifrance, from which €0.03 million was retained as cash collateral until full repayment of this loan. As a fixed rate loan for an annual rate of 3.85%, it is not exposed to any interest rate risk. Furthermore, with a seven year term, it benefits from a two-year grace period for the repayment of capital.

Financing to Egide SA from Bpifrance in exchange for the collateralization of French tax credit receivables (research tax credits and the CICE wage tax credit are subject to interest calculated daily at the average 1 month Euribor rate of the previous month plus 3% per annum.

Finally, in May 2012, Egide USA Inc. obtained a US$1.56 million long-term loan from Bank of America to finance the acquisition of its industrial building subject to an interest rate equal to the BBA (British Bankers Association) Libor rate (Adjusted Periodically) + 3.50%. This loan provides for a provision of early redemption based on the application of a default clause (with two covenants attached to this loan), and a clause providing that in the event of noncompliance with one of these covenants, the bank reserves the right to apply a six-point markup to the contractual interest rate. At the end of 2016, these two covenants were in compliance

Given the marginal potential impact of interest rate fluctuations on the statement of comprehensive income linked to the nature of interest rates, the Group has not adopted specific measures for monitoring and managing interest rate risks.

Equity risks

As the company does not directly hold shares or treasury shares (other than those of its subsidiary), it is not subject to equity risks.

Legal risks

Intellectual property

The trademarks used by Egide are registered in France and internationally. As applicable, the company uses the patents to which it has title and files patents when necessary. Licenses used by the company and subsidiaries are considered as assets and as such are not subject to fees.

Special regulations

Egide's activities depend on legal, regulatory, or administrative authorizations, as well as approval procedures. All measures are taken to update work authorizations for all production sites, including those of the subsidiaries, in concert with the relevant organizations.

Insurance

Egide SA and its subsidiary Egide USA possess all necessary insurance coverage for risk related to their manufacturing activities, in compliance with local requirements applicable in their countries. Cover exists for the following risks with amounts identical to those of 2015.

In millions	**Maximum cover**	
	Egide SA	**Egide USA**
Industrial risks	€18.4 million – Deductible: €0.01 million	US$14.5 million
Machinery breakdown	€0.12 million	N/A
Business interruption	Annual gross margin – Deductible 3 d	US$2.4m
Civil liability	€10 million	US$10m
Business travel	€5 million	N/A
Personal vehicle coverage for business use	Unlimited	N/A
Auto	Unlimited	US$1 million
Goods in transit	€0.15 million	N/A
D&O liability	€4.5 million	€4.5 million
Environmental civil liability	€5 million	N/A
Employer's liability	€0.15 million	€0.15 million
Sick leave and occupational illnesses	N/A	US$0.5 million

Employee-related litigation

There was no employee-related litigation at year-end.

Risks related to dependence on third parties

In the niche sector in which Egide operates, there inevitably exist customers and suppliers that are more important than others which, without imposing a condition of dependency on the company, put it at risk by ups and downs associated with their respective activities.

in 2016, the largest customer accounted for 19% and the second largest 9 % of consolidated sales compared to respectively 19 % and 14 % in 2015. However, the Group's 10 largest customers account for 63 % of sales and a reduction in activity by one of them could in consequence have a material impact on total sales. In 2016, 20 customers (out of a portfolio of around 160 active customers) accounted for 74% of sales. In 2015, these figures were respectively 80% and 142 customers.

21 suppliers (out of a total of 141 in 2016) accounted for 80% of the Group's technical purchases (mainly components). The Group's top supplier represented 13% of purchases, the top 5, 42% and the top 10, 63%. In 2015, 21 suppliers (out of a total of 132) accounted for 80% of technical

purchases. The Group's top supplier represented 13% of purchases, the top 5, 45% and the top 10, 65 %.

Political, economic, and tax risks associated with exports sales

Egide SA's in China and Thailand (approximately 13 % of sales of the French entity in 2016 compared to 14 % in 2015 and 11 % in 2014) are with either subsidiaries of European or US customers or with world-renowned subcontractors with local operations (such as Sanmina-SCI or Fabrinet for example). This limits the company's exposure to the inherent risks of the relevant countries. For sales with local Chinese customers, the risk of customer default is limited by long-standing relationships with these customers. In the event of uncertainties about a new customer, a down payment or advance is requested. Egide USA does not have sales in these two countries.

ITAR (International Trade in Arms Regulations) provisions apply to any company working with US customers on products for military use. If a product is classified ITAR, the industrial property of said product (design, manufacturing process or usage) is prohibited from leaving the US territory under any circumstances, including electronically (through email) without the owner's authorization. In practical terms, this means that the product must be manufactured in the US by a local company. This company may be owned by a foreign company (as in the case Egide USA, whose sole shareholder is indirectly Egide SA in France). What is important is that no employee of Egide SA has access to the characteristics of the ITAR product and that this product is manufactured entirely in the United States. If this rule is infringed, the US site may lose is ITAR license which would prevent it from having access to the US military market.

Industrial and environmental risks

Industrial risks

The company's operations are not exposed to exceptional risks. Nevertheless, use of hazardous products (hydrogen, chemicals) in connection with operations increases the potential consequences of an explosion or fire if not rapidly brought under control.

With respect to industrial accidents, no serious incidents have been recorded to date in France or the United States. The only incidents recorded to date have concerned limited and superficial burns. Use of nickel, widely employed in the company, sometimes causes allergic skin reactions which may require an occupational illness-related dismissal.

Environmental risks

With the exception of those governing anti-pollution measures, Egide is not subject to any specific regulations. The hermetic packaging manufacturing process requires the use of hazardous products such as hydrogen and aurocyanide (a solution of gold and cyanide). These products are stored and used according to the standards in force and are under constant surveillance. The sites are also regularly inspected.

Prior to the acquisition of Electronic Packaging Products (renamed Egide USA Inc.) in 2000, Egide performed an environmental audit that did not identify any risk. This was also the case when performing the due diligence for the acquisition of the operating assets and liabilities which led to the creation of the subsidiary Santier Inc. in California in February 2017.

All production equipment used within the Egide Group comply with applicable safety and environmental standards. The Group regularly conducts regulatory verifications using certified entities (verification of fire protection equipment, electrical installations, wastewater disposal systems, etc.). Egide SA is in addition certified ISO 14001.

The Group is also in compliance with European Community Regulation on chemicals and their safe use concerning the Registration, Evaluation, Authorization and Restriction of Chemical substances (EC Directive 1907/2006 of December 18, 2006) or REACH. It also encourages the use of alternative methods in valuating dangers related to substances in order to reduce the number of tests on animals.

Technological risks

Launch of substitution products

Requirements in terms of hermeticity and heat dissipation are inherent to the very existence of integrated electronic systems or complex chips extremely sensitive to the thermal or atmospheric environment. Hybrid circuits used in the defense and space industries as well as lasers for broadband telecommunications need to be hermetically sealed so that they will work reliably without risk of breakdown. The same applies to immersed or buried optoelectronic circuits since the cost of changing a defective component is prohibitive when compared with the price of the equipment. The demand for high quality also applies to products sought after by civilian sector industries such as aeronautics or, more generally, safety.

However, in the event hermeticity is no longer required, other solutions may be used.

With the integration of Santier Inc. since February 28, 2017, a company specialized in the manufacture of dissipative materials, the Group can now address the needs of the electronics industry in the area of components with heat dissipation capacity that do not require hermeticity.

Price reductions

Certain Egide products address applications positioned in "top-of-the-line" segments (long-distance optical telecommunications, aeronautics and space industries, defense and security). While this significantly reduces the impact of price declines, it does not eliminate the risk in the case of high production volumes. Egide's return to the market for data center optics components was made possible by the reduction in production costs, with large volumes expected to limit the impact of low market prices at the level of the Group's margins. Concerning other products involving simpler technologies, with companies in Asia often better positioned in terms of price, Egide has decided not to compete with them indiscriminately.

In addition, whenever possible, it seeks suppliers combining low-cost and reliability for selected components used in the manufacture of its packages, which limits the effects of price declines on margins, and to propose satisfactory prices to the customer in relation to the competition and the market price.

Other risks

New market entrants

It remains extremely difficult to acquire the expertise necessary to develop and produce hermetic packages. It is necessary to be able to achieve consistent production performances in terms of output and quality in order to meet both technical but also commercial and economic requirements. These constraints constitute barriers to entry for new competitors seeking to develop into Egide's markets. Nevertheless, the phenomenon of declining prices mentioned above facilitates the market penetration of second-tier competitors for high-volume products using a technology not necessarily requiring the same high level of expertise comparable to that of Egide.

Risks associated with the volatility of high-tech markets

The company is positioned in high-tech market segments in all the sectors it addresses. None of these markets are exempt from risks of a sudden upward or downward cyclical swing as in 2001 in the telecommunications sector, 2009 for aeronautics and 2010 for space. Through its strategy of diversification in several sectors with several customers in each sector, Egide seeks to reduce the effects of this volatility on sales and earnings, even if recently, cycles have been shorter, more intense and linked to a global economic and financial environment with increasingly pronounced impacts and not necessarily directly linked to our commercial activities (2008 subprime crisis, decline in oil prices in 2015 or the US presidential elections in 2016, for example).

Political risks associated with geographical locations

The Group's operating units located in France or the United States are not subject to any specific risk associated with their geographic location. The French production site's location a few kilometers from a nuclear power plant does not pose any particular problems.

