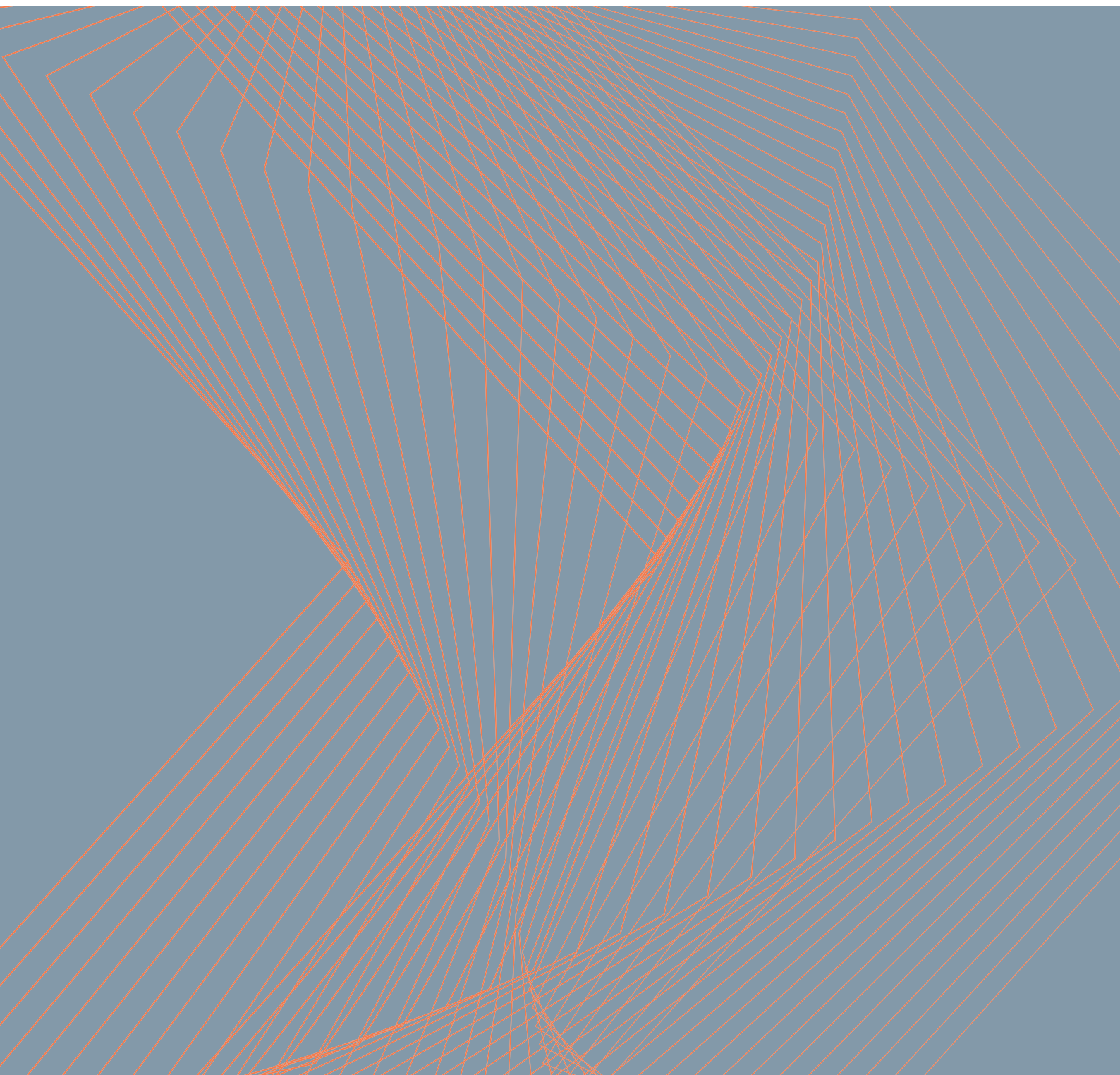




2020 FIRST-HALF FINANCIAL REPORT



MERSEN

2020 first-half financial report

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1 MANAGEMENT REPORT

GENERAL INTRODUCTION

The health and economic crisis caused by Covid-19 has affected all of the countries where the Group conducts business. The pandemic began to impact our activities in China during the last two weeks of January, before rapidly spreading across the world in February, hitting one region after another and resulting in more and more governmental health and safety restrictions aimed at containing its outbreak.

Throughout that period, the Group's priority was to continue its operations while ensuring the health and safety of its employees, in strict compliance with local laws and regulations. This resulted in a slowdown in activity at some plants, temporary stoppages at some workshops, and periods when staff had to be furloughed.

At end-June 2020, all of Mersen's sites worldwide were operational, although some were running at lower-than-normal capacity due to reduced demand.

CONSOLIDATED RESULTS

Sales

Mersen's consolidated sales amounted to €430 million for the first six months of 2020, down 13.4% on an organic basis compared with first-half 2019. Thanks to a positive currency effect and contributions from companies acquired in 2019 or early 2020, negative growth was kept in check at 11.1%.

The fall in sales came to around 23% in April and May, at the height of the crisis, with the Group's plants impacted to varying degrees. Altogether, however, 85% of the Group's plants remained operational.

The sustainable development markets held up the best overall, with sales down by a contained 3% compared with 20% for the Group's other markets. Sales to the aeronautics industry (accounting for less than 6% of the consolidated total) were hit particularly hard, decreasing by 24% in first-half 2020 (with a 37% fall in the second quarter).

<i>In millions of euros</i>	H1 2020	H1 2019	Organic growth	Scope effect	Currency effect	Reported growth
Advanced Materials	248.2	278.1	-14.3%	3.9%	-0.4%	-10.8%
Electrical Power	181.8	205.6	-12.2%		0.8%	-11.5%
Europe	149.0	167.0	-16.3%	5.8%	-0.2%	-10.8%
Asia-Pacific	125.9	130.3	-3.5%	0.7%	-0.5%	-3.4%
North America	142.2	166.7	-16.5%	0.1%	2.0%	-14.7%
Rest of the world	12.9	19.7	-28.8%	0.9%	-8.8%	-34.1%
GROUP	430.0	483.7	-13.4%	2.2%	0.1%	-11.1%

Advanced Materials sales came to €248 million, down 14.3% on an organic basis over the period. With the contributions from AGM Italy acquired in November 2019 and GAB Neumann acquired in March 2020, the decline stood at -10.8%. The renewable energies market remains buoyant, while the process industries, aeronautics and chemicals markets have contracted sharply.

In the **Electrical Power** segment, first-half sales totaled €182 million, down 12%. The process industries market continues to suffer from the economic slowdown in both Europe and North America. Electrical distribution in the United States, significantly affected in April and May, showed a clear improvement in June. The power electronics market posted slight growth due to a low level of activity last year.

In **Europe**, conditions deteriorated in April and May due to lockdown measures in all countries and a slowdown in the economy. The aeronautics and process industries markets were the worst affected. However, the trend improved towards the end of the quarter.

In **Asia**, China and South Korea posted significant growth of more than 8%, driven by renewable energies and semiconductors, while the lockdown measures in India during the second quarter had a deep impact on business levels.

Lastly, in **North America**, the situation deteriorated during the second quarter, primarily for process industries, before picking up again in June.

EBITDA and operating income before non-recurring items

<i>In millions of euros</i>	H1 2020	H1 2019
Operating income before non-recurring items	34.7	53.6
As a % of sales	8.1%	11.1%
Depreciation and amortization	27.2	25.4
EBITDA	61.9	79.0
As a % of sales	14.4%	16.4%

Group EBITDA amounted to €61.9 million and 14.4% of sales, a decrease of almost 22% (or 200 margin points) compared with last year. Depreciation and amortization expense was up year on year, reflecting the increase in capital expenditure over the past two years.

Operating income before non-recurring items came to €34.7 million in the first half of 2020, yielding an operating margin before non-recurring items of 8.1% of sales (down from 11.1% in first-half 2019).

