MERSEN

Expertise, our source of energy

2017 FIRST-HALF FINANCIAL REPORT

MERSEN

2017 First-half financial report

		page
1	Management report	3
2	Consolidated financial statements	9
3	Notes	17
4	Statutory Auditors’ Report	33
5	Statement of the Officer	35

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1 Management report

Consolidated results

Sales

Consolidated sales for Mersen amounted to €412 million in the first six months of 2017, an organic increase of 4.9% compared with the same period last year.

In millions of euros	H1 2017	H1 2016[1]	Total growth	Organic growth[2]
Advanced Materials	227.2	210.5	7.9%	6.2%
Electrical Power	184.8	176.7	4.6%	3.2%
GROUP TOTAL	**412.0**	**387.2**	**6.4%**	**4.9%**
Europe	137.6	134.4	2.4%	3.8%
Asia-Pacific	110.8	91.8	20.7%	18.7%
North America	146.5	140.9	4.0%	1.1%
Rest of the World	17.1	20.1	-15.3%	-22.6%
GROUP TOTAL	**412.0**	**387.2**	**6.4%**	**4.9%**

(1) Adjusted for the high-power switches business sold in first-quarter 2017.
(2) At constant scope of consolidation and exchange rates (like-for-like).

Sales in the **Advanced Materials** segment rose by 6.2% like-for-like over the period to €227 million, led by the strong growth in the electronics, aeronautics, chemicals and process industries markets.

In the **Electrical Power** segment, first-half sales totaled €185 million, up 3.2% like-for-like. The increase was driven by gains in the process industries and power electronics markets, whereas electrical distribution continued to lag.

Both segments expanded in **Europe**, in the aeronautics, power electronics and chemicals markets. The Group also reported a strong organic growth of close to 19% in **Asia**. Business was especially dynamic in China, South Korea and India, bolstered by the wind power, electronics and process industries markets. Performance in **North America** improved late in the period in the electrical distribution market, and regional sales edged up slightly overall, supported by the process industries, electronics and chemicals markets. The decline in **Rest of the World** sales reflects an unfavorable basis of comparison relating to chemicals contracts in Morocco and the deteriorating economic situation in Brazil.

→ EBITDA and operating income before non-recurring items

In millions of euros	H1 2017	H1 2016[1]
Operating income before non-recurring items	36.6	29.9
Depreciation and amortization (including amortization of revalued intangible assets)	19.5	19.2
EBITDA	**56.1**	**49.1**
as a % of sales	*13.6%*	*12.7%*

Consolidated EBITDA[2] totaled €56.1 million (13.6% of sales), up more than 14% year-on-year.

Operating income before non-recurring items[3] came to €36.6 million, yielding an operating margin of 8.9% that represented a sharp improvement from the adjusted 7.7%[1] reported in first-half 2016.

Operating income before non-recurring items from the Advanced Materials segment amounted to €25.1 million, or 11.1% of sales, compared with 7.9%[1] for the same period in 2016. The improvement was attributable to higher volumes and significant productivity gains.

Operating income before non-recurring items from the Electrical Power segment stood at €19.1 million, resulting in an operating margin before non-recurring items of 10.3%, down from 11.5%[1] in first-half 2016. The segment was impacted by unfavorable mix effects and, to a lesser extent, pricing pressure, while the benefits of the competitiveness plan were limited in the first half.

In millions of euros	H1 2017	H1 2016[1]
Consolidated sales	412.0	387.2
Gross income	130.4	118.9
as a % of sales	*31.7%*	*30.7%*
Selling, marketing and other expenses	(41.5)	(39.6)
Administrative and research expenses	(51.7)	(48.7)
Fixed costs (excluding production)	(93.2)	(88.3)
Amortization of revalued intangible assets	(0.6)	(0.7)
Operating income before non-recurring items	**36.6**	**29.9**
as a % of sales	*8.9%*	*7.7%*

Gross margin widened by one point thanks to the growth in volumes, in particular in the Advanced Materials segment, and to the impact of the competitiveness plans.

Fixed costs (excluding fixed production costs recognized in gross income) rose by 4% at comparable exchange rates, due to the growth in activity and the resulting increase in provisions for bonus payments.