Risks associated with share price volatility

Any event concerning the company, its competitors, the market in general and one or all of the sectors in which it operates may have a positive or negative effect on the company's share price. Similarly, the company's share may be subject to a degree of liquidity risk, with average trading volume in 2016 of only 12,173 shares per day (or 0.27% of the capital compared to 64,352 in 2015 or 62,412 in 2014.

Risks related to adverse weather conditions

The French and US production sites are not located in regions subject to the occurrence of extreme weather phenomena.with the exception of Santier Inc, located in San Diego, California, in a region of seismic activity.

The impact of particularly sudden and dangerous climactic events (floods in Thailand in 2011 or Sandy hurricane on the East Coast of the United States in 2012, for example) may however be significant if Group customers are located in the regions affected. Fortunately, such occurrences are rare though remain fully outside the company's control.

Risks associated with the external growth strategy

Since June 1, 2002, the date of the acquisition of assets that would become Egide UK (sold in November 2013) the Egide Group has not made any acquisitions. The company nevertheless remains attentive to potential opportunities while understanding that securing financing in advance is a requisite for successful completion. Should this condition be met or should the group have the resources to meet these conditions, and if the conclusions of the acquisition audits are positive, the Group must integrate the risk associated with the integration of the target company within the group both in terms of management and financing of the future activity. This was the case with the acquisition of the assets and liabilities of TMS LLC in February 2017 resulting in the creation of the subsidiary Santier Inc. The evaluation of this risk is one of the factors taken into account by the board of directors to validate any acquisition opportunity that might be presented to it in the future.

Research and development

Egide SA counts ten dedicated engineers and technicians in the Research and Development department, to which are sometimes added, for specific jobs such as microwave simulations, engineers and technicians coming from customer technical support departments. They are tasked with the development of new technological building blocks (materials, procedures, …) and their implementation, while ensuring adequate technical support (assisting product startups, online problem resolution, and successfully executing work required by Egide’s study and engineering design contracts.

Programs undertaken or pursued in the period:

- Developments focusing on ceramic processes (organic formulations, conductive ink for vertical interconnect access or screen printing)
- Developments focusing on assembling processes (cleaning techniques, low-temperature sealing, dissipative materials, electrolytic or chemical gold plating)
- Developments focusing on microwave simulations
- Engineering study services:
    - Development of a package for a Semiconductor Optical Amplifier (SOA) (SOA) with polarization diversity optical assembly
    - Development of a package for dynamic control of heat removal for embedded electronics
    - Development of new technological building blocks to produce packages for aerospace applications
    - Development of a new technology for millimeter wave applications for satellite telecommunications

Selected projects fall within the scope of competitiveness clusters or European clusters and on that basis are generally provided with up to 25% and 30%, independently or jointly in financing either from regional authorities, Bpifrance, ESA (European Space Agency) or the French National Research Agency (ANR or *Agence Nationale de la Recherche*). Projects that do not receive financing are paid for in full by Egide. R&D expenditures are not capitalized by the company and recorded as assets.

Expenses incurred that are taken into account to calculate the research tax credit are presented below:

	2014	2015	2016
R&D expenditures	€1,094,000	€1,062,000	€1,062,000
% of consolidated sales	5.48 %	5.16 %	4.63 %
Headcount (person equivalents)	12.0	12.5	11.1

Statutory disclosures on the trade payables aging balance (Egide SA)

In accordance with article L441-6-1 of the French commercial code, information on the aging balance for trade payables of Egide SA at December 31, 2015 and 2016 is provided below:

In euros	2015	%	2016	%
Not due (purchase invoice accruals)	265,619	19.34	312,139	17.05
Past due	45,401	3.31	331,982	18.14
At 30 days	414,205	30.16	850,937	46.49
At 60 days	596,186	43.41	322,958	17.64
More than 60 days	51,972	3.78	12,435	0.68
Total	**1,373,383**		**1,830,452**	

Payables outstanding at December 31, 2016 represent invoices for components pending credits to be received, in particular from a specific supplier that has experienced quality issues with parts delivered. The increase in the percentage of payables at 30 days is linked to sourcing from foreign suppliers that apply shorter settlement periods than those in France (contractual payment periods of 60 days from the invoice date under French regulations). Payables exceeding 60 days at December 31, 2016 and 2015 concerned mainly invoices payable in several installments.

INFORMATION ON THE COMPANY OF A STATUTORY NATURE

Corporate officers

Board of Directors

On the date of this report, the board of directors of Egide SA had five members:

Name	Office	Beginning of term	End of term
James F. Collins	Director Chair of the Board Chief Executive Officer	09/11/2014 06/16/2016 09/11/2014	06/30/2017 06/30/2017 06/30/2020
Colette Lucas	Director	07/07/2014	06/30/2020
Jean-Louis Malinge	Director	07/07/2014	06/30/2020
Ms. Véronique Laurent- Lasson	Director	06/16/2016	06/30/2020
Mr. Michel Faure	Director	06/16/2016	06/30/2020

There is no Board member elected by employees or a non-voting observer (*censeur*) serving on the Board

Colette Lucas, Véronique Laurent-Lasson, Jean-Louis Malinge and Michel Faure are considered to be independent directors as defined by the Middlenext corporate governance code, as they meet the criteria summarized in the following table:

Independence criteria	C. Lucas	V. Laurent-Lasson	J-L. Malinge	J. F. Collins	M. Faure
Existence of a financial, contractual or family relationship?	Yes	No	No	No	No
Employee or corporate executive officer?	No	No	No	Yes	No
Customer, supplier or banker of the company?	No	No	No	No	No
Lead shareholder?	No	No	No	No	No
Auditor of the company?	No	No	No	No	No
Independent director?	**Yes**	**Yes**	**Yes**	**No**	**Yes**

In 2015, the board of directors retained the services of Asymptotes Conseil, managed by Colette Lucas, for the purposes of an exceptional assignment. In light of the marginal expense represented by this assignment (€13,000 excluding VAT) in relation to the company's external charges, the board decided not to call into question Ms. Lucas' status as an independent director of the company. This mission ended in the beginning of 2016

Each director has a status of shareholder, holding at least one share of the Company in accordance article 14 of its bylaws.

Changes to the board of directors in 2016 were as follows:

- On June 16, 2016, the shareholders general meeting terminated the office as director of Mr. Philippe Brégi that exercised the function of chair of the board of directors. In consequence, the board of directors decided to combine the functions of chair and chief executive officer that were entrusted to Mr. James F. Collins, chief executive officer since September 11, 2014.
- On June 16, 2016, the shareholders general meeting decided to appoint two new independent directors for four-year terms, Ms. Véronique Laurent-Lasson and Mr. Michel Faure. It should be noted that the proposal to appoint Ms. Véronique Laurent-Lasson as as director was made by

the board of directors whereas the appointment of Mr. Michel Faure concerned that of an non-voting board observer (*censeur*).

Executive management

On the date of this report, the executive management of Egide SA was as follows:

Name	**Office**	**Beginning of term**	**End of term**
James F. Collins	Chief Executive Officer	09/11/2014	06/30/2020
Philippe Lussiez	Deputy Chief Executive Officer	09/11/2014	06/30/2020

It is specified that Mr. Philippe Lussiez has been a salaried employee of the company since June 9, 1992 and also exercises the function of chief financial officer reporting to the chief executive officer.
List of offices and directorships:

Information on offices currently held or exercised in the last five years by company officers of the company is disclosed below.

Abbreviations have the following meanings: SB = supervisory board, BD = board of directors, PR = permanent representative, Yes = the office was in progress at December 31, 2016, No = the office is no longer exercised at December 31, 2016.

- James F. Collins

Company	**Address**	**Office**	**2016**
Egide	Bollène (84)	Director and Chair-CEO	Yes
Egide USA LLC	Wilmington, DE (USA)	Director and Chair	Yes
Egide USA Inc.	Cambridge, MD (USA)	Director and Chair	Yes

- Colette Lucas

Company	**Address**	**Office**	**2016**
Egide	Bollène (84)	Director	Yes
Asymptotes SAS	Orsay (91)	Chair	Yes

- Jean-Louis Malinge

Company	**Address**	**Office**	**2016**
Egide	Bollène (84)	Director	Yes
ARCH Ventures Partners	Chicago, IL (USA)	Venture Partner	Yes
Auxora Inc.	Baldwin Park, CA (USA)	Director	No
Kotura Inc.	Monterey Park, CA (USA)	Chair and Chief Executive Officer	No
Yadais SARL	Paris (75)	Managing Partner	Yes

- Mr. Michel Faure

Company	Address	Office	2016
Egide	Bollène (84)	Director	Yes
Sogefip	Paris (75)	Managing Partner	Yes
SCI Ambercelles	Paris (75)	Co-Manager	Yes
SCI Anne-Cecile	Paris (75)	Co-Manager	Yes
ACCO Semi Conductors Inc.	Sunnyvale, CA (USA)	Board Observer	Yes
Siparex Proximité Innov.	Paris (75)	Co-chair of the management board	No
Ucopia	Montrouge (92)	PR of Siparex Proximité Innov.	No
Securactive	Paris (75)	PR of Siparex Proximité Innov. on the BD	No
Roctool	Le Bourget du Lac (73)	PR of Siparex Proximité Innov. on the BD	No
Impika	Aubagne (13)	PR of Siparex Proximité Innov. on the BD	No
DSO Interactive	Paris (75)	PR of Siparex Proximité Innov. on the BD	No
Citilog	Arcueil (94)	PR of Siparex Proximité Innov. Non-voting Observer	No

- Ms. Véronique Laurent-Lasson

Company	Address	Office	2016
Egide	Bollène (84)	Director	Yes
Sponsor Finance	Paris (75)	Chair	Yes

- Mr. Philippe Lussiez

Company	Address	Office	2016
Egide	Bollène (84)	Deputy CEO & Chief Financial Officer	Yes
Egide USA LLC	Wilmington, DE (USA)	Secretary	Yes
Egide USA Inc.	Cambridge, MD (USA)	Secretary	Yes

No director has been convicted for fraud within the last five years or been subject to restrictions prohibiting him or her from managing a company.