Segment analysis (excluding holding company costs)

<i>In millions of euros</i>	Advanced Materials (AM)		Electrical Power (EP)	
	H1 2020	H1 2019	H1 2020	H1 2019
Sales	248.2	278.1	181.8	205.6
EBITDA	50.2	59.2	19.3	27.5
As a % of sales	20.2%	21.3%	10.6%	13.4%
Operating income before nonrecurring items	31.7	41.6	11.3	20.3
As a % of sales	12.8%	15.0%	6.2%	10.0%

Operating income before non-recurring items for the Advanced Materials segment was €31.7 million, resulting in an operating margin of 12.8% compared with 15% for the same period of 2019. This decrease is mainly due to an adverse volume effect. Prices had a slightly favorable impact.

In the Electrical Power segment, operating income before non-recurring items came to €11.3 million, representing an operating margin before non-recurring items of 6.2% of sales compared with 10% for the first half of 2019. The segment was impacted by a negative volume effect and higher development costs linked to electric vehicles. In addition, there was less cost flexibility due to the temporary closure of major sites in Mexico and Tunisia with no subsidies.

<i>In millions of euros</i>	H1 2020	H1 2019	Change
Consolidated sales	430	483.7	-11%
Gross income	130.4	152.7	-15%
<i>As a % of sales</i>	30.3%	31.6%	
Selling, marketing and other expenses	(38.5)	(41.0)	-6%
Administrative and research expenses	(56.5)	(57.4)	-2%
Goodwill <i>amortization</i>	(0.7)	(0.7)	
Operating income before non-recurring items	34.7	53.6	-35%
<i>As a % of sales</i>	8.1%	11.1%	

Gross margin was down year on year, reflecting the fall in sales volumes.

In the face of this unprecedented crisis, the Group rapidly put in place stringent measures to control its operating costs and also made use of national furlough schemes (mainly in Europe and the United States), with some 10% of employees furloughed in April and May. The additional costs caused by Covid-19 (health and safety measures, PPE, logistics costs etc.) represented less than 1% of the Group's total sales for the first half of 2020.

Selling and administrative expenses were lower than in first-half 2019 as there was no business travel in the second quarter and operating costs reduced sharply. Conversely, R&D expenses increased by almost 7% like for like on an organic basis, the Group having decided in 2020 to record development costs related to the electric vehicle market as expenses.

Net income

Net income for the first six months of 2020 came in at €17.8 million, versus €33.7 million for the same period one year earlier.

<i>In millions of euros</i>	H1 2020	H1 2019
Operating income before non-recurring items	34.7	53.6
Non-recurring expenses	(4.9)	(3.2)
Operating income	29.8	50.4
Net financial expense	(6.1)	(6.1)
Current and deferred income tax	(5.9)	(10.6)
Net income for the period	17.8	33.7
- Net income attributable to Group equity holders	16.3	32.8

Non-recurring items represented a net expense of €4.9 million in first-half 2020 and corresponded to acquisition costs, including the Columbia site commissioning and provisions for litigation.

The Group also reported a net financial expense of €6.1 million for the first half of 2020, which is in line with the first-half 2019 figure.

Income tax expense amounted to €5.9 million for the period, representing an effective tax rate of 25% versus 24% for the previous year.

CASH AND DEBT

Condensed statement of cash flows

<i>In millions of euros</i>	H1 2020	H1 2019
Cash generated by operating activities before change in working capital requirement	59.0	77.5
Change in working capital requirement	(20.7)	(46.0)
Income tax paid	(3.6)	(5.3)
Cash generated by operating activities	34.7	26.2
Capital expenditure	(24.0)	(19.0)
Cash generated by operating activities after capital expenditure	10.7	7.2
Changes in scope of consolidation and acquisition of assets	(7.2)	(12.0)
Lease payments	(6.5)	(6.5)
Interest payments	(4.4)	(4.0)
Other cash flows (incl. share repurchase)	(4.6)	(1.1)
Net cash flow before financing operations	(12.0)	(16.4)

Mersen's operating activities generated nearly €35 million in cash in the first half of 2020. This figure takes into account an increase in working capital requirement of €21 million, primarily driven by a seasonal effect (€46 million in first-half 2019). The working capital-to-sales ratio stood at 28% of sales, up on the previous year since it was calculated based on second-quarter sales, which are abnormally low due to April and May. The Group also built up significant inventories, partly to see it through the crisis and partly to prepare for the planned site transfers. As a result of the crisis, the Group strengthened its processes for monitoring inventories and trade receivables. At end-June 2020, the amount of late payments for trade receivables was similar to the December 2019 figure.

Capital expenditure totaled €24.0 million over the period. Three quarters of this total related to the Advanced Materials segment and to specific Group development projects, such as the commissioning of the Columbia site in the United States and the increase in manufacturing capacity for the silicon carbide (SiC) semiconductors market.

The €7 million outflow related to changes in the scope of consolidation corresponds to the acquisition of GAB Neumann in Germany.

Other cash flows include the repurchase of 200,000 Mersen shares on the market between March and April 2020 for a total of around €3.7 million, with a view to covering employee share plans.

In light of the above, the Group's cash flow before financing activities represented a net outflow of €12 million, versus a €16.4 million net outflow in first-half 2019.

Statement of financial position

	June 30, 2020	Dec. 31, 2019
Total financial net debt (<i>in millions of euros</i>)	228	218
Net financial debt/EBITDA ⁽¹⁾	2.0	1.5
Net financial debt/equity ⁽¹⁾	39%	37%

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

At June 30, 2020, Mersen's net financial debt came to €228 million, compared with €218 million at December 31, 2019.

Mersen has a solid financial structure, with €130 million in undrawn credit lines and €90 million in cash at June 30, 2020, to see it through the current health crisis and its consequences. It has no major debt maturities to be met before November 2021.

ACQUISITION AGREEMENT

On July 24, 2020, Mersen signed an agreement to purchase the insulation business of US company Americarb, a long-standing player in graphite and carbon fiber insulation based in Niagara Falls in New York State.

The deal involves the acquisition of Americarb's assets and customer portfolio and the GRI brand, for a total of approximately US\$ 6 million.

Americarb generates annual sales of around €5 million.

OUTLOOK

While activity for Mersen was more upbeat in June, with the organic contraction in sales limited to 6%, the major lack of visibility that still clouds certain markets, particularly the chemicals and process industries markets, means the Group is unable to set financial guidance for 2020.

For the second half of 2020, the Group expects:

- a continued sharp decrease in sales for the aerospace market;
- probable growth in sales on the semiconductors market;
- a less dynamic performance for its solar activities compared with the first half.

GLOSSARY

Organic growth: determined by comparing sales for the year with sales for the previous year, restated at the current year's exchange rate and excluding the impact of acquisitions and/or disposals.

Scope effect: contribution from companies acquired in the year in relation to sales for the year.

- Advanced Graphite Materials Italy, a benchmark European player in finishing for customized extruded graphite parts, has been consolidated since December 1, 2019.
- In February 2020, the Group finalized the acquisition of GAB Neumann, a specialist in the design, manufacture and sale of graphite and silicon carbide (SiC) heat exchangers for the chemicals market. It has been consolidated since March 1, 2020.

Currency effect: calculated by comparing sales for the previous year at the exchange rate of the previous year with sales for the previous year at the exchange rate of the current year.

Operating income before non-recurring items: as defined in Recommendation 2009.R.03 of the French national accounting board (CNC).

EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization.

Free cash flow: net cash generated by operating activities after capital expenditure.

Net debt: gross debt net of cash and cash equivalents and current financial assets.

Leverage/net debt-to-EBITDA ratio: calculated using the method required by the covenants contained in Mersen's confirmed loans.

Gearing: net debt-to-equity ratio calculated using the method required by the covenants contained in Mersen's confirmed loans.

Working capital requirement (WCR): sum of trade receivables and related accounts, inventories and other current receivables less trade payables and related accounts.

WCR ratio: ratio of working capital requirement to sales for the most recent quarter, multiplied by four.

Capital expenditure: property, plant and equipment and fixed asset suppliers.

