First half financial report

2014

MERSEN

MERSEN

2014 First half financial report

This document is a free translation of the French half-year report into English for convenience purpose only.

Management report

Consolidated results

Sales

In the first half of 2014, Mersen's consolidated sales totaled €362.1 million. On a like-for-like consolidation and exchange rate basis, this was in line with the second half of 2013, but down 1.6 % compared with the first half of 2013. Total growth includes a negative exchange rate impact of almost €14 million compared with 2013 first half.

This half-year was also marked by a significant decline of our sales in the chemical industry market. Excluding this market, the Group's organic growth was in the order of +2% year-on-year.

In Europe, the situation was in line with the 2nd half of 2013 and down 1.7% like-for-like compared to the 1st half of 2013. Not including the chemical industry market (of which Sabic), organic growth exceeded 3% in the region and performed well in electronics and, more generally, in Germany.

In Asia, the trend is positive, both compared with the 1st quarter of 2014 and the second half of 2013. The solar and wind markets and the process industries market are growing in China.

In America, the year-on-year decline in business was primarily due to a slowdown in sales for the chemical industry, particularly those related to shale gas extraction. Excluding the chemicals business, sales were in line with the first half of last year, with growth in electronics and wind being offset by a slowdown in business due to poor weather conditions at the beginning of the year.

In € million	H1 2014	H1 2013	total growth	organic growth
Materials segment (AMT)	139.5	153.6	-9.2%	-6.3%
Electrical segment (ECT)	222.6	223.4	-0.3%	1.8%
GROUP TOTAL	**362.1**	**377.0**	**-3.9%**	**-1.6%**
Europe	143.0	142.7	0.2%	-1.7%
Asia-Pacific	79.3	78.1	1.5%	6.3%
North America	123.2	136.3	-9.6%	-4.8%
Rest of the world	16.6	19.9	-16.5%	-9.9%
GROUP TOTAL	**362.1**	**377.0**	**-3.9%**	**-1.6%**

Sales for the Materials segment amounted to €139.5 million, an organic contraction of 6.3 % for the half-year. The decline was related primarily to the situation in the chemical industry market. Apart from the Sabic contract, whose deliveries are ending this quarter, this market was penalized – as anticipated – by the limited number of new projects. Excluding the chemical industry, organic growth was positive for this segment, by more than 3%, in the solar and electronics markets.

Sales for the Electrical segment totaled €222.6 million at end-June 2014, up 1.8% on a like-for-like consolidation and exchange rate basis. The energy market was particularly brisk, above all in the wind energy segment. Sales in electronics and process industries were stable while rail transportation posted a slight decrease.

1

EBITDA and operating income before non-recurring items

In € million	H1 2014	H1 2013
Operating income before non-recurring items[1]	29.8	30.6
Depreciation and amortization	17.7	20.4
EBITDA	**47.5**	**51.0**
in % of sales	*13.1%*	*13.5 %*

The Group achieves EBITDA[2] of €47.5 million in the first half of 2014, moderately down compared to the same period in 2013. EBITDA margin is 13.1%, down 0.4 points year-on-year. The EBITDA margin of the Materials segment represents 15.3% and that of the Electrical segment 14.8% of sales.

Operating income before non-recurring items totals €29.8 million, an amount close to that of the first half of 2013 (€30.6 million). Operating margin before non-recurring items is 8.2% of sales versus 8.1% in the first half of 2013. It includes depreciation which are down from last year.

The Materials segment's operating margin is 6.9% of sales versus 7.7% for the same period in 2013. This change can be explained by the reduction in volumes in the chemical industry segment and the drop in prices for graphite since the beginning of last year, which were partially offset by a positive mix effect and a decrease in depreciation.

The operating margin before non-recurring items of the Electrical segment is 12.2 % of sales, i.e. a one-point increase year-on-year. This change can be attributed to prices holding up well and volumes recovering

In € million	H1 2014	H1 2013	*Change*
Sales	362.1	377.0	
Gross margin	112.8	110.5	*+2.1%*
As a % of sales	*31.1%*	*29.3 %*	
Selling, marketing and other costs	(36.8)*	(38.2)	*-3.7%*
G&A and R&D costs	(46.2)*	(41.7)	*+10.8%*
Total fixed costs (excluding production)	(83.0)	(79.9)	*+3.9%*
Operating income before non-recurring items	**29.8**	**30.6**	***-2.6%***
As a % of sales	*8.2%*	*8.1 %*	

** In the first half of 2014, following an in-depth analysis, €3 million were reallocated from selling to administrative costs.*

Gross profit increased almost by 2 points thanks to the efforts made to increase productivity, a favorable product mix, and a reduction in depreciation.

Selling costs were up 4.2% on a like-for-like basis, due to the increase in total payroll costs and the marketing and selling efforts.

G&A and R&D costs were up 3.6% on a like-for-like basis due primarily to the increase in total payroll costs.

(1) Based on definition 2009.R.03 of the French National Accounting Board (CNC)
(2) Operating income before non-recurring items + depreciation and amortization.

Net income

Net income attributable to Group equity holders came in at €0.2 million, versus €11.5 million in the year-earlier period.

In € million	H1 2014	H1 2013
Operating income before non-recurring items	**29.8**	**30.6**
Non-recurring income and expense	(22.7)	(4.4)
Amortization and impairment of revalued intangible assets	(0.5)	(0.6)
Operating income	**6.6**	**25.6**
Financial costs	(5.2)	(5.6)
Income tax	(2.7)	(6.3)
Net income from continuing operations	**(1.3)**	**13.7**
Net (loss)/income from operations sold or discontinued	1.8	(1.7)
Consolidated net income	**0.5**	**12.0**
Net income attributable to Mersen's shareholders	***0.2***	***11.5***

Trends in the main items of the income statement can be analyzed as follows:

- Non-recurring income and expense totaled €22.7 million this half-year. It comprises primarily provisions related to the Transform plan, a plan to streamline manufacturing organization whose principles were announced by the Group in January 2014 and the specifics in May. More than 80% of these provisions are for locations in Europe. In 2013, non-recurring income and expenses primarily concerned restructuring costs related to the adaptation plans.
- Amortization of revalued intangible assets represented an expense of €0.5 million, in line with the amount in the previous six month periods
- Mersen's net finance costs totaled €5.2 million in the first half of 2014, higher than that for the same period in 2013 due to a drop in average net debt of €15 million at constant exchange rates.
- The tax charge was €2.7 million, corresponding to an effective tax rate of 33%, adjusted for exceptional items related to Transform.
- Net income from operations sold or discontinued amounted to €1.8 million. It comes from an earn-out payment related to the 2009 sale of the automobile brushes division. In 2013, it included the contribution of the metal plate heat exchangers and stirrers and mixers business as well as the metal boiler-making equipment business for the nuclear power market, which were sold during the year.