Compensation of the company officers

Total compensation and benefits of any nature paid or incurred in 2016 for each corporate officer of Egide SA are disclosed in the following table (amounts in euros):

Officers	Net salary	Benefits in-kind	Attendances' fees	Duties	Total 2016	Total 2015
Philippe Brégi	30,463	2,008	-	-	32,471	69,268
James F. Collins	83,458	18,886	-	-	102,344	88,615
Colette Lucas	-	-	7,620	-	7,620	5,715
J-L. Malinge	-	-	7,620	-	7,620	5,715
V. Laurent-Lasson	-	-	3,810	-	3,810	-

Michel Faure	-	-	3,810	-	3,810	-
Philippe Lussiez	64,738	-	-	-	64,738	56,978
Total	**178,659**	**20,894**	**22,860**	**0**	**222,413**	**226,291**

The board of directors sets and modifies annual compensation paid to the Chair of the board of directors and the Chief Executive Officer (corporate officers without employment contracts with Egide SA). Until December 31, 2013, the chief executive officer received only only fixed compensation. Since January 1, 2014, compensation of the Chief Executive Officer includes variable compensation for up to 40% of the fixed salary, subject to achieving performance indicators (annually set revenue and EBIT targets). As these performance indicators were not achieved in 2015 and 2016 at the Group level, no variable compensation was paid on this basis. On November 6, 2015, the board of directors also decided to introduce an additional qualitative criteria in the calculation of variable compensation and, on that basis, to grant the Chief Executive Officer a bonus equal to 15% of his annual salary in the event of the successful qualification of the new ceramic installations of the US subsidiary by its initial customer. At the end of fiscal 2016, as the customer had not yet issued final qualification, this bonus was not paid. In 2015, and for the last time, the Chief executive officer received the bonus granted prior to his appointment on the same basis as the key executives of Egide USA and which was based on an annual EBITDA target for the US subsidiary. This bonus amounted to US$54,000 and was paid in 2016 as this target was met.

Benefits in-kind that were granted to the chairman of the board of directors consist of a job-loss insurance policy for chief executives, a company car and mutual insurance coverage. Given his US nationality, the current chairman-chief executive officer does not benefit from French social security coverage though does receive benefits in the form of company housing in France (and related expenses) four round-trip plane tickets from the US to France per year for the benefit of his spouse and a company car in the United States (his country of residence).

It is specified that James F. Collins' total compensation is paid by Egide USA of which one half re-invoiced to Egide SA (amount disclosed in the above table) for his position as chief executive officer of the Group. For information, annual gross compensation paid to Mr. Collins by Egide USA in 2016 amounted to US$220,000.

The deputy chief executive officer, also holder of an employment contract associated with his role as chief administrative and financial officer predating his appointment as officer, is not paid compensation for his function as deputy chief executive officer. His compensation under his employment contract is set by the chief executive officer. He does not receive any benefits in-kind and, in the same manner as certain managers of the company, he benefits from a bonus which may vary from 15% to 22.5% of his annual salary subject to meeting the EBITDA target calculated at the group level.

No specific supplemental retirement plan has been implemented nor have any provisions whatsoever been adopted for severance benefits for the benefit of executive officers. The chairman-chief executive officer does not receive attendance fees for his position as an officer of Egide SA nor for any offices held in any other Group companies. These provisions also apply to the deputy chief executive officer.

With regard to stock options, given that the exercise and definitive grant of stock options to the senior executives are carried out under the same conditions as for the other employees, the exercise and allotment of share options are not contingent on criteria linked to future performances. However, in accordance with the provisions of Law No. 2006-1770 of December 30, 2006, the board of directors decided on March 5, 2009 that, in the case of grant of stock options to the CEO, a minimum of 20% of shares resulting from the exercise of options is to be retained in registered form until the CEO ceases to hold office. By extension, these provisions will also apply to the deputy chief executive officer. As of the date of this document, the chairman-chief executive officer held 12.298 stock options (awarded in November 2015) or 0.16% of the share capital and the deputy chief executive officer held no stock options.

The total allocation for attendance fees granted by the annual general meeting of the shareholders is allocated among independent directors in proportion to their attendance at Board meetings. Attendance fees paid in 2016 take into account directors appointed in the year.

No compensation or benefits of any kind other than those mentioned above have been paid to corporate officers of Egide SA for fiscal 2016 by controlled companies within the meaning of article L.225-102-1 of the French commercial code.

Company officers are covered for liability by a D&O policy underwritten by AIG Europe Limited. This policy provides maximum coverage of €4.5 million, with a US$25,000 deductible in the United States per claim and an annual net premium (unchanged in relation to the prior year) of €11,856 excluding tax.

In 2015, the board of directors had retained the services of Asymptotes Conseil, managed by Colette Lucas who is also a director of Egide, for the purposes of an exceptional assignment (coaching the executive committee). This engagement consequently fell under the scope of regulated agreements in accordance to applicable legal provisions. The compensation for these services provided under this agreement was €13,000 and this agreement was terminated in early 2016.

Information on holdings in the capital

Share capital at December 31, 2016 was €8,943,812 divided by 4,471,906 shares at with a nominal value of €2 per share. The breakdown of share capital and voting rights is presented below:

Balance at December 31, 2016	**Number of shares**	**Percentage of capital**	**Number of voting rights**	**Percentage of voting rights**
Philippe Brégi	*20,226*	*0.45 %*	*36,606*	*0.81 %*
James F. Collins	*39,614*	*0.89 %*	*39,614*	*0.88 %*
Total Chair and CEO	**59,840**	**1.34 %**	**76,220**	**1.69 %**
Free float (bearer securities)	*4,382,236*	*97.99 %*	*4,382,236*	*97.04 %*
Free float (registered securities)	*29,830*	*0.67 %*	*57,225*	*1.27 %*
Total free float	**4,412,066**	**98.66 %**	**4,439,461**	**98.31 %**
TOTAL	**4,471,906**	**100.00 %**	**4,515,681**	**100.00 %**

This table has been produced based on information provided by CM-CIC Market Solutions, charged with ensuring the security management services for Egide's registered shares maintained in a custody-only account (*nominatif pur*). The theoretical number of voting rights equals actual voting rights as there are no shares having been deprived of voting rights.

In compliance with article 27 of the company's articles of association, double voting rights are granted to fully paid-up shares registered in the same name for at least two years (annual general meeting of January 29, 1999). This right is conferred upon all bonus shares granted to a shareholder in respect of previously existing shares. It may be canceled by a decision of the extraordinary general meeting after ratification by the special meeting of the beneficiary shareholders (article L225-99 of the French commercial code).

On December 31, 2016, there were 84,670 shares in registered form of which 43,775 carried double voting rights.

In accordance with the provisions of article L233-13 of the French commercial code and in light of the information and notifications received in application of articles L233-7 and L233-12 of said code, the following table presents the identity of shareholders possessing more than 5 %, 10 %, 15 %, 20 %, 25 %, 30 %, 33.33 %, 50 %, 66.66 %, 90 % and 95 % of the share capital or voting rights at December 31, 2016:

	More than 5 %		More than 10 %		More than 15 %		More than 25 %	
	of the capital	of voting rights	of the capital	of voting rights	of the capital	of voting rights	of the capital	of voting rights
SBD [1]	X	X	X					
Cie Financière Sopalia[2]	X	X						
Sigma Gestion[3]	X	X	X	X	X	X		

[1] AMF notice of February 3, 2012 (crossing above the threshold)
[2] AMF notice of February 21, 2014 (crossing above the threshold)
[3] AMF notice of January 12, 2016 (crossing above the threshold)

As far as the company is aware, there are no public shareholders holding more than 5% of the capital other than those disclosed in the table above.

No shareholder holds more than 20% or more than 30% of the capital or voting rights. No special measures have been taken by the company outside the legal provisions applying to the holding of shares. Furthermore, as far as the Company is aware, there are no agreements the performance of which could, at some future date, lead to a change in its control.

Based on information obtained during the last annual general meeting, and in light of the number of shares and voting rights forming the company's share capital at December 31, 2016, SBD (with 172,284 shares at May 9, 2016) and Sopalia Compagnie Financière Holding (with 102,430 shares at May 9, 2016) mechanically crossed below the 5% capital and voting rights thresholds. Nevertheless, no official declaration has been received by the company.

It is also noted that on February 28, 2017, Sigma Gestion informed the company having crossed the 15% ownership threshold of share capital and voting rights pursuant to the company's capital increase of February 23, 2017

Employee stock ownership

No share is jointly held by employees within the meaning of article L225-102 of the French commercial code.