2 CONSOLIDATED FINANCIAL STATEMENTS

CHANGE OF THE CONSOLIDATION SCOPE CHANGES IN SCOPE OF CONSOLIDATION IN THE PAST TWO YEARS

The principal changes in the scope of consolidation that impacted the consolidated financial statements in 2019 and the first half of 2020 are as follows:

- In 2019, Mersen acquired:
 - the assets of the former Graftech site in Columbia (Tennessee) on June 28. These assets are carried on the books of the US company USA GSTN Corp., which was set up for this purpose,
 - all of the shares of Advanced Graphite Materials in Italy in November.
- In the first half of 2020, Mersen completed its acquisition of all of the shares in Germany-based GAB Neumann on February 28.

SIGNIFICANT EVENTS OF THE PERIOD:

COVID-19 CRISIS

Impact on the Group's business

The Covid-19 pandemic and the lockdowns and other restrictive measures imposed by national governments in the countries where we do business led to a sharp decline in the Group's sales in the first half of 2020, with a particularly steep falloff in the second quarter. Our overriding priority throughout the period was the health and safety of all our employees, in strict compliance with local laws and regulations. Home working was put in place for most of the Group's support functions, and the operations of our plants were adapted where necessary.

Consolidated sales retreated 13.4% on a like-for-like basis in the first half of 2020, with falls of around 23% in April and May at the height of the crisis. Mersen's strong international profile with a production model focused on local markets enabled the Group to contain the impacts of the crisis. However, many of our sites were affected at different periods and for various reasons, such as closure for suspected Covid-19 cases, suppliers' work stoppages, local regulations and reduced activity levels. In April and May, approximately 85% of the Group's sites were operational, although some were running at reduced capacity. Overall sales for first-half 2020 were hit harder in Europe and North America (down 16.3% and 16.5% respectively like for like) than in Asia where the decline was just 3.5% as momentum was particularly strong in China led notably by the solar market. The sustainable development markets (solar, windpower, rail and electronics) held up better, with sales edging down by only around 3%. On the other hand, sales with the aeronautics industry (accounting for approximately 6% of the consolidated total) fell 24% in the first half overall (and 37% in the second quarter).

The Group put in place stringent measures to control its operating costs during the period. It also made use of national furlough schemes (mainly in Europe and the United States), with some 10% of employees furloughed in April and May 2020. However, furlough schemes were not available in some countries, such as India, Tunisia and Mexico, which made cost flexing more difficult there. The Group also announced that it will reduce by about 20% its capital spending for the year compared to its original budget. The additional costs caused by Covid-19 (health and safety measures, transport costs, etc.) represented less than 1% of the Group's sales figure for the first half of 2020. Mersen does not expect to see any major changes in its production processes that would result in substantial additional costs over the long term.

Also during the period, the Group strengthened its processes for monitoring inventories and trade receivables. At end-June 2020, the amount of late payments for trade receivables was similar to the December 2019 figure. Some Coface insurance coverage was reduced, canceled or reallocated. However, the diversity of the Group's customers in terms of numbers and business sectors limits the risk of significant unpaid accounts. Inventories rose during the first six months of 2020, although the increase was less than in first-half 2019. Part of this rise was related to building up inventories of health and safety equipment.

Given the constantly changing global economic and health situation, the Board of Directors decided in April 2020 not to pay a dividend in respect of 2019, in order to maintain greater financial flexibility for the future and contribute to the solidarity measures needed at this time. This new measure is accompanied by the decision not to propose that the Meeting authorize the allocation of free shares, in particular to senior executives and key management staff. The Board of Directors has also decided not to authorize share capital increases reserved for employees. Finally, the Group's corporate officers (Chairman of the Board of Directors and Chief Executive Officer) and members of the Board have decided to reduce their fixed compensation.

Mersen has a solid financial structure, with over €130 million in undrawn credit lines and more than €90 million in cash at June 30, 2020, to see it through this crisis. It has no major debt maturities to be met before November 2021.

For reasons of prudence, at end-June 2020, the Group requested and obtained an increase in its financial covenant leverage (net debt to EBITDA) to 4.5 x from 3.5 x. Its leverage at end-June was actually much lower than either of these thresholds at 2.01x, thanks to its profitability holding up well and good cash generation, with contained capital expenditure during the first half of the year.

Judgments, estimates and assumptions applied

For the purpose of the interim consolidated financial statements at June 30, 2020, some of the Group's assets and liabilities were analyzed in light of the Covid-19 crisis. This concerned:

- Asset impairment losses: the Group did not update its long-term forecasts and therefore updated its December 31, 2019 impairment tests based on scenarios that did not indicate any requirement to recognize impairment losses but did identify risks of potential impairment, mainly for the ACE cash-generating unit (CGU).
- The measurement of inventories, in order to ensure that any under-activity due to the Covid-19 crisis has been taken into account.
- Trade receivables and potential late payments, which are being extra carefully tracked given that credit insurers are reducing their coverage.
- Employee benefit obligations, which were remeasured in view of the lower discount rates in the United States and United Kingdom and the reduced value of pension plan assets.
- The recoverability of deferred taxes, which was tested but with no subsequent adjustments made.

CONSOLIDATED STATEMENT OF INCOME

<i>In millions of euros</i>	Notes	Six months ended June 30, 2020	Six months ended June 30, 2019
CONTINUING OPERATIONS			
Consolidated sales	14	430.0	483.7
Cost of sales		(299.6)	(331.0)
Total gross income		130.4	152.7
Selling and marketing expenses		(37.0)	(40.5)
Administrative and research expenses		(56.5)	(57.4)
Amortization of revalued intangible assets		(0.7)	(0.7)
Other operating expenses		(1.5)	(0.5)
Operating income before non-recurring items	14	34.7	53.6
Non-recurring expenses	13	(4.9)	(3.2)
Non-recurring income	13	0.0	0.0
Operating income	14	29.8	50.4
Financial expenses		(6.1)	(6.1)
Financial income		0.0	0.0
Net financial expense		(6.1)	(6.1)
Income from continuing operations before tax		23.7	44.3
Current and deferred income tax	16	(5.9)	(10.6)
Net income from continuing operations		17.8	33.7
Net income/(loss) from operations held for sale and discontinued operations	4	0.0	0.0
Net income		17.8	33.7
Attributable to:			
- Owners of the parent		16.3	32.8
- Non-controlling interests		1.5	0.9
NET INCOME FOR THE PERIOD		17.8	33.7
Earnings per share	17		
Basic earnings per share (€)		0.79	1.59
Diluted earnings per share (€)		0.77	1.53
Earnings per share from continuing operations			
Basic earnings per share (€)		0.79	1.59
Diluted earnings per share (€)		0.77	1.53
Earnings per share from operations held for sale and discontinued operations			
Basic earnings per share (€)		0.00	0.00
Diluted earnings per share (€)		0.00	0.00

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>In millions of euros</i>	Notes	Six months ended June 30, 2020	Six months ended June 30, 2019
NET INCOME FOR THE PERIOD		17.8	33.7
Items that will not be subsequently reclassified to income			
Financial assets at fair value through "Other comprehensive income"	11	(0.3)	(0.2)
Remeasurements of the net defined benefit liability (asset)	9	(8.4)	(12.7)
Tax impact		2.0	3.1
		(6.7)	(9.8)
Items that may subsequently be reclassified to income			
Change in fair value of hedging instruments		(1.5)	0.3
Exchange differences on translation of assets and liabilities at the period-end rate		(6.8)	2.1
Tax impact		0.2	0.0
		(8.1)	2.4
INCOME AND EXPENSES RECOGNIZED DIRECTLY IN EQUITY		(14.8)	(7.4)
TOTAL COMPREHENSIVE INCOME		3.0	26.3
Attributable to:			
- Owners of the parent		1.8	25.3
- Non-controlling interests		1.2	1.0
TOTAL COMPREHENSIVE INCOME		3.0	26.3