(1) To improve the comparison with industry peers, Mersen now recognizes the amortization of revalued intangible assets (primarily its client relationships and technological expertise) in goodwill in Operating income before non-recurring items, rather than on a separate line entry below Operating income before non-recurring items. In addition, the high-power switches business sold in first-quarter 2017 has been classified under discontinued operations.

(2) Operating income before non-recurring items, depreciation and amortization.

(3) According to definition 2009.R.03 of the French National Accounting Board (CNC).

Net income

Net income for the period totaled €19.1 million compared with €12.3 million in first-half 2016.

In millions of euros	H1 2017	H1 2016[1]
Operating income before non-recurring items	**36.6**	**29.9**
Non-recurring income and expenses	(2.0)	(3.5)
Operating income	34.6	26.4
Net finance expense	(5.4)	(6.0)
Current and deferred income tax	(9.5)	(7.0)
Net loss from assets held for sale	(0.6)	(1.1)
Net income for the period	**19.1**	**12.3**
- Attributable to Mersen shareholders	18.1	11.3

The main items of Mersen's consolidated statement of income break down as follows:

- Non-recurring income and expenses represented a net expense of €2.0 million and primarily correspond to restructuring costs stemming from the competitiveness plans announced in 2016. In first-half 2016, the net expense, also linked to restructuring costs, stood at €3.5 million for the period.
- Net finance expense for the first half amounted to €5.4 million, down from €6 million the year before following a decline of more than €30 million in average debt.
- Income tax expense totaled €9.5 million for the period, representing an effective tax rate of 33% versus 34% in 2016.
- The net loss from assets held for sale or discontinued operations was €0.6 million and includes the loss reported by the high-power switches business sold in the first quarter.

(1) To improve the comparison with industry peers, Mersen now recognizes the amortization of revalued intangible assets (primarily its client relationships and technological expertise) in goodwill in Operating income before non-recurring items, rather than on a separate line entry below Operating income before non-recurring items. In addition, the high-power switches business sold in first-quarter 2017 has been classified under discontinued operations.

CASH AND DEBT

→ Condensed statement of cash flows

In millions of euros	H1 2017	H1 2016[1]
Cash generated by operating activities before change in working capital requirement	47.2	38.3
Change in working capital requirement	(23.8)	(5.3)
Income tax paid	(6.8)	(3.8)
Cash generated by continuing operating activities	16.6	29.2
Cash used in discontinued operating activities	(0.8)	(0.7)
Net cash generated by operating activities	**15.8**	**28.5**
Capital expenditure	(12.3)	(12.9)
Cash generated by operating activities after capital expenditure	3.5	15.6
Changes in the scope of consolidation (acquisitions)	0	(0.7)
Disposals of fixed assets and other	0.2	4.3
Cash generated by operating and investing activities	**3.7**	**19.2**

Operating activities generated nearly €16 million in net cash flow in the first half of 2017, despite almost €8 million in non-recurring cash outlays, primarily to support the competitiveness plan. Net cash flow also reflected the €24 million increase in working capital requirement resulting from the strong growth in sales.

Capital expenditure stood at €12.3 million, on a par with first-half 2016.

As a result, cash flow from operating and investing activities represented an inflow of €3.7 million. It stood at €19.2 million one year earlier with the Group benefiting from the extensive measures deployed to reduce inventory amid slower growth period.

→ Balance sheet

Net debt at June 30, 2017 stood at €197 million, down €6 million from the €203 million reported at December 31, 2016. Excluding the favorable currency effect, net debt was in line with the year-end figure in 2016 and a significant €23 million less than at June 30, 2016.

Mersen's balance sheet remains robust, with a net debt-to-EBITDA ratio of 1.8, versus 2.1[2] at year-end 2016. The net debt-to-equity ratio stood at 42%, compared with 41%[2] six months earlier.

	June 30, 2017	December 31, 2016
Total net debt *(in millions of euros)*	197	203
Net debt/equity[2]	42%	41%
Net debt/EBITDA[2]	1.8	2.1

(1) Restated.
(2) Ratio calculated using covenants on Mersen confirmed financing.