Information on stock options

Information on stock option plans on December 31, 2016 is provided in the board of directors' special report.

INFORMATION ON THE THE MANNER THAT THE COMPANY'S TAKES INTO ACCOUNT THE ENVIRONMENTAL IMPACTS OF ITS BUSINESS AND ITS SOCIAL COMMITMENTS IN FAVOR OF SUSTAINABLE DEVELOPMENT

Information on the employment-related impact of Group operations

In accordance with the provisions of article L225-102-1 subsection 5 of the French commercial code and article R225-105-1 amended by Decree 2016-1138 of August 19, 2016, corporate social responsibility information for the company and subsidiaries of Egide Group on December 31, 2016, includes information on the employment-related and environmental impacts of their activity and their social commitments in favor of sustainable development, as presented below: This reporting boundary includes Egide SA (parent company) and its American subsidiary, Egide USA.

In preparing this report, the company does not refer to any external guidelines but instead follows an internal reporting procedure.

a) Employment

Total workforce (all contracts combined)

At December 31, 2015 and 2016, total salaried employees of the Group, including the chairman-chief executive officer, broke down as follows (by gender and geographic region):

	At December 31, 2015			At December 31, 2016		
	Men	Women	Total	Men	Women	Total
Egide SA (France – Trappes)	15	4	19	12	3	15
Egide SA (France – Bollène)	31	98	129	35	98	133
Egide USA (United States)	24	53	77	21	46	67
Total	**70**	**155**	**225**	**68**	**147**	**215**

By age bracket, the headcount presented above breaks down as follows:

	At December 31, 2015			At December 31, 2016		
	18-35	36-55	56-70	18-35	36-55	56-70
Egide SA (France – Trappes)	2	12	5	2	9	4
Egide SA (France – Bollène)	21	81	27	25	84	24
Egide USA (United States)	19	25	33	10	25	32
Total	**42**	**118**	**65**	**37**	**118**	**60**

The breakdown of headcount presented above by contract type is as follows:

	At December 31, 2015			At December 31, 2016		
	Permanent contract	Fixed-term contracts	Apprenticeship contracts	Permanent contract	Fixed-term contracts	Apprenticeship contracts
Egide SA (France – Trappes)	19	0	0	15	0	0
Egide SA (France – Bollène)	124	3	2	125	6	2
Egide USA	73	4	0	66	1	0

(United States)						
Total	**216**	**7**	**2**	**206**	**7**	**2**

These headcount figures do not take into account long-term sick leave who continue to be counted though do not receive remuneration. Part-time employment is usually at the request of employees and concerns all personnel categories (engineers, technicians, equipment operators, men and women)

In May 2015, Egide had 26 part-time employees (23 in Bollène, 3 in Cambridge-USA) including 11 working half-time or less (8 in Bollène and 3 in Cambridge-USA) and 15 working mainly on a 4/5th basis corresponding to 80% of weekly working hours (all employees at Bollène). The remainder of the workforce were full-time employees.

In 2016, Egide employed 23 part-time employees (22 at Bollène and 1 in Cambridge, Maryland).

Average seniority is 14.1 years at Egide SA and 15.1 years at Egide USA.

<u>Recruitments, departures and dismissals</u>

For 2015 and 2016, Group information on recruitment is provided below:

Changes in headcount	Fiscal 2015			Fiscal 2016		
	Permanent contract	Fixed-term contracts	Apprenticeship contracts	Permanent contract	Fixed-term contracts	Apprenticeship contracts
Egide SA (France – Trappes)	2	0	0	0	0	0
Egide SA (France – Bollène)	8	16	2	7	18	0
Egide USA (United States)	19	6	0	4	1	0
Total	**29**	**22**	**2**	**11**	**19**	**0**

The 11 permanent employment contracts include 5 new recruitments, 3 fixed-term contracts transformed into permanent contracts and 1 employee transferred from the site of Trappes to that of Bollène. Egide Group does not encounter any particular difficulties in terms of recruitment.

Fixed-term contracts concern primarily temporary increases in workloads. By way of example, fixed-term contracts in 2016 at Egide SA represented 7.04 full-time equivalent employees (4.37 in 2015).

In 2015 and 2016, departures reported by the Group were as follows:

Departures (excluding dismissals)	Fiscal 2015			Fiscal 2016		
	Permanent contract	Fixed-term contracts	Apprenticeship contracts	Permanent contract	Fixed-term contracts	Apprenticeship contracts

Egide SA (France – Trappes)	0	0	0	4	0	0
Egide SA (France – Bollène)	12	15	5	5	15	0
Egide USA (United States)	12	6	0	11	4	0
Total	**24**	**21**	**5**	**20**	**19**	**0**

In 2015, the departure of employees at Egide SA resulted from 2 resignations, 2 parental leaves, 6 retirements, 2 long-term sick leaves, the expiration of 15 fixed-term contracts and 5 apprenticeship contracts periods. At Egide USA, 2 employees had retired and 12 resigned.

In 2016, 3 employees at Egide SA with permanent employment contracts departed following negotiated settlements, 2 resigned, 1 retired, 1 was removed (chairman of the board), 1 departed following the transfer of site (Trappes to Bollène), 1 for long-term illness and 15 departed at the end of their fixed term contracts. At Egide USA, 1 employee retired, 10 resigned and 4 completed their fixed-term employment contract.

in 2015 and 2016, the dismissal of employees by the Group broke down as follows

Layoffs	Fiscal 2015			Fiscal 2016		
	Permanent contract	Fixed-term contracts	Other	Permanent contract	Fixed-term contracts	Other
Egide SA (France – Trappes)	0	0	0	0	0	0
Egide SA (France – Bollène)	2	0	0	1	0	0
Egide USA (United States)	2	0	0	0	0	0
Total	**4**	**0**	**0**	**1**	**0**	**0**

In 2015, at Egide SA, 2 employees were dismissed on grounds of professional incapacity. At Egide USA, proceedings had been initiated to adapt production capacity to the level of work.

In 2016, the dismissal at Egide SA was linked to an incapacity for the position. There were no redundancies at Egide USA.

Compensation information and trends, social charges

All employees of Egide SA received monthly compensation on a 12 or 13 month basis. Employees of Egide USA are paid every two weeks. No employees of the Group are paid based on output.

Gross payroll and employer's social security contributions paid in 2015 and 2016 by Group companies break down as follows:

	Fiscal 2015		Fiscal 2016	
	Gross	Social charges	Gross	Social charges
Egide SA (France)	€ 4,277,887	€ 1,545,324	€ 4,531,769	€ 1,666,231
Egide USA (United States)	$ 2,812,866	$ 502,107	$ 2,692,839	$ 518,530

In 2015, the average increase in salary in France was 2.9 %, including a general increase of 1% in accordance with the wage policy agreement concluded between the company and trade union representatives including 1.9 % for other salary increases (changes in grade or function, promotions pursuant to the reorganization of the management team). In the United States, the 5% salary reduction measure applied to all personnel since 2013 had been canceled in this period resulting in a 5% increase in staff costs in relation to the prior year. The amount of the CICE wage tax credit was €182,204, and deducted from social charges.

In 2016, the average increase in salary in France was 2.1 %, including a general increase of 1% in accordance with the wage policy agreement concluded between the company and trade union representatives and 1.1 % for other salary increases (changes in grade or function, merit, promotion). No salary increase was granted in the United States in the period. The amount of the CICE wage tax credit was €185,753.

Incentive, statutory profit-sharing and employee savings plans

An incentive compensation agreement was concluded on June 17, 2016 between Egide SA and the company's union delegates. This agreement was concluded for a three-year period running from January 1, 2016 to December 31, 2018, replacing the previous incentive compensation plan whose term had expired. This incentive compensation is calculated annually from pretax current operating profit. This amount is allocated equally to all employees of the company with at least three months of seniority and prorated according to the number of hours worked during the year concerned. In light of the current operating loss, no incentive compensation was paid for 2016 as was the case as well for 2015.

Furthermore, all personnel of Egide SA are qualified for statutory profit-sharing determined according to the calculation base provided for by law. In light of the results, no statutory profit-sharing payments were made for 2015 and 2016. A company savings plan does not exist for employees.

At Egide USA, a bonus system exists for key executives. This plan provides for the payment of variable compensation assessed on annual salary if EBITDA for the period exceeds by at least 85 % the budgeted amount. An amount totaling US$140,000 was accrued for and paid in 2016 to a total of ten persons. For fiscal 2016, no bonus payments were made as objectives have not been reached.

b) Work organization

In France, the workweek is five days for 38 1/2 hours. Non-management personnel on an hours per day basis work in reference to a 35 hour workweek to which are added two bonus hours (paid 125%) with an hour and a half break. Non-management personnel on an hourly shift basis work 35 hours per week, to which are added 3 1/2 hours for breaks. Hours for management personnel are annualized.

In the United States, the workweek is 40 hours over 4 days (Monday to Thursday). Non-management personnel benefit from a daily break of one hour (30 minutes for lunch and two 15 minute breaks)) Hours for management personnel are annualized.

Overtime

In 2015 and 2016 overtime payments broke down as follows:

	Fiscal 2015	Fiscal 2016

Egide SA (France – Trappes)	1,680	2,300
Egide SA (France – Bollène)	8,935	11,212
Egide USA (United States)	6,592	2,452
Total (hours)	**17,207**	**15,964**

For information, an overtime hour represents time worked exceeding the 35 hour workweek in France and the 40 hour workweek in the United States. The major share of overtime at Egide SA is linked to two bonus hours included for work weeks of between 35 and 37 hours.