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

<i>In millions of euros</i>	Note	June 30, 2020	Dec. 31, 2019
NON-CURRENT ASSETS			
Intangible assets	5 and 6		
- Goodwill		282.1	280.6
- Other intangible assets		32.5	34.2
Property, plant and equipment	5 and 6		
- Land		32.3	32.3
- Buildings		77.8	78.8
- Plant, equipment and other tangible assets		194.4	196.0
- Assets in progress		37.7	31.3
- Rights of use	12	46.8	50.2
Non-current financial assets			
- Equity interests		3.7	3.7
- Non-current derivatives		0.0	0.0
- Other financial assets		3.8	4.2
Non-current tax assets			
- Deferred tax assets	16	30.6	29.3
- Long-term portion of current tax assets		6.7	7.8
TOTAL NON-CURRENT ASSETS		748.4	748.4
CURRENT ASSETS			
- Inventories		217.0	207.0
- Trade receivables		141.7	147.3
- Contract assets		9.3	9.8
- Other operating receivables		26.1	21.7
- Short-term portion of current tax assets		3.9	3.6
- Other current assets		0.0	0.0
- Current financial assets	10	16.5	16.5
- Current derivatives		2.0	1.4
- Cash and cash equivalents	10	92.8	45.2
- Assets held for sale and discontinued operations	4	0.0	0.0
TOTAL CURRENT ASSETS		509.3	452.5
TOTAL ASSETS		1,257.7	1,200.9

Equity and liabilities

<i>In millions of euros</i>	Note	June 30, 2020	Dec. 31, 2019
EQUITY			
- Share capital	7	41.7	41.7
- Retained earnings and other reserves		499.4	452.6
- Net income for the period		16.3	57.3
- Cumulative translation adjustments		(9.5)	(3.0)
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		547.9	548.6
- Non-controlling interests		23.2	22.0
TOTAL EQUITY		571.1	570.6
NON-CURRENT LIABILITIES			
- Non-current provisions	8	5.3	6.2
- Employee benefit obligations	9	84.0	75.0
- Deferred tax liabilities	16	30.3	30.3
- Long and medium-term borrowings	10	325.6	235.4
- Lease liabilities	12	45.4	48.1
- Non-current derivatives		0.1	0.1
TOTAL NON-CURRENT LIABILITIES		490.7	395.1
CURRENT LIABILITIES			
- Trade payables		60.6	60.6
- Contract liabilities		21.3	29.1
- Other operating payables		85.5	88.6
- Current provisions	8	6.9	6.1
- Short-term portion of current tax liabilities		3.7	3.6
- Miscellaneous liabilities		3.3	1.8
- Other current financial liabilities	10	2.1	27.3
- Current derivatives		2.1	0.2
- Financial current accounts	10	0.3	0.7
- Bank overdrafts	10	9.4	16.5
- Liabilities related to assets held for sale and discontinued operations	4	0.7	0.7
TOTAL CURRENT LIABILITIES		195.9	235.2
TOTAL EQUITY AND LIABILITIES		1,257.7	1,200.9

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In millions of euros	Attributable to owners of the parent						Non-controlling interests	Equity
	Share capital	Additional paid-in capital, retained earnings and other reserves	Net income/(expense) for the period	Translation adjustments	Total			
AT JANUARY 1, 2019	41.5	417.6	56.5	(9.3)	506.3	21.8	528.1	
Prior-period net income		56.5	(56.5)		0.0		0.0	
Net income for the period			32.8		32.8	0.9	33.7	
Change in the fair value of derivative hedging instruments, net of tax		0.3			0.3		0.3	
Financial assets at fair value		(0.2)			(0.2)		(0.2)	
Remeasurements of the net defined benefit liability (asset) after tax		(9.6)			(9.6)		(9.6)	
Translation adjustment				2.0	2.0	0.1	2.1	
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)	0.0	(9.5)	0.0	2.0	(7.5)	0.1	(7.4)	
COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	0.0	(9.5)	32.8	2.0	25.3	1.0	26.3	
Dividends paid		(19.7)			(19.7)		(19.7)	
Treasury shares		(0.2)			(0.2)		(0.2)	
Capital increase	0.2	0.8			1.0		1.0	
Stock options and free shares		1.1			1.1		1.1	
Other		(0.2)			(0.2)		(0.2)	
AT JUNE 30, 2019	41.7	446.4	32.8	(7.3)	513.6	22.8	536.4	
AT DECEMBER 31, 2019	41.7	452.6	57.3	(3.0)	548.6	22.0	570.6	
Prior-period net income		57.3	(57.3)		0.0		0.0	
Net income for the period			16.3		16.3	1.5	17.8	
Change in fair value of derivative hedging instruments, net of tax		(1.3)			(1.3)		(1.3)	
Financial assets at fair value		(0.3)			(0.3)		(0.3)	
Remeasurements of the net defined benefit liability (asset) after tax		(6.4)			(6.4)		(6.4)	
Translation adjustments				(6.5)	(6.5)	(0.3)	(6.8)	
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)	0.0	(8.0)	0.0	(6.5)	(14.5)	(0.3)	(14.8)	
COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	0.0	(8.0)	16.3	(6.5)	1.8	1.2	3.0	
Dividends payable					0.0		0.0	
Treasury shares		(3.6)			(3.6)		(3.6)	
Capital increase					0.0		0.0	
Stock options and free shares		1.0			1.0		1.0	
Other		0.1			0.1		0.1	
AT JUNE 30, 2020	41.7	499.4	16.3	(9.5)	547.9	23.2	571.1	

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In millions of euros</i>	Six months ended June 30, 2020	Six months ended June 30, 2019
Income before tax	23.7	44.3
Depreciation and amortization	27.2	24.8
Additions to/(reversals from) provisions	0.5	2.4
Net finance income	6.1	6.1
Capital gains/(losses) on asset disposals	0.3	0.0
Other	1.2	(0.1)
Cash generated by operating activities before change in WCR	59.0	77.5
Change in working capital requirement	(20.7)	(46.0)
Income tax paid	(3.6)	(5.3)
Net cash generated by continuing operating activities	34.7	26.2
Cash generated by/(used in) discontinued operations	0.0	0.0
Net cash generated by operating activities	34.7	26.2
Cash flows from investing activities		
Intangible assets	(1.3)	(1.8)
Property, plant and equipment	(26.0)	(20.9)
Decreases (increases) in amounts due to suppliers of non-current assets	2.0	1.9
Financial assets	0.0	0.0
Changes in scope of consolidation and acquisitions	(7.2)	(12.0)
Other cash flows from/(used in) investing activities	0.4	(0.1)
Cash used in investing activities from continuing operations	(32.1)	(32.9)
Cash generated by/(used in) investing activities from discontinued operations	0.0	0.0
Net cash used in investing activities	(32.1)	(32.9)
Net cash generated by/(used in) operating and investing activities	2.6	(6.7)
Amounts received/(paid) on capital increases/reductions and other changes in equity	(3.7)	0.8
Net dividends paid to shareholders and noncontrolling interests	0.0	0.0
Interest payments	(4.4)	(4.0)
Lease payments	(6.5)	(6.5)
Change in debt	57.4	55.9
Net cash generated by financing activities	42.8	46.2
Net increase in cash and cash equivalents	45.4	39.5
Cash and cash equivalents at beginning of period (Note 10)	45.2	34.8
Cash and cash equivalents at period-end (Note 10)	92.8	74.0
Changes in scope of consolidation	0.0	0.0
Impact of currency fluctuations	(2.2)	0.3
NET INCREASE IN CASH AND CASH EQUIVALENTS	45.4	39.5

3 NOTES

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Note 1 Compliance statement

In accordance with EC regulation no. 1606/2002 of July 19, 2002 – which applies to the consolidated financial statements of European Union companies listed on a regulated market – because it is listed in an EU country, the consolidated financial statements of Mersen (hereinafter also referred to as the “Company”) and its subsidiaries (together the “Group”) have been prepared in accordance with *International Financial Reporting Standards* (IFRS).

The standards and interpretations whose application was mandatory at January 1, 2020 are presented in Note 2.

The accounting options selected by the Group are described in Note 2 to the 2019 annual report.

The interim consolidated financial statements for the six months ended June 30, 2020 have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all the information required for full annual financial statements, and must be read together with the Group’s financial statements for the year ended December 31, 2019, available at www.mersen.com. They do include 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, 2019.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on July 30, 2020.