CASH AND DEBT

Condensed statement of cash flows

(in € million)	H1 2014	H1 2013
Cash generated by operating activities before change in the WCR	43.0	47.0
Change in WCR	(23.2)	(12.1)
Change in tax expense	(7.6)	(11.7)
Cash generated by discontinued operations	0.1	(6.4)
Operating cash-flow	**12.3**	**16.8**
Capital expenditures	(11.3)	(12.1)
Net cash generated by continuing operating activities after industrial capital expenditures	**1.0**	**4.7**
Impact of changes in the scope of consolidation	(4.1)	0.7
Property disposal and others	(0.7)	0.4
Net cash generated/(used) by operating and investing activities	**(3.8)**	**5.8**
Interest payments	(4.6)	(5.6)
Dividends paid		(0.4)
Increase in the share capital and other	(0.1)	(3.8)
Net cash flow before the change in debt	**(8.5)**	**(4.0)**

Net cash from operating activities was down compared with the first half of 2013 due to a substantial increase in WCR, trade receivables in particular. The increase was related to seasonal sales fluctuations and to the invoicing of certain major anticorrosion systems contracts with cash inflows projected in the second half of the year. Inventories increased too but to a lesser extent, because of the projected rise in business activities in the second half.

Industrial capital expenditure totaled €11.3 million, divided equally among the two business segments.

The changes in the scope of consolidation concern the acquisition of a stake in Cirprotec.

Balance sheet

Net debt at June 30, 2014 stood at €222.7 million, versus 212.0 at end 2013. The change includes the payment related to the acquisition of a majority stake in Cirprotec.

The Group's finances remain in good shape. At the end of the period, the net debt-to-EBITDA ratio (leverage) was 2.3* (versus 2.1* at end-2013) and net debt-to-equity ratio (gearing) was 49%* versus 45%* at end-2013.

	June 30, 2014	December 31, 2013
Total net debt *(in millions of euros)*	222.7	212.0
Net debt/equity*	49%	45%
Net debt/EBITDA*	2.3	2.1

** based on the calculation of covenants of private placements of USD100 million issued in November 2011 and the Group syndicated loan of July 2012.*

Recent trends and outlook for 2014

Recent trends

On July 16, 2014, Mersen announced an amendment of its committed credit lines arranged in July 2012, in a single multi-currency syndicated loan of 220 million euros.

With the new maturity date moved to July 2019, the maturity of the Group's syndicated loan was thus extended by 2 years. The Group is also enjoying better financial terms, taking advantage of the good environment in the credit markets.

Outlook

Mersen still anticipates a better second half of the year than the first: the America region is expected to experience more positive conditions and the electronics markets to continue growing; in addition, sales for the solar market are expected to be higher than those from last year, as expected. The Group however must also take account of the chemicals market which is not expected to recover by the end of the year, given the few orders recorded in the first half of the year.

In this context, Mersen sees its objectives for the year, i.e. a slight increase in sales on a like-for-like consolidation and exchange rate basis and of the current operating margin, as achievable despite being more challenging.

In addition, the Group continues working on the rollout of Transform, as it had originally planned. The estimated cost is approximately €30 million for the full year; ultimately, it should improve the Group's operational efficiency and competitiveness prompting an increase in its operating margin before non-recurring items of approximately 1.5 points (on a like-for-like business activities basis compared to 2013).

Consolidated financial statements

Changes in the scope of consolidation

over the past two years

The principal changes that affected the consolidated financial statements in 2013 and in the first half of 2014 are presented below:

- during fiscal 2013:
  - Mersen Schweiz AG was consolidated for the first time on January 1, 2013.
  - Nolam Tunisie was consolidated for the first time in the second half of 2013.
- In the first half of 2014, the Spanish sister companies Cirprotec SL and Lric SL, of which the Group acquired 51% were consolidated for the first time on January 1, 2014.

Given that these changes in scope were not material, no pro forma financial statements were prepared.

Assets held for sale and discontinued operations

In order to focus on its core businesses, in December 2012 the Group decided to sell a number of unprofitable businesses resulting from acquisitions made over the last 10 years.

Both businesses were sold in the second half of 2013.

These operations are presented in accordance with IFRS5.

Major events

2

On January 29, 2014, the Group announced the launch of the «Transform" plan the details of which were specified on May 20, 2014.

The project, which aims to streamline the manufacturing organization by combining some of the Group's operations, has led to the recognition of provisions for liabilities and charges and of impairment losses for certain assets in the financial statements of the first half of 2014.

The measurements were carried out based on estimates as described in the Group's principles and methods.

Consolidated income statement

In € million	Notes	June 30, 2014	June 30, 2013
CONTINUING OPERATIONS			
Consolidated sales	13	362.1	377.0
Cost of sales		(249.3)	(266.5)
Total gross margin		**112.8**	**110.5**
Selling and marketing costs		(35.9)	(38.0)
Administrative & research costs		(46.2)	(41.7)
Other operating costs		(0.9)	(0.2)
Operating income before non-recurring items	**13**	**29.8**	**30.6**
Non-recurring charges	12	(23.3)	(5.5)
Non-recurring income	12	0.6	1.1
Amortization of revalued intangible assets		(0.5)	(0.6)
Operating income	**13**	**6.6**	**25.6**
Financial expenses		(5.2)	(5.6)
Financial income			
Finance costs		(5.2)	(5.6)
Financial income (loss)		**(5.2)**	**(5.6)**
Income before tax and non-recurring items		**1.4**	**20.0**
Current and deferred income tax	15	(2.7)	(6.3)
Income from continuing operations		**(1.3)**	**13.7**
Net income from assets held for sale and discontinued operations	4	1.8	(1.7)
NET INCOME		**0.5**	**12.0**
Attributable to:			
- Equity holders of the parent		0.2	11.5
- Non-controlling interests		0.3	0.5
Earnings per share	**16**		
Basic earnings per share *(€)*		0.01	0.57
Diluted earnings per share *(€)*		0.01	0.55
Earnings per share from continuing operations			
Basic earnings per share *(€)*		(0.08)	0.65
Diluted earnings per share *(€)*		(0.08)	0.63
Earnings per share from assets held for sale and discontinued operations			
Basic earnings per share *(€)*		0.09	(0.09)
Diluted earnings per share *(€)*		0.09	(0.08)

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

In € million	Notes	June 30, 2014	June 30, 2013
NET INCOME FOR THE YEAR		**0.5**	**12.0**
Items that will not be subsequently reclassified in income			
Revaluation of net liabilities (assets) for defined benefits		0.0	11.3
Income tax expense (benefit) on items that will not be reclassified in income		0.0	(3.9)
		0.0	**7.4**
Items likely to be subsequently reclassified in income			
Change in fair value of hedging derivatives		(0.7)	(0.7)
Change in assets and liabilities at year-end exchange rate		2.8	(1.0)
Income tax expense (benefit) on items likely to be reclassified in income		0.2	0.2
		2.3	**(1.5)**
INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY		**2.3**	**5.9**
TOTAL INCOME AND EXPENSE RECOGNIZED DURING THE PERIOD		**2.8**	**17.9**
Attributable to:			
- Equity holders of the parent		2.6	17.4
- Non-controlling interests		0.2	0.5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