Absenteeism

In 2015 and 2016 hours of absenteeism broke down as follows:

	Fiscal 2015	Fiscal 2016
Egide SA (France – Trappes)	826	497
Egide SA (France – Bollène)	28,029	21,716
Egide USA (United States)	890	679
Total (hours)	**29,745**	**22,892**

These absences were mainly due to sick leave (short and long-term) and maternity leaves. Six employees were on long-term sick leave in 2015 and five in 2016 (representing totals of 9,803 and 9,194 hours per year). These hours do not include part-time, as applicable.

Use of temporary personnel

For fiscal 2015, Egide SA had registered under expenses €5,510 paid to two temporary employment companies in response to a temporary surplus of work and €6,779 to the service company that had assigned personnel to the company (site security expenses), representing an equivalent of 0.29% of the annual payroll.

For fiscal 2016, Egide SA had registered under expenses €381 paid to a temporary employment company linked to the move to a new site in Trappes and €6,381 to two service companies that assigned personnel to the company (site security expenses), representing an equivalent of 0.15 % of the annual payroll.

Egide USA did not make use of temporary personnel in fiscal 2015 and 2016.

c) Labor relations

Labor relations and collective bargaining agreements

In France, Works Committee elections were organized in 2014. Only a single Works Committee covering the two sites (Bollène and Trappes) was appointed for a four-year term. There is not any Works Committees in other countries.

Excluding formal relations with the Works Committee and labor organizations where they exist, Egide Group promotes direct dialogue between supervising line management and their staff. On that basis, in accordance with needs and current issues, meetings are organized with all or part of the personnel without this being required by a specific structure.

There is only one collective bargaining agreement between Egide SA and its employees which relates to an employee profit-sharing agreement. Concerning the intergenerational hiring agreement the company refers to the agreement of the metallurgy industry. Reflecting its proactive approach, the company maintained its meetings with employees over 55 years of age.

At Egide SA, two French labor unions (Tricastin SPEA (CFDT) and Force Ouvrière) each have a representative at the Bollène site. At Egide USA there are no labor unions.

Territorial impact of its activity in terms of employment and general development

Egide SA has established contacts with local offices of the French employment agency. The human resources department also participates in job forums organized by local authorities. The US subsidiary works with similar organizations where they exist and gives preference to local recruitment. The human resources Department also contacts engineering schools to present the potential opportunities offered by Egide USA.

Relations with social partners

Egide SA maintains contacts with organizations promoting social integration (AGEFIPH or *Association pour la GEstion du Fonds d'Insertion Professionnel des Handicapés*) or sheltered work opportunities (ESAT or *Etablissements et Services d'Aide par le Travail*). In addition, in connection with the French apprenticeship tax, the company pays a contribution to training establishments.

Similar arrangements do not exist in the US subsidiary.

Foreign subsidiaries and their impact on regional development

Egide has a subsidiary in the United States whose employees originate from the local labor force.

Public service initiatives

With respect to public service initiatives, Egide SA offers employees meal voucher contributions as well as a contribution to a mutual insurance and personal protection plans. In 2016, €129,019 was allocated by the company for meal vouchers (€122,196 in 2015), €61,305 as a partial contribution for the mutual insurance plan) €58,021 in 2015) and €51,022 as a partial contribution for the personal protection plan (€44,960 in 2015). Furthermore, the company allocates a budget to the Works Committee amounting to €53,705 for 2016 (51,217 in 2015) or 1.2% of payroll (of which 0.2% was allocated to the operating budget). This budget is redistributed to employees in the form of gift vouchers, outings, meals, etc.

At Egide USA, partial payment for mutual and personal protection insurance represented a cost to the company of US$245,762 in 2016 (US$226,294 in 2015).

Egide USA set up a 401(k) retirement plan for its employees whereby the company covers the total amount of contributions for the first 3% of pay and one half of additional contribution amounts up to 2% of pay (or a maximum contribution by Egide USA of 4%). Its annual cost for the company in 2016 was US$61,660 (US$44,328 in 2015)

d) Health and safety

Health and safety conditions

The Health, Safety and Working Conditions Committee of Egide SA met four times at Bollène in 2016 (four times in 2015). Similar bodies do not exist at Egide USA.

In 2016, the French company reported 5 work-related accidents involving employees, all resulting in sick leave (compared to 2 in 2015, of which 1 involving sick leave), representing a frequency rate[1] of 18.2% (7.4% in 2015). No occupational accidents were reported by the US subsidiary in 2016 or 2015. For information, no commuting accidents were reported by Egide SA in 2015 (same as in 2014).

No occupational illnesses were reported by Egide SA in 2016. In 2015 one occupational illness was reported (musculoskeletal disorders), with a severity rate [2] of 2.05.

[1] Frequency rate: number of accidents x 1000 / hours worked

[2] Severity rate: number of lost time days x 1000 / hours worked

Rates and contributions for occupational accidents:

Site	2015 rates	2015 contribution	2016 rates	2016 contribution
Trappes (FR)	1.00 %	€9,070	0.95 %	€9,242
Bollène (FR)	1.21 %	€40,620	1.65 %	€57,830
Cambridge (USA)	N/A	-	N/A	-

Egide uses CMR products (carcinogens, mutagens and reprotoxins) in connection with its industrial operations. In France, a Works Committee meets on a quarterly basis to ensure the safe usage of such products and their replacement by non-CMR products. The list of products used and actions taken by this committee are reviewed by the executive committee at their meetings and at the annual review of risks.

At Egide SA, meetings were held in 2014 with respect to a new law on work-related hardships to explain the 10 criteria for classifying hardship conditions under new French regulations, and providing details on tasks performed within the company, organizing a schedule for assessing the first 4 criteria in 2015 and the remaining 6 in 2016. It has been determined that among the first 4, only that relating to repetitive work should be assessed in connection with Egide's activity. These meetings were organized in the form of working groups with the participation of the Health, Safety and Working Conditions Committee, the human resources manager and the plant safety manager. In connection with the French law on social dialogue and employment ("Rebsamen Law") of August 17, 2015, Egide examined the 10 criteria and concluded that none of them applied to the company These criteria are nevertheless introduced in the Group's statutory reporting document (*document unique*) for monitoring purposes.

Report on agreements concluded relating to occupational health and safety

No specific agreements in group companies have been signed relating to occupational health and safety. Each entity applies local regulations applying in this area (for example Health, Safety and Working Conditions Committee at Egide SA).

In each entity, business vehicle coverage is provided to employees who use their personal vehicle for professional purposes.

e) Training

Training policy

At Egide SA, an assessment of training needs is determined based on input provided by different departments, in general, in January, with a date for reply to each service which is requested by January 31. The human resources manager then transmits the requests to executive management who in turn presents a summary of the monthly executive committee meeting to be held in February. In accord with employee representatives bodies, discussions on the training plan are included in meetings organized for French annual statutory wage negotiations.

To take into account the economic uncertainties, the trend is to limit whenever possible, the inclusion of external expenditures in the training plan, develop to the extent possible internal training solutions, giving preference to group training over individual training and in consequence, strongly encourage use by employees who so wish, on fixed-term or permanent contracts, of their personal training benefits account ("*Compte Personnel de Formation*").

No obligations exists with respect to training in the Group's foreign subsidiaries. However, individual requests that may arise are reviewed and handled by local management according to the same principles that apply to Egide SA.

Training hours

Total training hours (internal and external) amounted to 1,700 for Egide SA (640 in 2015) and 96 for Egide USA (60 in 2015). In 2016, total expenditures for outside training for Egide SA amounted to €26,653 (€31,485 in 2015) and for Egide USA US$5,677 (US$1,243 in 2015).

As of January 1, 2015, the French system providing for individual training rights (*Droit Individuel à la Formation* or DIF) was replaced by the so-called Personal Training Account (*Compte Personnel de Formation* or CPF). On this occasion, management of the system was transferred from the employer to the Caisse des Dépôts et Consignation and personal information relating thereto is henceforth completely private. It is no longer possible to indicate the aggregate amount of hours acquired by employees as with the previous system. These provisions concern only Egide SA.

f) Equal opportunity and non-discrimination

Gender equality in the workplace between men and women

Even though women represent the majority of plant personnel at each of the production sites, there are no positions within the Group that could give rise to unequal treatment between men and women.

Employment and integration of handicapped workers

In 2016, Egide SA employed 14 persons with non-motor-based disabilities at the Bollène site (i.e. equivalent to 12.77 units) and none at the Trappes site (respectively 16 and 0 in 2015 or equivalent to 12.29 and 0 in units). No disabilities were the result of an accident occurring in relation to the company's activities. For information, the statutory obligation (law of February 11, 2005) for 2016 provided for 9 units and for 2015 7 units. On that basis, the French entity had exceeded these requirements.

No similar regulation exist for the Group's US subsidiary which moreover does not employ any disabled workers.

Information on measures to combat discrimination and promote diversity

In pursuance of the provisions of Article L225-102-1 subsection 5 of the French commercial code as amended by Article 9 of Law No. 2011-672 of June 16 2011, every year Egide SA submits to the Works Committee and employee representatives a single report providing information on measures to combat discrimination and promote diversity (see indicators presented above). Moreover, no discrimination exists with training, professional promotion, working conditions and actual remuneration levels.

g) Compliance with the core conventions of the International Labor Organization (ILO)

Egide, a French company, and its US subsidiary respect as a matter of principle the international labor conventions.