Subsequent events

In July 2017, Mersen received and accepted a firm offer from a French manufacturer to acquire, subject to conditions precedent, its switch and contactor business, based at the plant in Gorcy, France. The business will therefore be accounted for as an asset held for sale in the 2017 financial statements. The impact on these statements will not be material. In 2016, the business generated nearly €6 million in sales, with a higher operating margin before non-recurring items than in the Electrical Power segment as a whole.

The Group also extended the maturity of its multi-currency syndicated loan from July 2019 to July 2022, raising the average maturity of its financing to 5.1 years from 3.4 years previously. The extension also enabled the Group to take advantage of a positive credit market environment to improve its financing terms and conditions.

Outlook for 2017

As announced in the July 19, 2017 press release, Mersen has raised its full-year 2017 guidance and now expects to report organic growth in sales of between 3% and 5%, as against 0% to 2% previously, and growth in its operating margin before non-recurring items of between 80 and 130 basis points compared with 50 to 100 basis points previously.

2 CONSOLIDATED FINANCIAL STATEMENTS

CHANGES IN SCOPE OF CONSOLIDATION IN THE PAST TWO YEARS

The main change in scope of consolidation that impacted the consolidated financial statements in 2016 and the first half of 2017 is as follows:

- In 2016, Mersen formed a joint venture – Mersen Hatan Electrical Carbon (Harbin) – with its Chinese partner, Harbin Electric Carbon. The Group holds a 54.41% stake in this joint venture, which only began operations in 2017 as the bulk of the asset contributions required for its formation were carried out in the first half of 2017. It has been integrated into the Advanced Materials segment and was set up as part of the Group's growth strategy in Asia. Its operations consist of manufacturing graphite plates, brushes and pantograph strips for non-military use, primarily for the rail market.

There were no changes in scope of consolidation in the first half of 2017.

Mersen does not consider it necessary to prepare pro forma financial statements as the above change in scope of consolidation in 2016 was not material.

Assets held for sale

High-power switches business at the Saint-Loup-de-Naud site in France

On September 13, 2016, the Group announced its intention to enter into negotiations with a view to selling its high-power switches business at the Saint-Loup-de-Naud site, which offered few synergies with the Electrical Power segment's other operations. The sale was completed on March 3, 2017.

This business has been presented as a discontinued operation in the first-half 2017 financial statements, in accordance with IFRS 5, and the data for 2016 has been restated.

Consolidated statement of income

In millions of euros	Notes	H1 2017	H1 2016 (restated)*
CONTINUING OPERATIONS			
Consolidated sales	13	412.0	387.2
Cost of sales		(281.6)	(268.3)
Total gross income		**130.4**	**118.9**
Selling and marketing expenses		(40.1)	(38.4)
Administrative and research expenses		(51.7)	(48.7)
Amortization of revalued intangible assets		(0.6)	(0.7)
Other operating expenses		(1.4)	(1.2)
Operating income before non-recurring items	13	**36.6**	**29.9**
Non-recurring expenses	12	(2.8)	(5.7)
Non-recurring income	12	0.8	2.2
Operating income	13	**34.6**	**26.4**
Financial expenses		(5.4)	(6.0)
Financial income		0.0	0.0
Finance costs		(5.4)	(6.0)
Net finance expense		**(5.4)**	**(6.0)**
Income from continuing operations before tax		**29.2**	**20.4**
Current and deferred income tax	15	(9.5)	(7.0)
Net income from continuing operations		**19.7**	**13.4**
Net income/(loss) from operations held for sale and discontinued operations	4	(0.6)	(1.1)
NET INCOME		**19.1**	**12.3**
Attributable to:			
- Owners of the parent		18.1	11.3
- Non-controlling interests		1.0	1.0
NET INCOME FOR THE PERIOD		**19.1**	**12.3**
Earnings per share	16		
Basic earnings per share *(€)*		0.88	0.56
Diluted earnings per share *(€)*		0.84	0.53
Earnings per share from continuing operations			
Basic earnings per share *(€)*		0.91	0.61
Diluted earnings per share *(€)*		0.87	0.58
Earnings per share from operations held for sale and discontinued operations	4		
Basic earnings per share *(€)*		(0.03)	(0.05)
Diluted earnings per share *(€)*		(0.03)	(0.05)