Note 2 Summary of significant accounting policies and methods

Except for the cases described below, the accounting methods used to prepare these interim financial statements are the same as those used for the Group’s consolidated financial statements for the year ended December 31, 2019.

The following changes in accounting methods will also concern the Group’s consolidated financial statements for the year ending December 31, 2020.

New standards applicable in 2020

No new standards were applicable to the Group in 2020.

Use of judgments and estimates

In preparing these interim financial statements, Management was required to exercise judgments, use estimates and make assumptions that affected the application of the Group’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual amounts may differ from the estimated values.

The critical judgments exercised by Management in applying the Group’s accounting policies in the interim consolidated financial statements as well as the main sources of uncertainty are the same as those described in the annual consolidated financial statements for the year ended December 31, 2019, with the exception of the information in the significant events section pertaining to the global health crisis following the outbreak of the Covid-19 pandemic.

Note 3 Business combinations

During the first half of 2020, Mersen acquired all of the shares in German company GAB Neumann GmbH, which specializes in the design, manufacture and sale of graphite and silicon carbide (SiC) heat exchangers for the chemicals market.

The integration of the extensive and recognized expertise of the GAB Neumann teams will help the Group strengthen its footprint in anti-corrosion equipment across German-speaking Europe (Germany, Austria and Switzerland). The addition of their annular groove graphite and silicon carbide heat exchangers to our product portfolio also makes Mersen a unique and central player in exchangers and solutions for today’s high value-added

pharmaceuticals and specialty chemicals markets. The new acquisition will enable Mersen to strengthen its position in the chemicals market in Germany – particularly in the replacement segment – and provide its customers around the world with an enriched offer of products and services.

GAB Neumann employs 45 members of staff. It will join the Advanced Materials segment and is expected to contribute around €10 million to annual Group sales.

In the four months following its consolidation, GAB Neumann generated €5.1 million in sales and €0.7 million in net income.

Net assets acquired in the course of this operation together with the related goodwill are presented in the following table:

<i>In millions of euros</i>	Acquisition date net assets	Fair value adjustments	Purchase price allocation	Fair value of net assets
Non-current assets	1.2			1.2
Current assets*	7.4	(0.3)		7.1
Non-current liabilities	(0.1)			(0.1)
Current liabilities	(1.7)	(0.2)		(1.9)
Net assets	6.8	(0.5)	0.0	6.3
Goodwill				2.6
Non-controlling interests				0.0
Consideration transferred				8.9

* Including €2 million in cash.

Goodwill for GAB Neumann was the only goodwill still in the process of being allocated at June 30, 2020.

Note 4 Operations held for sale and discontinued operations

Operations held for sale and discontinued operations recognized in prior periods had no material impact on the consolidated financial statements at June 30, 2020.

Note 5 Goodwill, other intangible assets and property, plant and equipment

Goodwill totaled €282.1 million at June 30, 2020, €1.5 million more than at December 31, 2019. This net increase includes €2.6 million in goodwill recognized for the recently acquired GAB Neumann, and a €1.1 million negative effect from changes in foreign exchange rates.

Property, plant and equipment decreased by €3.8 million, including the impact of €26 million in capital expenditure.

Note 6 Asset impairment tests

1. Goodwill

No impairment losses were recognized following the impairment tests carried out at December 31, 2019.

In view of the uncertainty arising from the Covid-19 crisis, the Group is not in a position to quantify the impact that the economic slowdown will have on its business in 2020 or in future years.

The Group has not revised its cash flows. However, it has carried out simulations based on scenarios that did not indicate any requirement to recognize impairment losses but did identify risks of potential impairment, mainly for the ACE CGU. Sensitivity tests performed on this CGU – which were similar to those carried out at end-2019 – showed that its value in use could be lower than its carrying amount.

Goodwill will be tested for impairment again at the 2020 year-end.

2. Specific assets

The Group reviewed the recoverable amount of its other non-current assets at June 30, 2020. No material changes were identified.

Note 7 Equity

At June 30, 2020, the Company's share capital stood at €41,717,928, divided into 20,858,964 shares, comprising 20,856,460 category A shares, which are ordinary shares, 595 category C shares, 1,172 category D shares and 737 category E shares, which are preference shares, each with a par value of €2.

The theoretical number of voting rights at that date, i.e., excluding treasury shares which do not carry voting rights, was 25,431,801. Since April 3, 2016, a double voting right has been attached to all shares that meet both of the following conditions: (i) they have been held in registered form for at least two years, and (ii) they are fully paid up.

<i>Number of shares (unless stated otherwise)</i>	Ordinary shares
Number of shares at January 1, 2020	20,858,227
Capital increase/reduction (<i>in millions of euros</i>)	0
Number of shares at June 30, 2020	20,858,964
Number of shares in issue and fully paid-up during the period	737
Number of treasury shares canceled	0
Number of shares in issue and not fully paid-up	0
Par value of shares (€)	2
Mersen shares held by the Company or by its subsidiaries and associates	295,747

To the best of the Company's knowledge, Mersen's ownership structure at June 30, 2019 was as follows:

■ French institutional investors:	45,2%
■ International institutional investors:	41,5%
■ Private shareholders:	10,7%
■ Employee shareholders:	1,2%
■ Treasury shares:	1,4%

Since January 1, 2020, certain shareholders have reported crossing the following disclosure thresholds:

- **January 14, 2020:** ACF I Investissement (Ardian) disclosed that it had fallen below the statutory threshold of 10% of the share capital and that at that date it held 2,075,857 shares, i.e., 9.96% of the share capital and 16.13% of voting rights.
- **January 16:** Norges disclosed that it had fallen below the statutory threshold of 5% of the share capital and that at that date it held 1,028,377 shares, i.e., 4.94% of the share capital and 4.07% of voting rights.
- **April 14:** Groupe Caisse des Dépôts et Consignations disclosed that at that date it held – whether directly or indirectly through CDC Croissance and Bpi Participations – 3,255,757 shares, i.e., 15.61% of the share capital and 21.74% of voting rights.
- **Between January 20 and July 27:** BlackRock announced that it had crossed the threshold of 2% of the share capital on ten occasions, both raising its interest and reducing its interest. On July 27, it announced that it held 420,243 shares, i.e., 2.01% of the share capital and 1.65% of voting rights.

Treasury shares:

At June 30, 2020, 295,747 shares were held in treasury, representing 1.4% of the share capital, including 45,724 shares held pursuant to the liquidity agreement entered into with Exane BNP Paribas.

Stock options, bonus shares and preference shares:

At June 30, 2020, the Group's employees held 253,840 shares, namely 1.2% of the share capital, plus 60,931 stock subscription

options which, if exercised in full, would represent 1.5% of the current share capital. The stock option plans set up by the Group are based on an exercise price determined without any discount, as the options may only be exercised if certain conditions related to the Group's future performance are met. This enables the Group to ensure that the interests of its managers are closely aligned with those of its shareholders.

At June 30, 2020, the Chief Executive Officer, Luc Themelin, held 10,500 exercisable stock options (taking into account canceled options).

In addition, for several years now the Group has implemented a policy of granting free shares. The final allocation of these shares is contingent on the beneficiaries still forming part of the Group at the end of the vesting period. Free shares granted to members of Management and employees who Management considers have contributed significantly to the Company's performance only vest if certain pre-defined performance conditions are met. Management has, however, decided that for certain free share plans set up more than three years ago, no performance conditions should apply to the beneficiaries of those plans who, by the nature of their jobs, contribute less directly to the Company's results. At June 30, 2020, the number of free shares that could potentially vest corresponded to 209,150 new shares, representing 1% of the Company's capital at that date. This includes 143,000 performance shares granted under the plans (including a Senior Executives plan) approved at the Annual General Meeting of May 17, 2019, of which 8,850 were granted to the Chief Executive Officer, Luc Themelin.