<u>Information on the environmental impact of operations</u>

In accordance with the provisions of article L225-102-1 paragraph 5 of the French commercial code and article R225-105-1 amended by decree No. 2016-1138 of August 19, 2016, selected disclosures relating to environmental impacts of the activity of Egide SA and its subsidiaries held at December 31, 2016 are provided below. Information presented herein was collected from the plant maintenance & security manager and the quality & environment manager for the French entity and from local managers for the US subsidiary.

a) General environmental policy

<u>Compliance by the company with environmental provisions</u>

The activity of Egide SA is subject to a requirement for an operating authorization issued by the regional authorities ("*Préfecture*") of Vaucluse. The company is accordingly subject to inspections by a number of regulatory agencies (DREAL, the Water Agency, CARSAT and the APAVE for waste analysis). Egide USA also requires an authorization to operate which is issued by the Maryland Department of the Environment (MDE) and the city of Cambridge in Maryland. It is subject to inspections by MDE and the Environmental Protection Agency. Quarterly waste analysis reports are transmitted to the Department of Works of the city of Cambridge.

<u>Internal departments responsible for environmental issues</u>

Executive management, the plant management (Bollene, Cambridge and Woodbridge) and the Quality Control and Environment department, in consultation with the Health, Safety and Working Conditions Committee for France, are directly responsible for the monitoring environmental impacts of the company's operations. The Group consults, if necessary, with relevant external organizations in the matter.

<u>Environmental certification initiatives</u>

Egide SA's ISO 14001 certification was renewed in December 2015. Although without environmental certification, the Group's American subsidiary complies with applicable standards in force in the United States and adheres to the provisions of its ISO 9001 certification.

<u>Employee training and information initiatives</u>

At Egide SA, training initiatives address environmental issues and are an integral part of the annual training program negotiated with employee representative bodies. This training is provided by the plant maintenance and security manager who was assisted by the quality and environmental manager.

At Egide USA, while no specific training measures exist, information is provided to production managers when appropriate.

<u>Expenditures incurred for the prevention of environmental impacts</u>

Environmental issues are monitored directly by quality and environmental departments of each Group company. For 2015 and 2016 no specific expenditures were incurred other than those relating to these departments.

Provisions and guarantees for environmental risks

No provisions for specific costs to be incurred in relation to environmental issues have been established at the Group level.

Environmental penalties paid pursuant to a judicial decision

No environmental penalties were paid by the Group in 2015 and 2016.

Environmental objectives for subsidiaries

Prior to the acquisition of Egide USA, an environmental audit was performed at Egide's initiative which confirmed that the US subsidiary was in compliance with US laws and regulations. Since then, Egide has ensured that its subsidiary remains in compliance with applicable current and future standards.

As a general rule, Egide ensures that each Group company applies the environmental standards in force in their respective countries.

b) Circular economy (pollution, waste management and food wastage)

Discharges in the air, water and ground causing serious environmental impacts

Egide SA and Egide USA have surface treatment equipment, composed primarily of a manual and semi-automatic plating chain as well as different types of chemical baths. All this equipment is constructed on holding tanks, linked to storage tanks, to prevent any risk of soil pollution in case of accidental overflow or spillage.

Measures for prevention, recycling and eliminating waste

The waste and by-products generated by Egide Group's production units originated mainly from surface treatment activities. When possible, liquid waste is recycled though generally, this waste is removed then disposed of by specialized waste management companies.

Furthermore, measures have been put into place for the collection of certain ordinary or hazardous waste. Accordingly, at Egide SA special containers are available to staff to sort paper, cardboard, wooden palettes, batteries, ink printer cartridges and used neon bulbs for the purposes of their reuse, recycling or destruction. Similarly, even though not subject to the "WEEE" directive on waste electrical and electronic equipment from private households, used computer equipment (PCs, monitors, printers) are collected and sent for destruction through a dedicated channel. At Egide USA, containers intended for recycling aluminum cans, plastic bottles and paper are installed in the company's premises.

Certified for the ISO 14001 standard, indicators are in place at Egide SA to monitor waste. Data is not available for the American subsidiary Egide USA.

Waste	Unit	Egide SA		Egide USA	
		2015	2016	2015	2016
Non-hazardous waste	Tons	16.3	21.2	NA	NA
Hazardous waste	Tons	601.6	647.9	14.9	11.9

For Egide SA, data is analyzed in relation to number of production units per year in order to monitor these indicators based on the company's actual output.

The difference between levels for hazardous waste between Egide SA and Egide USA reflects the fact that the first disposes of liquid waste while the second disposes of waste concentrated in solid form (resulting from a different internal process for chemical discharges).

Neither Egide SA nor Egide USA have canteens at their premises. As such, the Group is not able to take measures at this level to combat food waste.

Noise and odor pollution

The surface treatment process may produce odors associated with the activity which are however neutralized by exhaust ventilation systems in the electroplating room. In the case of an accidental shutdown of these systems, measures exists for shutting down the production line and evacuating personnel to safety. Extracted air is filtered by equipment which traps all pollutants before being released to the outside.

Air compressors (compressed air supply system) and air cooling towers (kiln cooling) represent the only sources of external noise disturbances. Noise remains however within the limits imposed by standards in force and does not create any significant disturbances in light of the environment where the Group companies are located (rural area with agricultural fields and industrial buildings for Egide SA, urban commercial and traffic area for Egide USA).

There are no internal sound nuisances which may affect employees, other than those relating to operating the machining centers in those units thus equipped. Machine tools generate significant noise levels though comply with regulations in force and are monitored by the occupational physician in France and OHSA (Occupational Health and Safety Authority) in the United States. However, hearing protection gear is made available to Egide personnel.

c) Sustainable use of resources

Water, raw materials and energy consumption

Water consumption for Group operating activities are mainly for cooling the ovens and supplying the electroplating lines. In the interest of reducing expenses and energy efficiency, Egide SA and Egide USA have put into place a closed loop cooling system for the ovens with the installation of cooling towers. Egide USA has in addition equipment operating on an open loop basis hence with considerably higher water consumption. In the same spirit, surface treatment installations have switched from the current rinsing system to a "static bath" system whereby rinsing baths are changed on a periodic basis in contrast to a continually circulating open-loop system. Certain operations at Egide USA nevertheless continue to use the open-loop system.

The Group uses high temperature brazing and high temperature sintering furnaces which use significant amounts of energy. These furnaces also consume gas (nitrogen or hydrogen) obtained through regular deliveries of specialized suppliers.

Finally, to test the hermetic sealing of its products, the group uses helium, also provided in bottles from special suppliers.

Information on consumption is summarized below:

Resource	**Unit**	**Egide SA**		**Egide USA**	
		2015	2016	2015	2016
Water	m^3	7,953	9,514	84,407	68,410
Electricity	kWh	3,344,029	3,313,562	4,323,600	4,231,200
Gas	kWh	1,115,450	1,176,808	4,976,054	3,605,946
Hydrogen	m^3	17,238	15,450	33,302	20,769
Nitrogen	Kg	772,631	837,810	1,163,547	1,020,091

Whether with (Egide SA) or without ISO 14001 certification, the Group endeavors to ensure limited consumption of these resources in conducting its operations.

In connection with its activity, the raw materials used by Egide are mainly ASTM F15 (or Kovar™), alumina, tungsten or ammonium. ASTM F15 is an iron, nickel and cobalt alloy entering into the composition of metal products purchased by the Group from machinists, molders or powder suppliers. While Kovar is sometimes sourced by Egide from specialized French or American companies, it is generally supplied directly by its component suppliers. In 2016 Egide directly purchased of 1,806 kg of kovar in the period (1,557 kg in 2015). Egide USA does not purchase raw materials. Alumina, tungsten or ammonium are used for the manufacture of ceramic components. 300 kilos of tungsten were purchased in 2016 (635 kilos in 2015). 12 tons of Alumina and 1 ton of ammonium were procured in 2015 (none in 2016).

Egide also uses aurocyanide in its surface treatment activities. In 2016, 104 kg of aurocyanide were purchased (47 kg by Egide SA and 57 kg by Egide USA), representing the equivalent of 66.7 kg of gold metal with no difficulties encountered for procurement. In 2015, 97 kg of aurocyanide was purchased (40 kg by Egide SA and 57 kg by Egide USA), representing the equivalent of 66 kg of gold.

This data is analyzed in relation to the number of production units per year in order to monitor these indicators based on the company's actual output.

<u>Soil use</u>

No Group companies use resources originating directly from the soil. The industrial facilities cover an area of 5,700 m² in Bollène, 1,300 m² in Trappes and 5,000 m² in Cambridge MD. In 2015 and 2016, none of the sites were expanded.

d) Climate change

Greenhouse gas emissions

No procedure has been adopted to estimate the impact of possible green house gas emissions from the Group production sites.

Adapting to the consequences of climate change

No specific measure has been identified for the purpose of adapting Group sites to climate change.