In € million	Note	June 30, 2014	Dec. 31, 2013
NON-CURRENT ASSETS			
Intangible fixed assets	5 and 6		
- Goodwill		268.8	263.0
- Other intangible assets		32.7	32.9
Property, plant and equipment	5 and 6		
- Land		28.5	28.6
- Buildings		60.5	61.9
- Plant, equipment and other assets		158.1	161.8
- Assets in progress		19.6	21.9
Non-current financial assets			
- Investments		2.5	1.4
- Non-current derivatives		0.0	0.0
- Other financial assets		7.2	5.4
Non-current tax assets			
- Deferred tax assets	15	35.2	28.1
- Non-current portion of current tax assets		7.3	5.7
TOTAL NON-CURRENT ASSETS		**620.4**	**610.7**
CURRENT ASSETS			
- Inventories		163.9	154.3
- Trade receivables		128.4	108.0
- Other receivables		18.7	13.5
- Current portion of current tax liabilities		13.1	13.3
- Other current assets			
- Current financial assets	10	13.4	8.4
- Current derivatives		0.8	1.8
- Financial assets			
- Cash and cash equivalents	10	27.3	20.2
- Assets held for sale and discontinued operations	4	0.5	2.4
TOTAL CURRENT ASSETS		**366.1**	**321.9**
TOTAL ASSETS		**986.5**	**932.6**

Liabilities and shareholders' equity

In € million	Note	June 30, 2014	Dec. 31, 2013
SHAREHOLDERS' EQUITY			
- Share capital	7	41.2	41.6
- Premiums and retained earnings		435.7	473.8
- Net income for the year		0.2	(29.2)
- Cumulative translation adjustments		(40.5)	(43.4)
EQUITY ATTRIBUTABLE TO MERSEN'S SHAREHOLDERS		**436.6**	**442.8**
- Non-controlling interests		11.4	10.0
SHAREHOLDERS' EQUITY		**448.0**	**452.8**
NON-CURRENT LIABILITIES			
- Non-current provisions	8	14.0	8.5
- Employee benefits	9	68.2	66.5
- Deferred tax liabilities	15	22.4	22.1
- Long and medium term borrowings	10	204.2	190.0
- Non-current derivatives		0.6	0.6
TOTAL NON-CURRENT LIABILITIES		**309.4**	**287.7**
CURRENT LIABILITIES			
- Trade payables		63.2	58.9
- Other payables		63.9	59.1
- Current provisions	8	12.9	5.1
- Current portion of current tax liabilities		15.8	12.2
- Other liabilities		12.0	2.7
- Other current financial liabilities	10	23.2	11.5
- Current derivatives		0.4	0.6
- Current advances	10	0.4	0.3
- Bank overdrafts	10	35.6	38.8
- Liabilities related to assets held for sale and disc. op.	4	1.7	2.9
TOTAL CURRENT LIABILITIES		**229.1**	**192.1**
TOTAL EQUITY AND LIABILITIES		**986.5**	**932.6**

CHANGE IN EQUITY

In € million	Share capital	Premiums and retained earnings	Net income	Cumulative translation adjustment	Total	Non-controlling interests	Equity
	Attributable to Mersen's shareholders						
EQUITY AT DECEMBER 31, 2012, AS REPORTED	**40.7**	**496.6**	**5.6**	**(25.8)**	**517.1**	**10.5**	**527.6**
Revaluation of net liabilities (assets) for defined benefits after tax		(29.3)	0.9		(28.4)		(28.4)
EQUITY AT DECEMBER 31, 2012, RESTATED	**40.7**	**467.3**	**6.5**	**(25.8)**	**488.7**	**10.5**	**499.2**
Prior period net income		6.5	(6.5)		0.0		0.0
Net income for the year			11.5		11.5	0.5	12.0
Change in fair value of hedging derivatives, net of taxes		(0.5)			(0.5)		(0.5)
Cumulative translation adjustment				(1.0)	(1.0)		(1.0)
TOTAL OTHER COMPREHENSIVE INCOME	**0.0**	**(0.5)**	**0.0**	**(1.0)**	**(1.5)**	**0.0**	**(1.5)**
COMPREHENSIVE INCOME FOR THE YEAR	**0.0**	**(0.5)**	**11.5**	**(1.0)**	**10.0**	**0.5**	**10.5**
Revaluation of net liabilities (assets) for defined benefits after tax		7.4			7.4		7.4
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, RESTATED	**0.0**	**6.9**	**11.5**	**(1.0)**	**17.4**	**0.5**	**17.9**
Dividends not yet paid		(9.0)			(9.0)	(0.4)	(9.4)
Issue of new shares	0.1				0.1		0.1
Expenses on issue of new shares					0.0		0.0
Treasury shares - Stock options - Bonus shares		(3.9)			(3.9)		(3.9)
Other items		(0.1)			(0.1)	(0.1)	(0.2)
EQUITY AT JUNE 30, 2013	**40.8**	**467.7**	**11.5**	**(26.8)**	**493.2**	**10.5**	**503.7**
EQUITY AT DEC. 31, 2013	**41.6**	**473.8**	**(29.2)**	**(43.4)**	**442.8**	**10.0**	**452.8**
Prior period net income		(29.2)	29.2		0.0		0.0
Net income for the year			0.2		0.2	0.3	0.5
Change in fair value of hedging derivatives, net of taxes		(0.5)			(0.5)		(0.5)
Cumulative translation adjustment				2.9	2.9	(0.1)	2.8
TOTAL OTHER COMPREHENSIVE INCOME	**0.0**	**(0.5)**	**0.0**	**2.9**	**2.4**	**(0.1)**	**2.3**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**0.0**	**(0.5)**	**0.2**	**2.9**	**2.6**	**0.2**	**2.8**
Revaluation of net liabilities (assets) for defined benefits after tax							0.0
COMPREHENSIVE INCOME FOR THE PERIOD, RESTATED	**0.0**	**(0.5)**	**0.2**	**2.9**	**2.6**	**0.2**	**2.8**
Dividends not yet paid		(9.3)			(9.3)		(9.3)
Increase/decrease in capital (note 7)	(0.4)	(3.1)			(3.5)		(3.5)
Expenses on issue of new shares					0.0		0.0
Treasury shares - Stock options - Bonus shares		4.0			4.0		4.0
Other items (Inc. Cirprotec Note 3)					0.0	1.2	1.2
EQUITY AT JUNE 30, 2014	**41.2**	**435.7**	**0.2**	**(40.5)**	**436.6**	**11.4**	**448.0**