** The statement of income and statement of cash flows for the six months ended June 30, 2016 have been restated following (i) the classification of the high-power switches business under "Operations held for sale and discontinued operations" in accordance with IFRS 5 (see "Changes in scope of consolidation in the past two years") and (ii) the reclassification of "Amortization of revalued intangible assets" within "Operating income before non-recurring items" (see Note 2, "Summary of significant accounting policies and methods").*

Condensed consolidated statement of comprehensive income

In millions of euros	Notes	H1 2017	H1 2016 (restated)
NET INCOME FOR THE PERIOD		**19.1**	**12.3**
Items that will not be subsequently reclassified to income			
Remeasurements of the net defined benefit liability (asset)	9		(13.8)
Tax impact			4.4
		0.0	**(9.4)**
Items that may subsequently be reclassified to income			
Change in fair value of hedging instruments		(0.3)	0.4
Exchange differences on translation of assets and liabilities at the period-end rate		(21.4)	(5.9)
Tax impact		(0.2)	(0.2)
		(21.9)	**(5.7)**
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)		**(21.9)**	**(15.1)**
TOTAL COMPREHENSIVE INCOME/(LOSS)		**(2.8)**	**(2.8)**
Attributable to:			
- Owners of the parent		(3.2)	(3.5)
- Non-controlling interests		0.4	0.7
TOTAL COMPREHENSIVE INCOME/(LOSS)		**(2.8)**	**(2.8)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

In millions of euros	Note	June 30, 2017	Dec. 31, 2016
NON-CURRENT ASSETS			
Intangible assets	5 and 6		
- Goodwill		276.5	288.0
- Other intangible assets		35.4	37.4
Property, plant and equipment	5 and 6		
- Land		29.9	31.1
- Buildings		71.9	76.6
- Plant, equipment and other assets		156.5	163.2
- Assets in progress		11.3	14.6
Non-current financial assets			
- Equity interests		2.3	2.3
- Non-current derivatives			
- Other financial assets		4.2	7.1
Non-current tax assets			
- Deferred tax assets	15	37.1	38.1
- Long-term portion of current tax assets		5.7	7.7
TOTAL NON-CURRENT ASSETS		**630.8**	**666.1**
CURRENT ASSETS			
- Inventories		155.4	152.6
- Trade receivables		135.4	123.8
- Other operating receivables		18.6	14.9
- Short-term portion of current tax assets		6.7	6.8
- Current financial assets	10	8.0	6.0
- Current derivatives		1.3	1.8
- Cash and cash equivalents	10	18.1	29.2
- Assets held for sale and discontinued operations	4	0.1	0.0
TOTAL CURRENT ASSETS		**343.6**	**335.1**
TOTAL ASSETS		**974.4**	**1,001.2**