Group entities use significant amounts of electricity to operate their equipment. For information, in France 75% of electricity is produced from nuclear energy (i.e. no greenhouse gas emissions).

e) Protection of biodiversity

Measures taken to limit environmental damage

Egide SA operates in an industrial zone bordered by a waste collection facility, agricultural fields, a drainage canal parallel to the Rhône and the Tricastin nuclear power plant. Egide USA is located in a commercial urban area off a road with heavy traffic. The environment of each Group company thus limits adverse impacts on the biological balance, natural habitats, and protected animal or vegetable species. Regarding effluent discharges, Egide SA has decided to store them in and installation built specifically for this purpose to be evacuated and processed on a regular basis by specialized companies. Egide USA recovers pollutants for treatment before discharging the effluents into the municipal networks (after prior pH control). Whenever possible, the Group gives preference to the regeneration of certain used chemical products.

Furthermore, with respect to Egide SA's ISO 14001 certification, a number of measures have been identified and implemented (paper and cardboard recycling, phasing out of the use of flo-pak etc.).

Information relating to social commitments in favor of sustainable development

In accordance with the provisions of article L225-102-1 paragraph 5 of the French commercial code and article R225-105-1 amended by decree No. 2016-1138 of August 19, 2016, selected disclosures relating to corporate social responsibility commitments in favor of sustainable development of Egide SA and its subsidiaries included in the consolidation scope at December 31, 2016 are provided below.

a) Regional, economic and social impact

Employment and regional development

Each Group company gives preference to the local labor force for the recruitment of new staff. Also, regional infrastructure resources are used when available.

Impacts on resident or local populations

The French site is located in an industrial area surrounded by agricultural fields while the US site is located in a commercial area off the main road in a town environment. By their location, the impact of Group entities on resident or local populations is very limited.

b) Relations with persons or organizations interested by the activity of the company

Conditions of dialogue

All persons interested in the activity of the company may freely contact the different Group units. The relevant contact information is available from Egide website.

Corporate partnerships or sponsorship initiatives

No corporate partnerships or sponsorship initiatives have been implemented by Group companies

c) Subcontracting and suppliers

An ethics clause is included in the charter sent by Egide SA to all suppliers (also available at the website) and acceptance by suppliers of a purchase order constitutes acceptance of the provisions of this clause. With most of the suppliers with whom Egide works being from Europe or the United States, the company is overall not subject to a risk of noncompliance by the latter with ILO conventions. With respect to suppliers, particularly in Asia where application of ILO conventions can sometimes be challenged, the existence of the Egide purchasing charter helps ensure that these conventions are better applied. In addition, Egide suppliers are regularly audited by the Group's quality department in order to, in particular, ensure compliance with the purchasing charter.

Egide moreover specifically prohibits using suppliers having recourse to child labor or forced labor. By objecting in order from Egide, the supplier unconditionally undertakes to comply and ensure compliance by its own suppliers of this clause.

Egide SA on occasion uses technical subcontracting for the manufacture of certain packages as it does not have the necessary equipment and/or expertise in-house. The company accordingly incurred expenses in 2016 totaling €447,074 (compared to €367,727 in 2015).

d) Fair trade practices

Actions taken to prevent corruption

The company relies on procedures in place at each unit to prevent all risks of corruption. Otherwise, no specific measures addressing the subject have been adopted.

Consumer health and safety measures

The company has an exclusively B2B customer base and none of the products sold by the Group are destined for the consumer segment. However, the ultimate purpose of the components manufactured by Egide is to ensure the protection of electronics in all circumstances and in consequence, the company contributes to the safety of end customers (aeronautics, infrared vision, etc.).

With regards to health, Egide applies the laws and regulations in force in each country (for example REACH).

e) Other actions in favor of the human rights

No specific measures in this area have been adopted at Group companies.

SUBSIDIARIES AND ASSOCIATES

At the end of 2016, the company held one wholly-owned subsidiary:

- Egide USA LLC, incorporated in and governed by the laws of the United States law (Delaware) created on November 8, 2000.

Egide USA LLC does not have any industrial activity and holds 100% of the shares of Egide USA Inc., a US company (Maryland). This latter company was acquired by Egide through its subsidiary, Egide USA LLC, on December 29, 2000 and engages in an industrial activity. None of these companies are publicly traded.

OTHER DISCLOSURES

Information on the Company's share and its market

The shares of Egide have been listed on the regulated market of Euronext Paris – Compartment C (FR0000072373) since July 11, 1999.

Based on the daily liquidity of the Egide share in 2016, i.e. daily amount of less than €100,000 on Euronext Paris, the company was informed by Euronext Paris, that its shares were no longer longer eligible for the SRD “Long-only” deferred settlement service as from December 29, 2016 (eligibility previously obtained on December 29, 2015).

Liquidity agreement

As the general meeting of June 16, 2016 did not vote on a resolution authorizing the company to hold its own shares, no market making agreement has been implemented;

Share price and trading volume information

Based on the number of 4,471,906 shares making up the capital at December 31, 2016 and a closing price on December 30, 2016 of €2.59, the market capitalization was €11.6 million.

The average daily trading volume in 2016 was 12,173 shares. Share price and trading volume trends by month are presented below (source: Euronext Paris):

Month	Trading volume	Month	Trading volume
January	14,605	July	7,310
February	7,161	August	17,326
March	6,702	September	44,248
April	6,784	October	10,470
May	4,646	November	9,118
June	5,558	December	10,706

The high and low share price in 2016 (source: Euronext Paris):

	High	Low
Intraday	€3.87	€2.24

Closing price	€3.73	€2.52

Disclosures on disallowed deductions

There were no non-deductible luxury expenses within the meaning of the French general tax code recorded in the parent company financial statements for fiscal 2016.

Disclosures on dividends

In compliance with the disclosure requirement provided for by article 243 *bis* of the French general tax code, we remind you that there have been no dividend distributions for the last three financial periods.

Disclosures on loans granted by the company

No loans have been granted by the company to micro-enterprises, SMEs or intermediate-sized enterprises (ETI) with which it has economic relations (article L511-6, 3 bis f the French monetary and financial code).

Use of delegations of authority

The board of directors did not use any delegations of authority in 2016 granted to it by the annual general meeting of June 16, 2016.

In January and February 2017, the board of directors used the delegations of authority granted to it by the annual general meeting of June 16, 2016 under the 12th and 18th resolutions, and increased the share capital accordingly by issuing new shares with a nominal value of 2 euros at a price of €2.40 per share while maintaining the preferential subscription rights of existing shareholders. This corporate action, completed on February 23, 2017, resulted in the issuance of 3,428,460 new shares and generating gross proceeds for the company of €8,228,304. The purpose of this capital increase was to finance the acquisition of the operating assets and liabilities of Thermal Management Solutions LLC (dba Santier), based in California, as well as the working capital requirements for Santier Inc., a wholly-owned subsidiary of Egide USA LLC, created for that purpose.

Readers are invited to refer to the additional report of the board of directors of March 29, 2017 regarding the use of this delegation of authority.

Report of the Chair of the board of directors

The Chair's report on the Board's composition and the application of the principle of balanced representation on the Board of men and women, the preparation and organization of the Board's work, internal control and risk management procedures implemented by the company in accordance with provisions of article L225-37 f the French commercial court is attached to this document;

<u>The independent third-party assurance report on the CSR report</u>

In accordance with the applicable legal provisions, on January 19, 2017, the audit committee appointed the firm Finexfi as the independent third-party tasked with verifying CSR information for 2016 included in this management report. The report issued by Finexfi is attached to this document.

AGM DATE

<u>Approval of the separate parent company and consolidated financial statements</u>

in accordance with provisions of article L225-100 of the French commercial code, we hereby ask you to approve the separate parent company and the consolidated financial statements presented to you.

<u>Regulated agreements</u>

There were no regulated agreements in 2016;

<u>Net income appropriation</u>

We propose that the net loss for the year of €683,621.51 be allocated as follows:

- Allocation to "Retained earnings/Accumulated deficit for the full amount.

<u>Reappointment of a director</u>

We inform you that the office of Mr. James F. Collins, director, expires at the end of the general meeting called for the purpose of approving the financial statements for the period ended December 31, 2016. We thus propose that you renew the office of Mr. James F. Collins as director of the company for a term of 4 years, in accordance with the provisions of article 13 of the company's articles of association;

<u>Attendances' fees</u>

We propose that you allocate for 2017 a total gross amount for attendance fees of €60,000 (i.e. before statutory social security contributions), fully deductible, that would be increased by a gross amount of €7,500 per each director newly appointed by the annual general meeting. This amount takes into account the fact that the 2017 appointment of a newly appointed director would cover only six months.

<u>Approval of the system for the compensation of company officers</u>

In accordance with the provisions of article L225-37-2 of the French commercial code, the principles and criteria applied to determine the compensation of the chairman-chief executive officer and the deputy chief executive officer are presented below:

Compensation	**Chair-Chief Executive Officer**	**Deputy Chief Executive Officer**
Fixed portion	Defined by the board of directors according to the structure of the company (size, international dimension, market capitalization), comparables of the sector and equivalent companies in the United States.	Defined by the chairman-chief executive officer according to the structure of the company (size, international dimension, market capitalization), comparables of the sector.
Variable compensation	Defined annually and corresponding to a percentage of the fixed salary according to two criteria linked to the Group's sales and operating result (cumulative maximum: 40%)	Defined annually and corresponding to a percentage of the fixed salary according to the criteria of the Group's gross operating profit (maximum: 22.50%)
Exceptional compensation	Decided by the board of directors annually according to qualitative(s) criteria(s), and not automatic in nature	Decided by the chairman-chief executive officer
Benefits in-kind	Defined by the board of directors, considering that the chairman-chief executive officer is a US citizen and tax resident for six months of the year;	Decided by the chairman-chief executive officer
Stocks options	Granted without conditions of performance according to the same procedures for all employees of the company and its subsidiaries, subject to requirement to hold at least 20% of the shares for the duration of the term of office.	
Duties	No specific missions as they fall within the scope of the functions exercised	
Other	No benefits such as Golden Hellos, Golden Parachutes or retirement severance payments (excluding those required by law)	

Authorization to grant stock options (stock options)

The board wishes to be able to grant stock options to selected employees and officers of the company or its directly or indirectly held subsidiaries; These options, granted as an incentive to encourage the participation of the beneficiaries in the company's development confer a right to subscribe for shares to be issued through a capital increase, whereby it is understood that the total number of options granted and not yet exercised cannot confer a right to subscribe to more than 10% of the shares making up the share capital.