Consolidated statement of cash flows

In € million	June 30, 2014	June 30, 2013
Income before tax	1.4	20.0
Depreciation and amortization	17.7	20.4
Additions to/(reversals from) provisions	17.6	1.7
Financial income (loss)	5.2	5.6
Capital gains/(losses) on asset disposals	0.1	0.1
Other	1.0	(0.8)
Operating cash-flow before change in WCR	**43.0**	**47.0**
Change in WCR	(23.2)	(12.1)
Income tax paid	(7.6)	(11.7)
Net cash generated by continuing operating activities	**12.2**	**23.2**
Cash generated by discontinued operations	**0.1**	**(6.4)**
Operating cash-flow	**12.3**	**16.8**
Investing activities:		
Intangible fixed assets	(0.8)	(0.3)
Property, plant and equipment	(10.7)	(11.0)
Acquisitions of non-current assets	(0.6)	(1.1)
Financial assets	(1.1)	
Impact of changes in the scope of consolidation	(4.1)	0.7
Other changes in cash flow from/(used by) investing activities	0.8	0.7
Cash generated/(used) by investing activities from continuing operations	**(16.5)**	**(11.0)**
Net cash from/(used by) investing activities from discontinued operations	0.4	
Cash-flow used by investing activities	**(16.1)**	**(11.0)**
Cash generated by operating and investing activities	**(3.8)**	**5.8**
Proceeds from issue of new shares and other changes in equity	(0.1)	(3.8)
Net dividends paid to shareholders and minority interests		(0.4)
Interest payments	(4.6)	(5.6)
Change in debt	15.9	2.2
Cash generated/(used) by financing activities	**11.2**	**(7.6)**
Change in cash	**7.4**	**(1.8)**
Cash at beginning of fiscal year (Note 10)	20.2	21.4
Cash at end of fiscal year (Note 10)	27.3	19.6
Impact of changes in the scope of consolidation		(0.2)
Impact of currency fluctuations	0.3	0.2
CHANGE IN CASH	**7.4**	**(1.8)**

Appendix

Notes to the consolidated financial statements

3

Note 1 Statement of conformity

In accordance with EC regulation no. 1606/2002 of July 19, 2002, which applies to the consolidated financial statements of European companies listed on a regulated market, the consolidated financial statements of Mersen and its subsidiaries (hereinafter "the Group") have been prepared in accordance with IFRS (International Financial Reporting Standards), because the Group is listed in a European Union member state.

The mandatory standards and interpretations at January 1, 2014 are presented in Note 2.

The options adopted by the Group are stated in Note 2 of the 2013 Annual Report.

The interim consolidated financial statements for the six months ended June 30, 2014 have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not contain all information required in the full annual financial statements and must be read in conjunction with the Group's financial statements for the year ended December 31, 2013, available at www.mersen.com. They include however, a selection of notes explaining the major events and transactions for a better understanding of the changes that have occurred in the financial position and performance of the Group since the latest annual financial statements for the year ended December 31, 2013.

The condensed consolidated financial statements were approved by the Management Board on July 30, 2014.

Note 2 Accounting policies and principles of consolidation

The accounting methods described in the principles and methods presented in the 2013 annual report have been applied consistently throughout the periods covered by the consolidated financial statements and across all the Group's reporting units.

Use of assumptions and estimates

In preparing these financial statements, the management exercised judgments, used estimates and made assumptions that affected the implementation of accounting policies and on the amounts of assets and liabilities, income and expenses. Actual values may differ from estimated values.

Critical judgments exercised by Management in order to apply the Group's accounting methods and the main sources of uncertainty for estimates were the same as those affecting the consolidated financial statements for the year ended December 31, 2013.

Standards and interpretations with mandatory application as of January 1, 2014

The Group has adopted the following standards and amendments, which include any consequential amendment to other standards whose date of initial application was January 1, 2014.

IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint arrangements, IFRS 12 – Disclosure of interests in other entities (with mandatory application in the EU on January 1, 2014).

IFRS 10 introduces a single control model for determining whether an investee needs to be consolidated. Under IFRS 11, the form of a partnership, though still an important aspect to be considered, is no longer the sole factor determining its accounting designation and thus for its subsequent recognition. IFRS 12 brings together in a new standard the disclosures required concerning an entity's investment in subsidiaries, partnerships, joint ventures and unconsolidated structured entities.

These changes have not led to a revision of the Group's conclusions regarding its scope of consolidation or to a change in the recognition of some of its entities.

The Group is currently assessing the provisions of IFRS 12 on annual disclosures by comparison with those disclosures currently required.

Note 3 Business combinations

In February 2014, the Group took a majority stake of 51% in Cirprotec SL, a Spanish company specialized in lightning and surge protection headquartered in Terrassa near Barcelona.

The Group thus strengthened its product portfolio and its expertise in the electrical specialties.

Criprotec's contribution to sales in the first half of 2014 was €4.8 million and net income totaled €0.2 million.

For this acquisition, the Group elected to measure its non-controlling interest in the equity.

The net assets acquired in this transaction and related goodwill are presented below:

In € million	Net assets at acquisition date	Fair value adjustments	Allocation of the acquisition cost	Fair value of net assets
Non-current assets	0.9			0.9
Current assets	4.2	0.3		4.5
Non-current liabilities	(1.1)			(1.1)
Current liabilities	(1.6)	(0.1)		(1.7)
Net assets	**2.4**	**0.2**	**0.0**	**2.6**
Goodwill				**3.8**
Non-controlling interests				1.3
Consideration transferred				**5.1**

Goodwill will be allocated at the 2014 year-end in accordance with applicable accounting standards.

Note 4 Assets held for sale and discontinued operations

Businesses in the Advanced Materials and Technologies segment

These businesses were sold in 2013 and involved Mersen Grésy France (sold in early July 2013 to the NAWI group) and the Brignais site (Mersen France PY) sold in late November 2013.

In 2013, disposal transactions had led to the recognition of income net of tax of €2.8 million.

For the first half of 2014, the loss posted was €0.6 million.

Automobile and household electrical appliance brush and brush holder division

On May 1, 2009 the Group had sold its Automobile and household electrical appliance brush and brush holder division.

As of June 30, 2014, for this transaction, income net of tax totaled €2.4 million taking into account the final agreement on the earn-out payment to be received for the disposal.

Pursuant to the standard, the assets and liabilities held for sale and discontinued operations are shown on a separate line of the Group's statement of financial position.

Statement of financial position of assets held for sale and discontinued operations

ASSETS

In € million	June 30, 2014	Dec. 31 2013
- Financial assets		0.0
- Inventories		0.0
- Trade receivables	0.5	3.5
- Customer pre-payments		(1.1)
- Other receivables		0.0
- Deferred tax		0.0
ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS	**0.5**	**2.4**

LIABILITIES

In € million	June 30, 2014	Dec. 31 2013
- Employee benefits		0.0
- Non-current provisions		0.0
- Trade payables	0.5	1.3
- Other payables	0.2	0.7
- Current provisions	1.0	0.9
LIABILITIES RELATED TO ASSETS HELD FOR SALE AND DISC. OP.	**1.7**	**2.9**
NET ASSETS IN PROCESS OF BEING SOLD OR DISC. OP.	**(1.2)**	**(0.5)**

Income statement for assets held for sale and discontinued operations

In € million	June 30, 2014	June 30, 2013
Sales	0.0	9.3
Cost of sales	(0.2)	(9.2)
Total gross margin	**(0.2)**	**0.1**
Selling and marketing costs	0.0	(1.3)
Administrative & research costs	(0.2)	(0.9)
Other operating costs	(0.1)	(0.4)
Operating income before non-recurring items	**(0.5)**	**(2.5)**
Non-recurring income and expense	(0.1)	(1.9)
Profit on disposal	3.4	0.0
Operating income	**2.8**	**(4.4)**
Financial income (loss)	0.0	0.0
Income before tax and non-recurring items	**2.8**	**(4.4)**
Current and deferred income tax	(1.0)	2.7
Net income from assets held for sale/discontinued operations	**1.8**	**(1.7)**
Earnings per share from assets held for sale and discontinued operations		
- Basic earnings per share *(€)*	0.09	(0.09)
- Diluted earnings per share *(€)*	0.09	(0.08)

Note 5 Intangible assets and property, plant and equipment

Goodwill totaled €268.8 million as of June 30, 2014, up €5.8 million compared to December 31, 2013 related to the acquisition of Cirprotec (€3.8 million, see Note 3). Allocation is pending only for the latter.