Since May 2015, the Group has also set up four plans for granting preference shares (which can be converted into ordinary shares), with performance conditions attached. These shares have been granted to certain categories of employees and corporate officers, mostly members of the Executive Committee. At June 30, 2020, the maximum number of ordinary shares that could potentially be converted from the preference shares granted was 305,627, representing 1.5% of the Company's capital, including 49,940 shares for Chief Executive Officer, Luc Themelin

A €1 million net share-based payment expense was recognized in the first half of 2020 for plans currently in effect (versus a €1.1 million expense in first-half 2019).

Note 8 Provisions, contingent liabilities and other liabilities

Provisions amounted to €12.2 million at June 30, 2020 (€12.3 million at December 31, 2019), down by €0.1 million.

In millions of euros	June 30, 2020		Dec. 31, 2019	
	Non-recurring	Recurring	Non-recurring	Recurring
Provision for restructuring	1.2	0.9	1.3	1.5
Provision for litigation and other gains and expenses	4.1	6.0	4.9	4.6
TOTAL	5.3	6.9	6.2	6.1

Administrative and legal proceedings

Administrative proceedings in France

In 2013, SNCF launched two procedures against Morgan, SGL, Schunk and Mersen, in the Paris Administrative Court and the Paris Commercial Court respectively. SNCF is attempting to secure redress for losses that it allegedly suffered following practices that were sanctioned in December 2003 by the European Commission in connection with brushes for electric motors and products for mechanical applications. In 2014, the Paris Administrative Court rejected all of the claims lodged by SNCF, which appealed the decision. On June 13, 2019, the Versailles Court of Appeal overturned the 2014 Administrative Court ruling. It also decided that it will rule on the case and has issued an injunction for an expert appraisal to be carried out in order to determine the amount of the loss allegedly incurred by SNCF. The expert appraisal was submitted to the Court on July 15, 2020.

Mersen, which is challenging the overturning of the ruling by the Court of Appeal, has taken the case to the French Supreme Court (Conseil d'Etat), which on February 12, 2020 confirmed it would accept the appeal application and bring the case to trial. The Paris Commercial Court has not yet issued its ruling. The Group has set aside a provision reflecting its estimate of the risk incurred in connection with these proceedings.

Criminal proceedings in France

Criminal proceedings that were initiated after the tragic accident on April 7, 2010 at Mersen's site in Gennevilliers are still in progress. On December 22, 2019, a ruling by the examining judge partially dismissed the case and brought Mersen's subsidiary in Gennevilliers ("the Company") and its managing director at that time before the Criminal Court (Tribunal correctionnel). The Company and its managing director at the time of the accident dispute the alleged acts with which they are charged, and will present their case in their defense before the competent court.

Investigation by India's competition authority

In July 2019, India's competition authority launched an investigation into the premises of Group subsidiary Mersen (India) Private Limited over allegations of anti-competitive practices in the supply of carbon brushes to Indian railways in 2010-2014. Mersen India, which contests these allegations, is fully cooperating with the competition authority and has provided all requested information. The investigation is ongoing.

The Group is not aware of any other administrative or legal proceedings, including any pending or potential proceedings, that could have a material adverse effect on its business activities, financial position or results of operations.

Tax and customs proceedings

The Group regularly undergoes tax and customs audits carried out by the tax/customs authorities in the countries in which it operates. In the past, the reassessments issued after tax/customs audits have been for non-material amounts. The most material risks concern Mersen do Brasil and Mersen India Pvt.

The amounts indicated below include interest.

Proceedings involving Mersen do Brasil

Mersen do Brasil received notice in June 2013 of a customs audit covering the period from January 2008 to December 2012. The customs authorities issued a reassessment notice for an initial amount (principal and interest) of BRL 7.5 million, increased each year by applying the interest rate issued by the Central Bank of Brazil. At June 30, 2020, the amount of the revised adjustment was BRL 12.2 million (unchanged on December 31, 2019), i.e., approximately €2.0 million at the June 30, 2020 exchange rate. This amount is not covered by a provision in the accounts of Mersen do Brasil, as the risk of losing the dispute is deemed very weak. A first instance ruling was handed down in favor of the Group on February 8, 2018. However, it was the subject of an ex officio appeal to a second instance court by the Brazilian authorities. It is not possible to estimate when the second instance ruling will be delivered.

At the date of this document, there had been no developments in these proceedings.

Mersen do Brasil is also involved in a number of disputes which are at various stages:

- Reassessment of social security contributions (relating to 2007) calculated on the basis of unverified earnings, representing a total of BRL 4.495 million (approximately €1 million). A provision for BRL 108 thousand has been set aside for the risk which is considered likely to be paid. This dispute is pending before the Administrative Court;

- Late tax return filing penalties (relating to 2001, 2005, 2010, 2011, 2012 and 2016) representing a total of BRL 4.171 million. A provision for BRL 90 thousand (approximately €21 million) has been set aside in respect of the risk which is considered likely to be paid. Depending on the year in question, the disputes are pending before the local Tax Office, the Administrative Court, or subject to appeal proceedings before the Federal Court;
- Penalties (relating to 1998) for errors in calculating social security contributions, representing a total of BRL 2.7 million (approximately €615 thousand). A provision for BRL 1.013 million (approximately €230 thousand) has been set aside for the risk which is considered likely to be paid. This dispute is pending before the Federal Court;
- Four disputes representing a total amount of BRL 2.509 million (approximately €570 thousand). No provision has been set aside for these disputes as the related risk of loss is considered low. These disputes concern (1) the reassessment of tax credits transferred upon relocation from the São Paulo site (relating to 2011), which is pending before the Administrative Court; (2) penalties (relating to 1995) for differences in the tax base for local tax on industrial products, currently raised on appeal before the Federal Court; (3) penalties (relating to 2007) for irregularities in social security returns, currently pending before the Administrative Court; and (4) reassessment of requests to stagger tax payments (relating to 2011), raised on appeal before the government;
- Reassessment of entitlement to benefit from a tax-free zone regime (relating to 2004) for BRL 1.738 million (approximately €395 thousand). No provision has been set aside for this, as the related risk of loss is considered low. This dispute is pending before the Administrative Court;

- Penalties (relating to 2004) for erroneous amounts reported in certain tax returns, representing a total of BRL 1.561 million (approximately €355 thousand). No provision has been set aside in this respect as the related risk of loss is considered low. This dispute is pending before the Administrative Court.

At the date of this document, there had been no developments in these proceedings.

Proceedings involving Mersen India Pvt

Mersen India Pvt's tax returns are subject to annual tax audits. At the date of this document, the overall risk to which the company is exposed totals €430 thousand. This risk relates to the partial reassessment of certain intragroup expenses that were deducted in fiscal years 2011, 2013, 2014 and 2016. This dispute is pending before the Appeal Court. The subsidiary is also exposed to a risk representing €56 thousand for customs duties (relating to 2012, 2014 and 2016), since certain customs import codes used by Mersen India Pvt have been reassessed by local customs authorities. This dispute is pending a second appeal hearing.

At the date of this document, there had been no developments in these proceedings.

Commercial disputes

The Group has a number of commercial disputes in process with customers and suppliers, notably in France, the United States, Germany and Spain. Provisions have been set aside for the disputes based on the risks involved when the risks are not covered by the Group's insurance policies.

At the date of this document, provisions for disputes and other contingencies amounted to €10.1 million (versus €9.5 million at December 31, 2019). No other material contingent liabilities were identified by the Group at June 30, 2020.

Note 9 Employee benefit obligations

The Mersen Group's principal pension plans are defined benefit plans and are located in the United States (48% of the overall obligations), the United Kingdom (19%), France (13%) and Germany (8%).

The Group's obligations were measured at December 31, 2019 with the assistance of independent actuaries and in accordance with IAS 19. The rates used for the main countries are summarized below:

2019	Discount rate	Average rate of salary increases	Discount rate
France	0.75%	Between 2.0% and 6.25% depending on age	1.8%
Germany	0.75%	2.50%	1.8%
United States	3.2%	Not applicable	Not applicable
United Kingdom	2.0%	2.95%	3.3%

Reconciliation between assets and liabilities recognized

	June 30, 2020	Dec. 31, 2019
Present value of defined benefit obligation	204.1	196.9
Fair value of plan assets	(120.1)	(121.9)
PROVISION BEFORE IMPACT OF MINIMUM FUNDING REQUIREMENT/ASSET CEILING	84.0	75.0
Impact of minimum funding requirement/asset ceiling	0.0	0.0
PROVISION AFTER IMPACT OF MINIMUM FUNDING REQUIREMENT/ASSET CEILING	84.0	75.0

The expense recognized in relation to the Group's defined benefit plans amounted to €3 million in the six months ended June 30, 2020 compared with €2.8 million in the first half of 2019.