Equity and liabilities

In millions of euros	Note	June 30, 2017	Dec. 31, 2016
EQUITY			
- Share capital	7	41.1	40.9
- Retained earnings and other reserves		407.4	415.7
- Net income for the period		18.1	1.8
- Cumulative translation adjustments		(4.6)	16.2
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		**462.0**	**474.6**
- Non-controlling interests		16.5	18.0
TOTAL EQUITY		**478.5**	**492.6**
NON-CURRENT LIABILITIES			
- Non-current provisions	8	0.9	1.3
- Employee benefit obligations	9	71.5	73.9
- Deferred tax liabilities	15	28.4	29.6
- Long and medium-term borrowings	10	154.3	161.8
- Non-current derivatives		0.2	0.3
TOTAL NON-CURRENT LIABILITIES		**255.3**	**266.9**
CURRENT LIABILITIES			
- Trade payables		61.8	61.6
- Other operating payables		76.5	76.3
- Current provisions	8	15.5	20.4
- Short-term portion of current tax liabilities		3.1	3.8
- Miscellaneous liabilities		13.4	1.1
- Other current financial liabilities	10	49.5	53.0
- Current derivatives		0.3	1.2
- Financial current accounts	10	0.3	1.1
- Bank overdrafts	10	19.2	22.1
- Liabilities related to assets held for sale and discontinued operations	4	1.0	1.1
TOTAL CURRENT LIABILITIES		**240.6**	**241.7**
TOTAL EQUITY AND LIABILITIES		**974.4**	**1,001.2**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In millions of euros	Attributable to owners of the parent						
	Share capital	Additional paid-in capital, retained earnings and other reserves	Net income for the period	Cumulative translation adjustments	Total	Non-controlling interests	Total equity
AT JANUARY 1, 2016	**41.4**	**422.3**	**1.3**	**11.7**	**476.7**	**13.3**	**490.0**
Prior-period net income		1.3	(1.3)		0.0		0.0
Net income for the period			11.3		11.3	1.0	12.3
Change in fair value of hedging instruments, net of tax		0.2			0.2		0.2
Remeasurements of the net defined benefit liability (asset) after tax		(9.4)			(9.4)		(9.4)
Translation adjustment				(5.6)	(5.6)	(0.3)	(5.9)
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)	**0.0**	**(9.2)**	**0.0**	**(5.6)**	**(14.8)**	**(0.3)**	**(15.1)**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**0.0**	**(9.2)**	**11.3**	**(5.6)**	**(3.5)**	**0.7**	**(2.8)**
Dividends paid		(10.3)			(10.3)		(10.3)
Treasury shares - Stock options and free shares		(1.2)			(1.2)		(1.2)
Capital reduction	(0.1)	(0.8)			(0.9)		(0.9)
Stock options and free shares		(0.1)			(0.1)		(0.1)
Other		0.5			0.5		0.5
AT JUNE 30, 2016	**41.3**	**402.5**	**11.3**	**6.1**	**461.2**	**14.0**	**475.2**
AT DECEMBER 31, 2016	**40.9**	**415.7**	**1.8**	**16.2**	**474.6**	**18.0**	**492.6**
Prior-period net income		1.8	(1.8)		0.0		0.0
Net income for the period			18.1		18.1	1.0	19.1
Change in fair value of hedging instruments, net of tax		(0.5)			(0.5)		(0.5)
Translation adjustment				(20.8)	(20.8)	(0.6)	(21.4)
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)	**0.0**	**(0.5)**	**0.0**	**(20.8)**	**(21.3)**	**(0.6)**	**(21.9)**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**0.0**	**(0.5)**	**18.1**	**(20.8)**	**(3.2)**	**0.4**	**(2.8)**
Dividends payable		(10.2)			(10.2)	(1.9)	(12.1)
Treasury shares					0.0		0.0
Capital increase	0.2	1.1			1.3		1.3
Stock options and free shares		(0.5)			(0.5)		(0.5)
Other					0.0		0.0
AT JUNE 30, 2017	**41.1**	**407.4**	**18.1**	**(4.6)**	**462.0**	**16.5**	**478.5**

Consolidated statement of cash flows

In millions of euros	H1 2017	H1 2016 (restated)
Cash flows from operating activities		
Income before tax	29.2	20.4
Depreciation and amortization	18.8	18.5
Additions to/(reversals from) provisions	(5.1)	(5.3)
Net finance expense	5.4	6.0
Capital gains/(losses) on asset disposals	0.4	(2.2)
Other	(1.5)	0.9
Cash generated by operating activities before change in WCR	**47.2**	**38.3**
Change in working capital requirement	(23.8)	(5.3)
Income tax paid	(6.8)	(3.8)
Net cash generated by continuing operating activities	**16.6**	**29.2**
Cash generated by/(used in) discontinued operations	**(0.8)**	**(0.7)**
Net cash generated by operating activities	**15.8**	**28.5**
Cash flows from investing activities		
Intangible assets	(1.1)	(1.0)
Property, plant and equipment	(12.6)	(14.3)
Decreases (increases) in amounts due to suppliers of non-current assets	0.3	1.4
Financial assets		0.0
Changes in scope of consolidation		(0.7)
Other cash flows from investing activities	2.3	2.4
Cash generated by/(used in) investing activities related to continuing operations	**(11.1)**	**(12.2)**
Cash generated by/(used in) investing activities related to discontinued operations	(1.0)	2.9
Net cash generated by/(used in) investing activities	**(12.1)**	**(9.3)**
Net cash generated by operating and investing activities	**3.7**	**19.2**
Cash flows from financing activities		
Amounts received/(paid) on capital increases/reductions and other changes in equity	1.4	(2.2)
Net dividends paid to shareholders and non-controlling interests	(1.8)	0.0
Interest payments	(4.4)	(4.6)
Change in debt	(15.6)	(12.4)
Net cash generated by/(used in) financing activities	**(20.4)**	**(19.2)**
Net increase/(decrease) in cash and cash equivalents	**(16.7)**	**0.0**
Cash and cash equivalents at beginning of period (Note 10)	29.2	22.4
Cash and cash equivalents at period-end (Note 10)	18.1	22.3
Changes in scope of consolidation		0.0
Impact of currency fluctuations	(5.6)	0.1
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(16.7)**	**0.0**