The €7.5 million decline in tangible assets was largely related to the recognition of amortization expenses amounting to €17.7 million and investments of €11.3 million.

Impairment losses, before tax, totaled €23.7 million as of June 30, 2014 up €2.2 million, in relation to the impairment charges of land, buildings and plant and equipment in the context of Transform, the manufacturing reorganization plan. (See Note 6)

Note 6 Asset impairment tests

1. Goodwill

Under IAS 36, tests were carried out on the basis of the value in use determined using the discounted cash flow method.

The principal key assumptions applied are described in the 2013 annual report. The Group notes that potential uncertainties associated with the economic environment pose a risk to the preparation of the cash flow projections used in the valuations produced.

a) Anti-corrosion equipment

In light of the slowdown in the market of businesses for the chemical industry, the anti-corrosion equipment CGU was tested for impairment on June 30, 2014 using the method and the discount and growth rates described in the 2013 annual report.

The test showed no goodwill impairment for this CGU.

b) Other CGUs

The other CGUs were not tested for impairment because there was no indication of impairment in the six-month period ending June 30, 2014.

Impairment testing will be carried out again at the 2014 year-end.

2. Special assets

In accordance with IAS 36, in light of the market environment for the company's operations indicating an impairment risk, as of December 31, 2013 the Group carried out a review of its assets to confirm that its intangible assets, property, plant and equipment and financial assets were recognized at carrying amounts not exceeding their recoverable amounts.

In application of these procedures, asset impairment losses of €29.9 million were recognized in 2013, primarily for the Advanced Materials and Technologies, including €22.7 million for non-current assets and €4.7 million for current assets.

The events and outlook as of June 30, 2014 do not challenge the impairment losses recorded as of December 31, 2013.

The Transform project to reallocate productions, announced in the first half of 2014, led to the posting of impairment losses in the amount of €2.6 million, primarily for non-current assets: land, buildings and plant and equipment:

Note 7 Equity

Breakdown of the share capital

Number of shares (unless stated otherwise)	Ordinary shares
Number of shares at January 1, 2014	20,816,364
Capital increase/reduction *(in millions of euros)*	-0.4
Number of shares at June 30, 2014	20,616,814
Number of shares in issue and fully paid-up during the period	450
Number of cancelled treasury shares	200,000
Number of shares in issue and not fully paid-up	0
Par value of shares *(€)*	2
Entity's shares held by itself or by its subsidiaries and associates	45,638

Capital management

The Company's share capital at June 30, 2014 amounted to €41,233,628, comprising 20,616,814 shares each with a par value of €2 and all belonging to the same class. The number of voting rights stood at 20,571,176, since shares held in treasury do not carry voting rights.

To the best of the Company's knowledge, its ownership structure at June 30, 2014 was as follows

- French institutional investors: 47.6%
- International institutional investors: 39.2%
- Individual shareholders: 12.1%
- Employee shareholders: 0.9%
- Treasury shares: 0.2%

Since January 1, 2014, certain shareholders have reported crossing the following disclosure thresholds:

- February 3, 2014: BNP Investment Partners announced in the name and on behalf of the entities it controls that it owned 850,505 shares representing 4.0883% of the share capital and voting rights.
- March 6, 2014: Highclere International Investors declared that at March 5, 2014 it held 202,615 shares, representing 0.97% of the share capital and voting rights.
- May 12, 2014: Sterling Strategic Investments declared that at May 9, 2014 it held 212,690 shares, representing 1.0217% of the share capital and voting rights.
- June 10, 2014: Bank of America Corporation declared that at June 4, 2014 it held 272,230 shares, representing 1.309% of the share capital and voting rights.
- June 19, 2014: Bank of America Corporation declared that it held less than one percent of the share capital and the voting rights.

At June 30, 2014, 45,638 shares representing 0.2% of the share capital were held under a liquidity agreement approved by the Autorité des Marchés Financiers and entrusted to investment services provider Exane.

Moreover, on May 22, 2014, the Company – under the authority granted to it by the General Meeting of May 15, 2014 – cancelled 200,000 treasury shares which resulted in a decrease in share capital of €0.4 million and in the share issue premium of €3.1 million.

At June 30, 2014, the Group's employees owned 175,030 shares representing 0.85% of the share capital, plus 600,055 stock options that, if exercised in full, would represent 2.91% of the current share capital. The stock option plans set up by the Group are based on an exercise price determined without any discount, since exercise of the options is subject to conditions linked to the Group's future performance. Using this method, the Group ensures that the interests of its managers are aligned with those of its shareholders.

In addition, the Group implemented a policy of awarding bonus shares. Definitive allocation of the shares is contingent upon beneficiaries' presence on the Group's payroll at the end of the vesting period. Allotments to Management Board members and employees considered by the Management Board to make a significant contribution to the Company's performance are subject to performance conditions. Conversely, the Management Board did not want to set performance conditions for employees who, by the nature of their jobs, contribute less directly to the Company's performance. At June 30, 2014, the number of bonus shares likely to be allotted definitively stands at 157,168 new shares, representing 0.76% of the current share capital.

The Group has set up a bonus share and stock-option award plan voted at the AGM of May 15, 2014 for a total of 50,000 bonus shares and 150,000 stock options. Both plans are subject to performance conditions.

The Company's General Meeting of May 15, 2014, in its third resolution decided to distribute a dividend of €0.45 per share; the Supervisory Board and the Management Board did not wish to renew the option to elect payment in new shares.

Neither the Company, nor its subsidiaries are subject to specific capital constraints under external rules.

No Company shareholder is currently entitled to double voting rights. The Company Bylaws do not contain any provision prohibiting double voting rights.

An expense of €0.6 million was recognized in the income statement in respect of share-based payments, versus €0.2 million at June 30, 2013. Income for the first half of 2013 took into account income of €1 million, since the Group had anticipated that performance criteria allowing the definitive award of shares from the 2011 and 2012 bonus share plans would not be fully achieved. In fact, only 39% of the performance criteria were achieved as the change in EBITDA margin between 2010 and 2012 were slightly more favorable than the benchmark of comparable companies.