In view of the lower discount rates used for the United States and United Kingdom at June 30, 2020, the Group remeasured

its employee benefit obligations, resulting in the recognition of an additional €8.9 million provision for these obligations. Conversely, a €0.5 million remeasurement gain was recognized on plan assets, following an increase in the value of funds in the United Kingdom which offsets the decrease in value of funds in the United States.

Note 10 Net debt

Mersen has confirmed credit lines and borrowing facilities for a total of around €457 million, of which 71% was drawn down at June 30, 2020.

Mersen's principal confirmed financing facilities are as follows:

- A multi-currency syndicated bank loan, set up in July 2012 and amended in 2014 and 2017. The amount of this facility is €200 million, repayable in full in July 2024 following the exercise of extension options in 2018 and 2019. The interest payable is at a variable rate, plus a credit margin.
- Bilateral banking loans arranged at the end of 2019 amounting to RMB 170 million, repayable until 2024 and intended to finance the Mersen Group's operations in China.
- A 10-year US private placement (USPP) negotiated in November 2011 with a US investor, on which USD 50 million remained outstanding at June 30, 2020. The investor receives a fixed rate of interest.

- A €60 million German private placement ("Schuldschein") arranged in November 2016 with a pool of European and Asian investors, repayable in full at maturity after seven years. Investors receive interest at a variable rate based on the Euribor plus a credit margin.

- A €130 million German private placement ("Schuldschein") arranged in April 2019 with a pool of European and Asian investors, repayable in full at maturity after seven years. Investors receive fixed-rate interest on a nominal amount of €68 million and variable rate interest at Euribor plus a credit margin on a nominal amount of €62 million.

In addition, as part of its policy to diversify its sources of financing, in March 2016 and May 2020, respectively, Mersen launched an NEU CP and an NEU MTN commercial paper program, representing up to €200 million each. Neither of these programs had been used at June 30, 2020.

Maturity schedule of confirmed credit lines and borrowings

In millions of euros	Amount	Drawdown at June 30, 2020	Utilization rate at June 30, 2020	Maturity		
				Less than 1 year	From 1 to 5 years	More than 5 years
Group syndicated loan	200.0	90.0	45%	0.0	200.0	0.0
Confirmed credit lines – China	21.5	0.0	0%	0.0	21.5	0.0
2016 German private placement	60.0	60.0	100%	0.0	60.0	0.0
2019 German private placement	130.0	130.0	100%	0.0	0.0	130.0
2011 US private placement	44.7	44.7	100%	0.0	44.7	0.0
Other	0.9	0.9	100%	0.3	0.6	0.0
TOTAL	457.1	325.6	71%	0.3	326.8	130.0

Analysis of total net debt

<i>In millions of euros</i>	June 30, 2020	Dec. 31, 2019
Long- and medium-term borrowings	325.6	235.4
Current financial liabilities	2.1	27.3
Financial current accounts	0.3	0.7
Bank overdrafts	9.4	16.5
TOTAL GROSS DEBT	337.4	279.9
Current financial assets	(16.5)	(16.5)
Cash and cash equivalents	(92.8)	(45.2)
Cash	(92.8)	(45.2)
TOTAL NET DEBT	228.1	218.2

Total consolidated net debt amounted to €228.1 million at June 30, 2020, up around €10 million on December 31, 2019.

While gross debt stood at €337.4 million, approximately €57 million higher than at end-December 2019, the effect of this rise on net debt was partly offset by an increase of around €47 million in cash and cash equivalents during the period. Of the €337.4 million in total gross debt, €325.6 million stemmed from the use of confirmed loans and borrowings and the remainder chiefly from use of unconfirmed lines (bank overdrafts and other lines).

Current financial liabilities were some €25 million lower than at June 30, 2019, mainly because drawdowns were made on the syndicated credit facility during the period rather than using the NEU CP program, as a result of the Covid-19 crisis.

Financial covenants at June 30, 2020

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

Mersen must comply with the following financial covenants at June 30 2020 and December 31, 2019:

Financial covenants ^(a) (consolidated financial statements)

	Net debt/EBITDA ^(b)			Net debt/equity			EBITDA/net interest		
	Ratio ^(c)	June 2020	Dec. 2019	Ratio	June 2020	Dec. 2019	Ratio	June 2020	Dec. 2019
Confirmed credit lines and borrowings									
US Private Placement							> 3	11.18	14.95
German private placement	< 4.5	2.01	1.50	< 1.3	0.39	0.37			
Group syndicated loan								n.a	
Confirmed credit lines – China									

(a) Method for calculating the covenants: in line with the applicable accounting rules, when calculating the net debt for the purpose of the financial statements, closing exchange rates are used to determine the euro-equivalent value of debt denominated in foreign currencies. Net debt has to be recalculated at the average EUR/USD exchange rate for the period if there is a difference of more than 5% between the average exchange rate and the closing rate. To calculate the covenants at June 30, the convention is for EBITDA or gross operating income to be deemed to be EBITDA reported for the first six months of the year multiplied by two.

(b) EBITDA pre-IFRS 16.

(c) In view of the Covid-19 crisis, the leverage ratio was renegotiated and raised to 4.5x, only applicable for the calculation at June 30, 2020. This ratio will return to 3.5x as from the December 2020 calculation (inclusive).

At June 30, 2020, 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 the Group's financial assets and liabilities and their carrying amount in the statement of financial position, as well as their ranking in the fair value hierarchy for instruments measured at fair value: they do not

provide information about the impairment of financial assets and liabilities that are not measured at fair value, insofar as their carrying amount corresponds to a reasonable approximation of the impairment loss.

Classification of financial instruments measured at fair value

June 30, 2020		Carrying amount					Fair value			
Statement of financial position sections	Note	Fair value of hedging instruments	Fair value through "Other items of comprehensive income"	Financial assets at amortized cost	Other financial liabilities	Total carrying amount	Level 1	Level 2	Level 3	TOTAL
							Financial assets measured at fair value			
Unlisted investment securities			3.7			3.7			3.7	3.7
Derivatives held as current and non-current assets		2.0				2.0		2.0		2.0
		2.0	3.7	0.0	0.0	5.7	0.0	2.0	3.7	5.7
Financial assets not measured at fair value										
Current and non-current financial assets	10			20.3		20.3				
Trade receivables				141.7		141.7				
Cash and cash equivalents	10			92.8		92.8				
		0.0	0.0	254.8	0.0	254.8				
Financial liabilities measured at fair value										
Derivatives held as current and non-current liabilities		(2.2)				(2.2)		(2.2)		(2.2)
		(2.2)	0.0	0.0	0.0	(2.2)	0.0	(2.2)	0.0	(2.2)
Financial liabilities not measured at fair value										
Bank borrowings	10				(325.6)	(325.6)		(322.8)		
Financial current accounts	10				(0.3)	(0.3)				
Bank overdrafts	10				(9.4)	(9.4)				
Current financial liabilities	10				(2.1)	(2.1)				
Trade payables					(60.6)	(60.6)				
		0.0	0.0	0.0	(398.0)	(398.0)				
Carrying amount by category		(0.2)	3.7	254.8	(398.0)	(139.7)				