Authorization to increase the capital (delegations of authority)

A summary of the delegations of authority to increase the capital granted by the general meeting to the board of directors on December 31, 2016 is presented in a table attached to this document. It is proposed that you terminate these authorizations in progress and grant new delegations of authority to the board of directors.

On that basis, it is requested that you grant the board of directors:

- A delegation of authority to increase the capital by issuing new shares and/or capitalizing reserves, earnings or additional paid-in capital, maintaining the preferential subscription right of shareholders within the limit of a nominal amount of €6 million.
- A delegation of authority to increase the capital by issuing debt securities giving access in the future to equity securities to be issued, maintaining the preferential subscription right of shareholders within the limit of a nominal value of €6 million.
- A delegation of authority to increase the number of shares to be issued in the event of a capital increase maintaining the preferential subscription right,
- A delegation of authority to increase the capital by issuing shares and/or securities giving access to equity securities of the company to be issued, canceling the preferential subscription right, and within the limit of 10% of the company's share capital per year within the framework of the provisions of article L411-2 II of the French monetary and financial code and article L225-136 of the French commercial code,
- A delegation of authority for an increase in capital reserved for participants of an employee savings plan carried out under the conditions provided for by article of L3332-18 to 24 the French labor code, whereby the maximum nominal amount of the capital increase(s) able to be carried out under the delegation of authority is limited to 1% of the share capital on the decision date of the increase.

The purpose of these delegations of authority is to give the board of directors all leeway over a maximum period of 18 to 26 months, at such times of its choosing, on one or more occasions, to issue securities and/or debt securities giving access to capital to be issued and in this way benefit from several options to finance its development projects or external growth opportunities.

In the case of an issue maintaining the preferential subscription right, if the subscriptions do not account for the entire issue, the board of directors may use the options available under law, and in particular, offer to the public all or part of the unsubscribed shares.

The board may also decide to increase the number of shares to be issued in the event of an increase in the company's share capital with a preferential subscription right, at the same price as the initial issue, within the timetable and limits provided for by applicable regulation on the date of the issue (on this date, within 30 days from the closing of the subscription period and within the limit of 15% of the initial issue), in particular for the purpose of granting an over-allotment option in accordance with market practice.

In addition, the board is able to carry out an issue by private placement, i.e. without offering the shares to the public, within the limit of 10% of the share capital, within the framework of the provisions of article L225-136 of the French commercial code and article L411-2 II of the French monetary and financial code.

Finally, to comply with the provisions of article L225-129 of the French commercial code, as this general meeting is to vote on the proposed delegations of authority to increase the capital, we also propose that you vote on the proposed capital increase reserved for participants of an employee savings plan to be carried out in accordance with the provisions of article L3332-18 to 24 of the French commercial code.

The use of these delegations of authority shall be suspended during public offerings, with the board of directors preferring to comply with the principle of neutrality of governance bodies in such situations in accordance with provisions of article L233-33 of the French commercial code, amended by by Law No. 2014-384 of March 29 (the "Florange law").

On that basis, the board of directors will be vested with, within the limits set forth above, all powers necessary notably to set the terms and conditions of the issue or issues, record the completion of the resulting capital increases, amend the articles of association in consequence, charge at its sole discretion the costs of the capital increase to the corresponding share premium, and generally, take all actions required, with the possibility to sub-delegate authority to the chief executive officer or the deputy chief executive officer within the limits it shall previously set.

This report constitutes a summary of the company's situation required by article R225-81 paragraph 3 of the French commercial code.

April 21, 2017

Board of Directors

Five-year financial summary (Egide SA)

CLOSING DATE Length of fiscal year	12/31/2016 12 months	12/31/2015 12 months	12/31/2014 12 months	12/31/2013 12 months	12/31/2012 12 months
SHARE CAPITAL AT YEAR-END					
Share capital	8,943,812	8,943,812	8,130,740	3,569,594	3,569,594
Number of shares:					
- ordinary shares	4,471,906	4,471,906	4,065,370	1,784,797	1,784,797
- preferred shares					
Maximum number of future shares to be created:					
- by conversion of bonds					
- by exercise of subscription rights	223,595	223,595	203,268	89,239	89,239
OPERATIONS AND RESULTS					
Sales ex-VAT	14,267,976	12,342,120	12,982,030	12,869,215	14,030,704
Earnings before taxes, employee profit-sharing, depreciation, amortization and provisions	(2,020,445)	(1,072,881)	(1,211,938)	(733,838)	(915,245)
Income tax	(281,010)	(243,045)	(318,936)	(262,220)	(256,426)
Employee profit sharing					
Allowances for depreciation and impairment	(1,055,813)	222,023	310,822	(82,720)	97,767
Net income/(loss)	(683,622)	(1,051,859)	(1,203,824)	(388,898)	(756,586)
Distributed profit (Allocated loss)					
EARNINGS PER SHARE					
Earnings after tax, employee profit-sharing, and before depreciation, amortization and provisions	(0.39)	(0.19)	(0.23)	(0.26)	(0.37)
Earnings after tax, employee profit-sharing, depreciation, amortization and provisions	(0.15)	(0.24)	(0.30)	(0.22)	(0.42)
PERSONNEL					
Average number of employees	154	150	167	166	182
Payroll	4,531,769	4,277,887	4,676,758	4,599,353	5,027,992

Social charges and benefits paid (social security, social welfare payments, etc)	1,666,231	1,545,324	1,756,403	1,637,192	1,940,840

Authorizations for capital increases granted by the general meeting to the board of directors
At December 31, 2016

	Shareholders' Meeting date	**Expiry date of the authorization**	**Authorized amount (nominal value)**	**Use of authorizations in prior periods**	**Authorizations used in the period**	**Residual amount on the date this summary was produced**
Authorization to increase the capital maintaining preemptive subscription rights	06/16/2016	08/15/2018	Shares €6,000,000 Debt securities €6,000,000	No	No	Shares €0* Debt securities €6,000,000
Authorization to increase the number of securities to be issued in the event of a capital increase with preemptive subscription rights	06/16/2016	08/15/2018	15% of the initial amount of the increase	No	No	-
Authorization for a capital increase to the benefit of employees with cancellation of preemptive subscription rights	06/16/2016	08/15/2018	Maximum 1 % of the capital	No	No	-
Authorization to issue stock options to subscribe for shares	06/16/2016	08/15/2019	5 % of the capital	Yes	No	4.70 % of the capital

* The delegation of authority to increase the capital of the company by issuing new shares with preferential subscription rights was used in full on January 19, 2017.

Inventory of securities

Information of marketable securities presented in the balance sheet of Egide SA at December 31, 2016 is presented below:

Amounts in euros	**Quantity**	**Net value**
Fixed securities Egide USA LLC shares	- 	0
Subtotal – fixed securities		**0**
Marketable securities -	-	0
Subtotal – marketable securities		**0**
Total – net carrying value		**0**

Collateral, pledges and guarantees given by the company

Commitments given:

In favor of affiliated companies:

- Egide SA stood guarantee in favor of Bank of America in connection with a loan agreement executed by its subsidiary Egide USA in May 2012 to finance the purchase of its industrial building for amounts owed by Egide USA Inc. representing the maximum amount of principal and interest remaining due estimated at US$1,620,000 (€1,530,000) at December 31, 2016.

In favor of financial institutions:

In accordance with articles L313-23 to L313-34 of the French monetary and financial code, Egide SA assigned to Bpifrance receivables represented by the 2013 research tax credit and the 2013 and 2016 CICE wage tax credit advance ("*en germe*"). The assignment of these securitized receivables (Dailly receivables) made it possible to pledge these receivables in exchange for:

- The grant in February 2015 of a cash credit line for 80 % of the 2013 research tax credits or €208,000.
- Financing received in July 2014 representing 95 % of the 2013 CICE wage tax credit or €123,000.
- Financing received in November 2016 representing 95 % of the CICE wage tax credit advance ("*en germe*") or €155,000.

This pledge guarantees repayment by Egide SA for all amounts owed under its commitments to Bpifrance.

For the benefit of miscellaneous third parties :

- None.

Commitments received

- No bank guarantees were issued to the benefit of Egide.

Reciprocal commitments

- In connection with the factoring arrangement set up in April 2006, Egide SA took out a credit insurance policy designating the factors as beneficiaries for insurance payments to be made in the event of default by the company's customers. Obligations for claims payments by the insurance company are limited with respect to the company to maximum payments equal to €1.5 million.