Note 8 Provisions, contingent liabilities and other liabilities

	June 30, 2014		Dec. 31, 2013	
In € million	Non-current	Current	Non-current	Current
- provision for restructuring	6.5	9.5	0.3	1.4
- provision for litigation	4.4	0.7	5.6	2.2
- other provisions	3.1	2.7	2.6	1.5
TOTAL	**14.0**	**12.9**	**8.5**	**5.1**

Provisions amounted to €26.9 million at June 30, 2014 (€13.6 million at end-December 2013) a net change of €13.3 million primarily related to provisions booked in the context of the Transform project comprising restructuring costs in the amount of €15.1 million and a provision for expenses related to unused premises in the amount of €1.7 million.

Legal proceedings

Civil proceedings in Canada

The separate lawsuit initiated during 2004 in Canada by certain customers against the main Canadian manufacturers of graphite brushes, including Mersen Toronto, a Canadian subsidiary of Mersen, is still in progress and there have been no new developments since 2007.

Civil proceedings in the United Kingdom

The civil proceedings brought in the CAT in February 2011 by the Deutsche Bahn group, together with other European rail companies resumed in April 2014 against Schunck, SGL and Mersen following the decision of the UK Supreme Court, to which the matter was referred by Morgan Crucible. The Supreme Court ruled that plaintiffs' action against Morgan Crucible was time-barred. In support of that decision, Mersen as well as Schunck and SGL lodged an appeal to object to CAT's jurisdiction.

Proceedings in France

In 2013, SNCF commenced two legal actions against Morgan, SGL, Schunk and Mersen respectively in the Paris Administrative Court and in the Paris Commercial Court. SNCF is attempting to secure redress for losses that they allegedly suffered following practices penalized in December 2003 by the European Commission in brushes for electric motors and products for mechanical applications. In the first half of 2014, the Paris Administrative Court rejected all the claims lodged by SNCF, which appealed the decision. The Paris Commercial Court accepted jurisdiction for the SNCF proceedings. Mersen rejects all of the allegations and demands put forward by SNCF.

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

Legal proceedings in France (accident at the Gennevilliers plant on April 7, 2010)

Criminal proceedings that were brought after the tragic accident of April 7, 2010 at Mersen's site in Gennevilliers are still in progress, with no developments in the first half of 2014.

Based on available information, no provision (other than attorney fees) has been booked for all ongoing litigation.

There are no other governmental, legal or arbitration proceedings, including any such proceedings which are pending or threatened of which the Group is aware, during the previous 12 months which may have, or have had in the recent past material adverse effects on the Group's business activities, financial position or results of operations.

Other liabilities (€12 million at June 30, 2014) mainly included dividends of €9.3 million to be paid following the General Meeting of May 15, 2014 and amounts payable on property, plant and equipment.

No other material contingent liabilities were identified at end-June 2014.

Note 9 Employee benefits

The Mersen Group's principal pension plans are defined benefit plans and are located in the US (39% of obligations), the UK (24% of obligations), France (15% of obligations) and Germany (9% of obligations).

The Group's obligations were measured at December 31, 2013 with the assistance of independent actuaries in accordance with IAS 19. The rates used for the principal countries are summarized below:

2013	Discount rate	Average rate of salary increases	Inflation rate
France	3.0%	Between 2.0% and 6.25%	2.0%
Germany	3.0%	2.5%	2.0%
United States	4.8%	Salaried employees: 4%	Not applicable
United Kingdom	4.2%	2.6%	2.6% / 3.4%

Reconciliation between assets and liabilities recognized

	June 30, 2014	Dec. 31, 2013
Actuarial obligation	153.1	147.0
Fair value of plan assets	(84.9)	(80.5)
PROVISION	**68.2**	**66.5**

The charge recognized at June 30, 2014 in respect of these plans was €3.9 million, compared with €3.7 million in 2013.

The change in discount rates and fair values of plan assets as of June 30, 2014 does not require adjustments to the Group's net obligations as of June 30, 2014.

Note 10 Net debt

Breakdown by maturity of credit lines and confirmed borrowings

In € million	Amount	Drawn down at June 30, 2014	% drawn down at June 30, 2014	Maturities: less than 1 year	Maturities: between 1 and 5 years	Maturities: over 5 years
Group syndicated loan	154.9	53.7	35%	0.0	154.9	0.0
Group bilateral loans	55.0	30.0	55%	0.0	55.0	0.0
US bilateral loan	18.3	0.0	0%	0.0	18.3	0.0
Confirmed credit lines, China	52.8	41.6	79%	2.9	49.9	0.0
2003 US private placements	2.9	2.9	100%	2.9	0.0	0.0
2011 US private placements	73.9	73.9	100%	0.0	0.0	73.9
OBSAAR bonds	13.3	13.3	100%	13.3	0.0	0.0
Other	2.9	2.9	100%	0.3	1.3	1.2
TOTAL	**374.0**	**218.4**	**58%**	**19.5**	**279.4**	**75.1**

Analysis of total net debt at June 30, 2014

In € million	June 30, 2014	Dec. 31, 2013
Long and medium term borrowings	204.2	190.0
Current financial liabilities	23.2	11.5
Current advances	0.4	0.3
Bank overdrafts	35.6	38.8
TOTAL GROSS DEBT	**263.4**	**240.6**
Current financial assets	**(13.4)**	**(8.4)**
Cash and cash equivalents	(27.3)	(20.2)
Cash	**(27.3)**	**(20.2)**
TOTAL NET DEBT	**222.7**	**212.0**

Total consolidated net debt at June 30, 2014 was €222.7 million versus €212 million at year-end 2013.

Of the €263.4 million in total gross debt, €218.4 million stems from the use of the confirmed loans and borrowings and the remainder chiefly from use of non-confirmed lines (bank overdrafts and other lines).

Financial covenants at June 30, 2014

In connection with its various confirmed borrowings at Group level and in China, Mersen has to comply with a number of obligations, which are customary with this type of lending arrangement. Should it fail to comply with some of these obligations, the banks or investors (for the US private placements) may oblige Mersen to repay the relevant borrowings ahead of schedule. Under the cross-default clauses, early repayment of one significant borrowing may oblige the Group to repay other borrowings immediately.

Mersen must comply with the following financial covenants at June 30 and December 31 each year:

Financial covenants [a] (consolidated financial statements)

In € million	Net debt/ EBITDA	Net debt/ equity	EBITDA/ net interest expense
Covenant ratios			
Group syndicated/bilateral loan(s)	< 3.50	< 1.3	
2003 US private placement	< 3.35	< 1.3	> 3
2011 US private placement	< 3.50	< 1.3	> 3
OBSAAR bonds	-	< 1.35	
Confirmed credit lines, China	< 3.50	< 1.3	
Actual ratios at June 30, 2014			
Group syndicated/bilateral loan(s)	2.33	0.49	
2003 US private placement	2.26	0.49	10.64
2011 US private placement	2.33	0.49	10.30
OBSAAR bonds		0.52	
Confirmed credit lines, China	2.33	0.49	
Actual ratios at December 31, 2013			
Group syndicated/bilateral loan(s)	2.07	0.45	
2003 US private placement	2.01	0.45	9.56
2011 US private placement	2.07	0.45	9.30
OBSAAR bonds		0.47	
Confirmed credit lines, China		0.45	

(a) Method for calculating covenants: In line with the accounting rules, the net debt shown in the financial statements uses closing rates to calculate the euro-equivalent value of debt denominated in foreign currencies. Solely for the calculation of the net debt/EBITDA ratio, net debt has to be recalculated at the average €/USD exchange rate for the period in the event of a difference of over 5% between the average exchange rate and the closing rate. To calculate the covenants at June 30, the convention is for EBITDA or gross operating income to be deemed to be EBITDA reported for the first six months of the year multiplied by two.