December 31, 2019		Carrying amount				Fair value				
Statement of financial position sections	Note	Fair value of hedging instruments	Fair value through "Other items of comprehensive income"	Financial assets at amortized cost	Other financial liabilities	Total carrying amount	Level 1	Level 2	Level 3	TOTAL
Financial assets measured at fair value										
Unlisted investment securities			3.7			3.7			3.7	3.7
Derivatives held as current and non-current assets		1.4				1.4		1.4		1.4
		1.4	3.7	0.0	0.0	5.1	0.0	1.4	3.7	5.1
Financial assets not measured at fair value										
Current and non-current financial assets	10			20.7		20.7				
Trade receivables				147.3		147.3				
Cash and cash equivalents	10			45.2		45.2				
		0.0	0.0	213.2	0.0	213.2				
Financial liabilities measured at fair value										
Derivatives held as current and non-current liabilities		(0.3)				(0.3)		(0.3)		(0.3)
		(0.3)	0.0	0.0	0.0	(0.3)	0.0	(0.3)	0.0	(0.3)
Financial liabilities not measured at fair value										
Bank borrowings	10				(235.4)	(235.4)		(235.4)		
Financial current accounts	10				(0.7)	(0.7)				
Bank overdrafts	10				(16.5)	(16.5)				
Current financial liabilities	10				(27.3)	(27.3)				
Trade payables					(60.6)	(60.6)				
		0.0	0.0	0.0	(340.5)	(340.5)				
Carrying amount by category		1.1	3.7	213.2	(340.5)	(122.5)				

Financial risk management

Credit risk

The Group has set up a Coface commercial credit insurance program that covers its main Chinese, Korean, US and Western European companies against the risk of non-payment for financial or political reasons. Coverage under this program corresponds to 95% of the amount of receivables invoiced.

Interest rate, currency and commodity risks

There have been no material changes in currency and commodity risks since the closing of the financial statements at December 31, 2019.

Note 12 Right-of-use assets and lease liabilities

Right-of-use assets totaled €46.8 million, down €3.4 million compared with the December 31, 2019 figure. This decrease primarily reflects the combined impact of (i) the recognition of €5.7 million in depreciation, (ii) a €1.7 million currency effect, and (iii) €4 million in new rightofuse assets recognized during the period, mainly relating to the acquisition of GAB Neumann.

Lease liabilities totaled €45.4 million at June 30, 2020, representing a €2.7 million decrease.

Note 13 Other non-recurring income and expense

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

<i>In millions of euros</i>	June 30, 2020	June 30, 2019
Litigation and other costs	(3.1)	(1.0)
Acquisition costs	(1.1)	(0.6)
Competitiveness plan/restructurings	(0.7)	(1.6)
TOTAL	(4.9)	(3.2)

At end-June 2020, other non-recurring income and expenses represented a net expense of €4.9 million, primarily concerning:

- Disputes and other costs, including expenses currently in dispute with a customer in the chemicals market.
- Acquisition costs (including start-up costs for the Columbia site) amounting to €1.1 million.
- Restructuring costs of €0.7 million.

In the first half of 2019, non-recurring income and expenses represented a net expense of €3.2 million and primarily included:

- €1.6 million in restructuring costs.
- €0.6 million in acquisition costs.
- Other costs, including a provision for the dispute with SNCF.

Note 14 Segment reporting

<i>In millions of euros</i>	Advanced Materials (AM)		Electrical Power (EP)		Total for continuing operations	
	Six months ended June 30, 2020	Six months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Sales to third parties	248.2	278.1	181.8	205.6	430.0	483.7
Proportion of total	57.7%	57.5%	42.3%	42.5%	100.0%	100.0%
Segment operating income before non-recurring items	31.7	41.6	11.3	20.3	43.0	61.9
Recurring unallocated costs					(8.3)	(8.3)
Segment operating margin before non-recurring items*	12.8%	15.0%	6.2%	10.0%		
Operating income from continuing operations					34.7	53.6
Operating margin from continuing operations before non-recurring items					8.1%	11.1%
Segment non-recurring income and expenses	(4.6)	(2.1)	(0.4)	(0.1)	(5.0)	(2.2)
Segment operating income	27.1	39.5	10.9	20.2	38.0	59.7
Segment operating margin*	10.9%	14.2%	6.0%	9.8%		
EBITDA margin ⁽¹⁾	20.2%	21.3%	10.6%	13.4%	14.4%	16.4%
					Non-recurring unallocated costs	0.1 (1.0)
					Operating income from continuing operations	29.8 50.4
					Operating margin from continuing operations	6.9% 10.4%
					Net finance income/(expense)	(6.1) (6.1)
					Current and deferred taxes	(5.9) (10.6)
					Net income from continuing operations	17.8 33.7

* 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.

Note 15 Payroll costs and headcount

Group payroll costs (including social security contributions, provisions for pension obligations and retirement indemnities) came to €143.2 million in the first half of 2020 compared with €146.8 million in the same period of 2019.

On a like-for-like basis, payroll costs, including those related to temporary staff, fell by 4.2%.

Headcount of consolidated companies at end of period by geographical area

Geographical area	June 30, 2020	%	June 30, 2019	%
France	1,358	20%	1,351	20%
Rest of Europe	1,064	16%	1,009	15%
North America	2,083	31%	2,033	30%
Asia	1,760	26%	1,797	26%
Rest of the world	551	8%	637	9%
TOTAL	6,816	100%	6,827	100%

The Group's headcount at June 30, 2020 included 81 additional employees in Europe, 41 of whom were linked to the acquisition of GAB Neumann, and 36 of whom to the acquisition of AGM in Italy in the second half of 2019.

Based on a comparable Group structure, headcount decreased by 92 people.

Note 16 Income tax

<i>In millions of euros</i>	Six months ended June 30, 2020	Six months ended June 30, 2019
Current income tax	(4.8)	(8.1)
Deferred income tax	(1.0)	(1.5)
Withholding tax	(0.1)	(1.0)
TOTAL TAX EXPENSE	(5.9)	(10.6)

The Group has:

- one consolidated tax group in France;
- one consolidated tax group in the United States;
- two consolidated tax groups in Germany;
- one consolidated tax group in the United Kingdom (Group relief).

The effective tax rate in first-half 2020 was 25% (24% in the first six months of 2019).

Note 17 Earnings per share

Basic and diluted earnings per share are presented below:

	Six months ended June 30, 2020	Six months ended June 30, 2019
Continuing operations and discontinued operations		
Numerator: net income used to compute basic earnings per share (net income for the period in millions of euros)	16.3	32.8
Denominator: weighted average number of ordinary shares used to compute basic earnings per share	20,563,217	20,666,695
Maximum effect of dilutive potential ordinary shares:		
- unexercised options	575,708	769,991
Weighted average number of ordinary shares used to compute diluted earnings per share	21,138,925	21,436,686
Basic earnings per share (€)	0.79	1.59
Diluted earnings per share (€)	0.77	1.53

Note 18 Dividends

Given the constantly changing global economic and health situation, the Board of Directors has decided not to pay a dividend in respect of 2019, in order to maintain greater financial flexibility for the future and contribute to the solidarity measures needed at this time.

The dividend in respect of fiscal 2018 was €0.95 per share.

Note 19 Off-balance sheet commitments

At June 30, 2020, there was a slight decrease in off-balance sheet commitments compared with December 31, 2019.

Note 20 Subsequent events

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

4 STATUTORY AUDITORS' REVIEW REPORT ON THE 2020 INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2020

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

To the Shareholders,

In compliance with the assignment entrusted to us by your General Meeting and in accordance with the requirements of Article L. 451-1-2 III of the French Monetary and Financial Code (Code monétaire et financier), we hereby report to you on:

- the review of the accompanying condensed interim consolidated financial statements of Mersen SA for the six months ended June 30, 2020;
- the verification of the information contained in the interim management report.

These condensed interim consolidated financial statements are the responsibility of the Board of Directors, and were prepared as at July 30, 2020 based on the information available as of this date in light of the changing context of the Covid-19 crisis and the challenges faced in assessing its impacts and its future outlook.

Our role is to express a conclusion 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 of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified 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 have not been prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting", as adopted by the European Union.

II – Specific verification

We have also verified the information given in the interim management report prepared as at July 30, 2020 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, 2020
KPMG Audit
Department of KPMG SA

Catherine Porta
Partner

Paris La Défense, July 30, 2020
Deloitte & Associés

Laurent Odobez
Partner

5 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, 2020

Luc Themelin
Chief Executive Officer

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