3 Notes

Notes to the consolidated financial statements

Note 1	Compliance statement	18
Note 2	Summary of significant accounting policies and methods	18
Note 3	Business combinations	19
Note 4	Operations held for sale and discontinued operations	19
Note 5	Goodwill, other intangible assets and property, plant and equipment	20
Note 6	Asset impairment tests	21
Note 7	Equity	21
Note 8	Provisions, contingent liabilities and other liabilities	22
Note 9	Employee benefit obligations	24
Note 10	Net debt	25
Note 11	Financial instruments	27
Note 12	Other non-recurring income and expenses	29
Note 13	Segment reporting	30
Note 14	Payroll costs and headcount	31
Note 15	Income tax	31
Note 16	Earnings per share	32
Note 17	Dividends	32
Note 18	Off balance sheet commitments	32
Note 19	Subsequent events	32

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, 2017 are presented in Note 2.

The accounting options selected by the Group are described in Note 2 to the 2016 annual report.

The interim consolidated financial statements for the six months ended June 30, 2017 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 should therefore be read in conjunction with the Group's financial statements for the year ended December 31, 2016, which are available on the Group's website at www.mersen.com. They do, however, include a selection of notes explaining the major events and transactions that took place in the first half of 2017 for the purpose of providing an overview of the changes that have occurred in the Group's financial position and performance since the last annual consolidated financial statements for the year ended December 31, 2016.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on July 28, 2017.

Note 2 Summary of significant accounting policies and methods

The accounting policies and methods described in the 2016 Registration Document have been applied consistently throughout the periods presented in the consolidated financial statements and across all of the Group's reporting units.

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, 2016.

Changes in presentation for 2017

Reclassification of "Amortization of revalued intangible assets" within "Operating income before non-recurring items"

To improve the comparison with industry peers, Mersen now recognizes the amortization of revalued intangible assets (primarily its client relationships and technological expertise) in goodwill in "Operating income before non-recurring items", rather than on a separate line entry below "Operating income before non-recurring items".

Amortization of revalued intangible assets amounted to €0.6 million in the first half of 2017 (versus €0.7 million and €1.2 million in first-half and full-year 2016 respectively).

The 2016 figures have been restated to reflect the above reclassification.

New standards and interpretations not yet applied by the Group

IFRS 15, Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework specifying how and when revenue should be recognized. It replaces the following standards and interpretations related to revenue recognition: IAS 18, Revenue; IAS 11, Construction Contracts; and IFRIC 13, Customer Loyalty Programmes.

The Group has carried out a preliminary analysis of the impacts that IFRS 15 could have on its consolidated financial statements, the results of which are as follows:

- Concerning sales to distributors (mainly in the EP segment), selling and marketing expenses paid to distributors would be reclassified as sales for approximately €2 million based on the annual amount of these expenses recorded in previous years.
- The Group does not expect the application of IFRS 15 to have a significant impact on construction contracts (which are primarily used in the AM segment).

IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018.