At June 30, 2014, there were no material borrowings or liabilities secured by assets or guaranteed by third parties.

Note 11 Financial instruments

The following tables show the fair value of assets and liabilities, as well as their carrying amount and the fair value hierarchy for the instruments measured at fair value:

Classification of financial instruments within the fair value hierarchy

June 30, 2014		Carrying amount						Fair value			
Balance sheet category and instrument class	Note	Assets/ liabilities designated as at fair value	Assets held to maturity	Available-for-sale assets	Loans and receivables	Liabilities stated at amortized cost	**Accounting categories, total net carrying amount**	**Level 1**	**Level 2**	**Level 3**	**TOTAL**
Financial assets measured at fair value											
Unlisted investment securities				2.5			2.5			2.5	2.5
Derivatives held as non-current and current assets		0.8					0.8		0.8		0.8
		0.8	**0.0**	**2.5**	**0.0**	**0.0**	**3.3**	**0.0**	**0.8**	**2.5**	**3.3**
Financial assets not measured at fair value											
Non-current and current financial assets					20.6		20.6				
Financial assets							0.0				
Trade receivables					128.4		128.4				
Cash and cash equivalents	10				27.3		27.3				
		0.0	**0.0**	**0.0**	**176.3**	**0.0**	**176.3**				
Financial liabilities measured at fair value											
Derivatives held as non-current and current liabilities		(1.0)					(1.0)		(1.0)		(1.0)
		(1.0)	**0.0**	**0.0**	**0.0**	**0.0**	**(1.0)**	**0.0**	**(1.0)**	**0.0**	**(1.0)**
Financial liabilities not measured at fair value											
Bank borrowings	10					(204.2)	(204.2)				
Current advances	10					(0.4)	(0.4)				
Bank overdrafts	10					(35.6)	(35.6)				
Current financial liabilities	10					(23.2)	(23.2)				
Trade payables						(63.2)	(63.2)				
		0.0	**0.0**	**0.0**	**0.0**	**(326.6)**	**(326.6)**				
Carrying amount by class		**(0.2)**	**0.0**	**2.5**	**176.3**	**(326.6)**	**(148.0)**				

December 31, 2013		Carrying amount						Fair value			
Balance sheet category and instrument class	Note	Assets/ liabilities designated as at fair value	Assets held to maturity	Available-for-sale assets	Loans and receivables	Liabilities stated at amortized cost	Accounting categories, total net carrying amount	Level 1	Level 2	Level 3	TOTAL
Financial assets measured at fair value											
Unlisted investment securities				1.4			1.4			1.4	1.4
Derivatives held as non-current and current assets		1.8					1.8		1.8		1.8
		1.8	**0.0**	**1.4**	**0.0**	**0.0**	**3.2**	**0.0**	**1.8**	**1.4**	**3.2**
Financial assets not measured at fair value											
Non-current and current financial assets					13.8		13.8				
Financial assets							0.0				
Trade receivables					108.0		108.0				
Cash and cash equivalents	10				20.2		20.2				
		0.0	**0.0**	**0.0**	**142.0**	**0.0**	**142.0**				
Financial liabilities measured at fair value											
Derivatives held as non-current and current liabilities		(1.2)					(1.2)		(1.2)		(1.2)
		(1.2)	**0.0**	**0.0**	**0.0**	**0.0**	**(1.2)**	**0.0**	**(1.2)**	**0.0**	**(1.2)**
Financial liabilities not measured at fair value											
Bank borrowings	10					(190.0)	(190.0)				
Current advances	10					(0.3)	(0.3)				
Bank overdrafts	10					(38.8)	(38.8)				
Current financial liabilities	10					(11.5)	(11.5)				
Trade payables						(58.9)	(58.9)				
		0.0	**0.0**	**0.0**	**0.0**	**(299.5)**	**(299.5)**				
Carrying amount by class		**0.6**	**0.0**	**1.4**	**142.0**	**(299.5)**	**(155.5)**				

Financial risk management:

Credit risk

The Group set up an insurance program in 2003 with commercial credit insurer COFACE covering its principal companies in the US and France against the risk of non-payment for financial or political reasons. Coverage varies between 0 and 90% of invoiced amounts from customer to customer.

During 2009, this program was extended to cover Germany, the United Kingdom and China (domestic customers).

Supplemental agreements to the policies covering the French receivables transferred during 2009 were signed in favor of the factor.

Interest-rate, currency and commodity risk

There have been no material changes in interest-rate, currency and commodity risks since the closing of the financial statements at December 31, 2013.

Note 12 Other non-recurring income and expense

Other non-recurring income and expense break down as follows:

In € million	June 30, 2014	June 30, 2013
Transform plan	(21.4)	
Restructuring costs	(0.9)	(4.8)
Prior period income (losses) of newly consolidated companies and acquisition costs		0.5
Other	(0.4)	(0.1)
TOTAL	**(22.7)**	**(4.4)**

At end-June 2014, non-recurring income and expense totaled €22.7 million and primarily included the costs of the Transform plan:

- Restructuring expenses in the amount of €17.1 million.
- Impairment losses of non-current assets and inventories in the amount of €2.6 million.

Note 13 Segment reporting

In € million	Advanced Materials and Technologies (AMT)		Electrical Components and Technologies (ECT)		Total for continuing operations	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Sales to third parties	139.5	153.6	222.6	223.4	362.1	377.0
Breakdown of sales	38.5%	40.7%	61.5%	59.3%	100.0%	100.0%
Segment operating income before non-recurring items	**9.6**	**11.8**	**27.2**	**25.0**	**36.8**	**36.8**
Segment operating margin before non-recurring items*	6.9%	7.7%	12.2%	11.2%		
Segment non-recurring income and expense	(8.2)	(0.3)	(13.5)	(3.9)	(21.7)	(4.2)
Amortization of revalued intangible assets	(0.2)	(0.3)	(0.3)	(0.3)	(0.5)	(0.6)
Segment operating income	**1.2**	**11.2**	**13.4**	**20.8**	**14.6**	**32.0**
Segment operating margin*	0.9%	7.3%	6.0%	9.3%		
EBITDA margin (1)	15.3%	16.9%	14.8%	13.9%		
Recurring unallocated costs					(7.0)	(6.2)
Recurring operating income from continuing operations					**29.8**	**30.6**
Operating margin from continuing operations before non-recurring items					**8.2%**	**8.1%**
Non-recurring unallocated costs					(1.0)	(0.2)
Operating income from continuing operations					**6.6**	**25.6**
Operating margin from continuing operations					1.8%	6.8%
Financial income (loss)					(5.2)	(5.6)
Current and deferred income tax					(2.7)	(6.3)
Net income from continuing operations					**(1.3)**	**13.7**

**Segment operating margin = Operating income/Segment sales to third parties.*
(1) The Group's EBITDA represents combined segment operating income before non-recurring items plus segment depreciation and amortization.

The Group's activities are not subject to any significant seasonal variation.

Segment assets

In € million	AMT	ECT	Total at June 30, 2014
Total segment assets	**514.2**	**374.7**	**888.9**
Deferred tax assets			35.2
Non-current portion of current tax assets			7.3
Current portion of current tax liabilities			13.1
Other current assets			0
Current financial assets			13.4
Current derivatives			0.8
Financial assets			0
Cash and cash equivalents			27.3
Assets held for sale and discontinued operations			0.5
Total unallocated assets			**97.6**
TOTAL			**986.5**

Segment liabilities

In € million	AMT	ECT	Total at June 30, 2014
Total segment liabilities	**105.1**	**129.1**	**234.2**
Deferred tax liabilities			22.4
Long and medium term borrowings			204.2
Non-current derivatives			0.6
Current portion of current tax liabilities			15.8
Other current financial liabilities			23.2
Current derivatives			0.4
Current advances			0.4
Bank overdrafts			35.6
Liabilities related to assets held for sale and disc. op.			1.7
Total unallocated liabilities			**304.3**
TOTAL			**538.5**

Note 14 Staff costs and headcount

Group payroll costs (including social security contributions, provisions for pension obligations and retirement indemnities) came to €123.7 million in 2014 compared with €123.4 million in 2013.

On a like-for-like basis, payroll costs, including those related to temporary staff, rose by 1.7%.

Geographical area	June 30, 2014	%	June 30, 2013	%
France	1,475	23%	1,520	23%
Rest of Europe	871	13%	832	13%
North America (incl. Mexico)	1,928	30%	1,943	29%
Asia	1,653	26%	1,708	26%
Rest of the World (incl. Tunisia)	547	8%	610	9%
TOTAL	**6,474**	**100%**	**6,613**	**100%**

At comparable scope, headcount fell by approximately 200.

Note 15 Income tax

In € million	June 30, 2014	June 30, 2013
Current income tax	(10.0)	(8.1)
Deferred income tax	7.5	2.1
Withholding tax	(0.2)	(0.3)
Total tax expense	**(2.7)**	**(6.3)**

The Group has:

- one consolidated tax group in France;
- one consolidated tax group in the United States;
- two consolidated tax groups in Germany.

The effective rate was affected by non-capitalized losses primarily in Europe and in China and by non-recurring expenses in countries in which the rate is lower than the standard rate. Not including these elements, the Group's tax rate was 33%.

The tax rate at end-2013 (not including impairment charges of deferred tax assets on losses and restated for items related to business outlook without tax impact) was 33%.

Note 16 Earnings per share

Basic and diluted earnings per share are presented below:

Continuing operations and assets held for sale	June 30, 2014	June 30, 2013
Net income used to compute basic earnings per share *(net income for the period in millions of euros)*	0.2	11.5
Weighted average number of ordinary shares used to compute basic earnings per share	20,571,176	20,285,035
Adjustment for dilutive potential ordinary shares: - unexercised options*	757,723	707,693
Weighted average number of ordinary shares used to compute diluted earnings per share	21,328,899	20,992,728
Basic earnings per share *(€)*	0.01	0.57
Diluted earnings per share *(€)*	0.01	0.55

** after deduction of the 80,032 bonus shares that are subject to the unmet performance conditions that will not be awarded (2011 and 2012 plans see Note 7).*

Earnings per share from continuing operations totaled:

	June 30, 2014	June 30, 2013
Basic earnings per share *(€)*	(0.08)	0.65
Diluted earnings per share *(€)*	(0.08)	0.63

After restatement of income net of expenses for the Transform plan, earnings per share at end-June 2014 would total:

Continuing operations and assets held for sale	June 30, 2014
Basic earnings per share *(€)*	0.81
Diluted earnings per share *(€)*	0.78

Continuing operations	June 30, 2014
Basic earnings per share *(€)*	0.72
Diluted earnings per share *(€)*	0.70

Note 17 Dividends

In the May 15, 2014 General Meeting shareholders approved a dividend payment of €0.45 per share for 2013, identical to that of 2012. In July 2014, the Group paid out dividends in cash in the amount of €9.3 million.

Note 18 Commitments and contingencies

At June 30, 2014 there were no material changes to commitments and contingencies in comparison to December 31, 2013.

Note 19 Subsequent events

On July 16, 2014, Mersen announced the restructuring of the lines of credit that were opened in July 2012 into a single multi-currency syndicated loan in the amount of €220 million.

With the new maturity moved to July 2019, the maturity of the Group's syndicated loan was thus extended by 2 years. The Group is also enjoying better financial terms, due to the good environment in the credit markets.

Statutory Auditors' report on the 2014 interim financial information

January 1 to June 30, 2014

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting and in accordance with Article L.451-1-2 III of the French Monetary and Financial Code, we have conducted:

- the review of the accompanying condensed interim consolidated financial statements of Mersen S.A. for the period from January 1, 2014 to June 30, 2014, attached to this report;
- the verification of the information contained in the interim management report.

The condensed consolidated interim financial statements are the responsibility of the Management Board. Our role is to express an opinion on these financial statements based on our review.

I – Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It is less extensive than an audit as required by auditing standards applicable in France. As a result, the assurance obtained in a review that the financial statements, as a whole, are free of material misstatement is a moderate assurance, which is not as high as that obtained in an audit.

Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting of the IFRS, as adopted by the European Union.

II – Specific verification

We have also verified the information given in the interim management report on the condensed interim consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and its consistency with the condensed interim consolidated financial statements.

Paris La Défense, July 30, 2014
KPMG Audit ID

Philippe Cherqui
Partner

Neuilly-sur-Seine, July 30, 2014
Deloitte & Associés

Joël Assayah
Partner

4

Statement of the Officer

I certify that, to the best of my knowledge, these condensed interim financial statements have been prepared in accordance with the relevant accounting standards and give a true and fair view of the assets and liabilities, financial position and the results of operations of the Company and of all the entities included in the consolidation, and that the attached interim business report presents a fair view of the major events that occurred during the six months of the interim period and their impact on the financial statements, the principal transactions between related parties, as well as a description of the principal risks and principal uncertainties concerning the remaining six months of the fiscal year.

Paris, July 30, 2014

Luc Themelin

Chairman of the Management Board

5

Expertise, our source of energy

Immeuble La Fayette
2, place des Vosges
92400 Courbevoie La Défense 5
France