IFRS 16, Leases

This new standard – which was issued in January 2016 – principally amends how lessees will be required to account for leases as from 2019. On commencement of a lease, the lessee will be required to recognize a right-of-use asset (corresponding to the lessee's right to use the underlying asset) and a lease liability (corresponding to its obligation to make payments under the lease). The impact of this accounting treatment will be an increase in EBITDA, operating income and financial expenses in the income statement and an increase in non-current assets and debt in the statement of financial position.

In order to estimate the impact that applying IFRS 16 will have on its consolidated financial statements, the Group has begun to compile data on its leases based on the lease contracts in effect at June 30, 2017.

IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019.

IFRS 9, Financial Instruments

IFRS 9 – issued in July 2014 – replaces IAS 39, Financial Instruments: Recognition and Measurement. It includes amended guidance for the classification and measurement of financial instruments, a new expected credit loss model for measuring impairment losses on financial assets, and new requirements for general hedge accounting. IFRS 9 also carries over from IAS 39 the requirements for recognition and derecognition of financial instruments. Based on its preliminary analysis, the Group does not believe that its application of IFRS 9 will have a significant impact on its consolidated financial statements.

IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018.

Note 3 Business combinations

No business combinations were carried out in the first half of 2017, and at the period-end no goodwill was pending allocation.

Note 4 Operations held for sale and discontinued operations

High-power switches business at the Saint-Loup-de-Naud site in France

As part of its Competitiveness Plan (previously called the Operational Excellence Plan), on September 13, 2016, the Group announced that it intended to enter into negotiations with a view to selling its high-power switches business at the Saint-Loup-de-Naud site, which offered few synergies with the Electrical Power segment's other operations. The sale was completed on March 3, 2017.

The sales of this business – which include sales generated by the Saint-Loup-de-Naud site as well as by some fifteen other Group subsidiaries – amounted to €2 million in first-half 2017 (for the period prior to its sale) compared with €2.7 million in the first half of 2016.

During the six months ended June 30, 2017, the Canadian and Japanese subsidiaries of the Group's Electrical Power segment continued to distribute high-power switches manufactured at the Saint-Loup-de-Naud site, which is no longer owned by Mersen. The sales of these two subsidiaries are not included in "Net income from operations held for sale and discontinued operations".

Operating income before non-recurring items for the high-power switches business at the Saint-Loup-de-Naud site came in at break even in first-half 2017 (compared with a €0.1 million loss in the first six months of 2016).

A €4.7 million impairment loss was recognized against this business in 2016, corresponding to the difference between the carrying amount and realizable amount of the assets and liabilities classified as held for sale. A further €0.2 million impairment loss was recognized at June 30, 2017, corresponding to an additional disposal loss.

Businesses in the Advanced Materials segment (formerly part of the Advanced Materials and Technologies segment)

The operations of Mersen Grésy France and the Brignais site (Mersen France PY) were sold in late November 2013.

A net expense of €0.4 million was recognized in first-half 2016 in relation to these operations, corresponding to the write-down of a seller's loan granted to the buyer and held by the acquired company, which has since gone into receivership.

A further net expense of €0.4 million was recognized in the first half of 2017, corresponding to an addition to a provision for customer disputes.

Astrolite

In late 2015, the Group decided to sell Astrolite, a company specialized in brazing technologies owned by Mersen USA Oxnard-CA Inc. in the United States. The sale took place in early 2016.

A net expense of €0.6 million was recognized in relation to this sale in first-half 2016, primarily reflecting an adjustment to the sale price compared with the estimates made at December 31, 2015.

The sale of Astrolite did not have any impact on the first-half 2017 consolidated financial statements.

As required under IFRS 5, assets and liabilities held for sale and discontinued operations are presented on a separate line of the Group's statement of financial position.

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

ASSETS

In millions of euros	June 30, 2017	Dec. 31, 2016
- Trade receivables	0.1	0.0
ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS	**0.1**	**0.0**

LIABILITIES

In millions of euros	June 30, 2017	Dec. 31, 2016
- Current provisions	0.5	0.5
- Trade payables	0.5	0.1
- Other operating liabilities		0.5
LIABILITIES RELATED TO ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS	**1.0**	**1.1**
NET ASSETS (LIABILITIES) HELD FOR SALE AND DISCONTINUED OPERATIONS	**(0.9)**	**(1.1)**

Income statement for operations held for sale and discontinued operations

In millions of euros	H1 2017	H1 2016 (restated)
Sales	2.0	3.3
Cost of sales	(2.0)	(3.2)
Total gross income	**0.0**	**0.1**
Selling and marketing expenses	(0.2)	(0.3)
Administrative and research expenses	(0.2)	(0.2)
Other operating expenses	0.0	0.0
Operating income before non-recurring items	**(0.4)**	**(0.4)**
Non-recurring income and expenses	0.0	(0.5)
Impairment losses/Disposal gains/(losses)	(0.2)	(0.4)
Operating income	**(0.6)**	**(1.3)**
Net finance income/(expense)	0.0	0.0
Income from continuing operations before tax	**(0.6)**	**(1.3)**
Current and deferred income tax	0.0	0.2
Net income/(loss) from operations held for sale and discontinued operations	**(0.6)**	**(1.1)**
Earnings per share from operations held for sale and discontinued operations:		
- Basic earnings per share *(€)*	(0.03)	(0.05)
- Diluted earnings per share *(€)*	(0.03)	(0.05)

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

Goodwill totaled €276.5 million at June 30, 2017, down €11.5 million compared with December 31, 2016 due to changes in foreign exchange rates.

The currency effect also reduced the carrying amount of property, plant and equipment, which decreased by €15.9 million in the first half of 2017. Purchases of property, plant and equipment amounted to €13.4 million during the period.

Note 6 Asset impairment tests

1. Goodwill

No impairment losses were recognized following the impairment tests carried out at December 31, 2016.

In accordance with IAS 36, as there were no indications that goodwill had been impaired during the six months ended June 30, 2017, no impairment tests were carried out at that date.

Goodwill will be tested for impairment again at the 2017 year-end.

2. Specific assets

The Group reviewed the recoverable amount of its other non-current assets at June 30, 2017, which led to (i) the recognition of a €1.2 million impairment loss against development losses capitalized in connection with the Group's Competitiveness Plan (previously called the Operational Excellence Plan) and (ii) a reversal of a €0.5 million impairment loss previously recognized against industrial equipment in China, as the Group's business in that country began to recover. These amounts were recorded as non-recurring expenses and income respectively.

Note 7 Equity

Number of shares (unless stated otherwise)	**Ordinary shares**
Number of shares at January 1, 2017	20,471,854
Capital increase/reduction *(in millions of euros)*	0.2
Number of shares at June 30, 2017	20,541,596
Number of shares in issue and fully paid-up during the period	69,642
Number of treasury shares canceled	6,093
Number of shares in issue and not fully paid-up	0
Par value per share *(€)*	2
Mersen shares held by the Company or by its subsidiaries and associates	37,397

At June 30, 2017, the Company's share capital was €41,083,192 comprising 20,541,596 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 24,774,019. Since April 3, 2016, a double voting right has been attached to all shares that meet both of the following conditions: (i) they have been held in registered form for at least two years and (ii) they are fully paid up.

To the best of the Company's knowledge, its ownership structure at June 30, 2017 was as follows:

- French institutional investors: 57%
- International institutional investors: 30%
- Private shareholders: 11%
- Employee shareholders: 1.5%
- Treasury shares: 0.5%

The following disclosure thresholds (provided for by law or the Company's bylaws) have been crossed since January 1, 2017, as reported by the shareholders concerned:

- On March 20, 2017, Dimensional Fund Advisors disclosed that it had raised its interest to above the threshold of 2% of the Company's capital and voting rights and that at that date it held 496,704 shares, representing 2.0% of the capital and 2.4% of the voting rights.
- On April 24, 2017, Norges Bank Investment disclosed that it had raised its interest to above the threshold of 4% of the Company's capital and voting rights and that at that date it held 822,961 shares, representing 4.02% of the capital.
- On June 19, 2017, La Caisse des dépôts de consignations (including Bpifrance Participations) disclosed that it had raised its interest to above the threshold of 22% of the Company's voting rights and that at that date it held 3,215,039 shares, representing 15.70% of the capital and 22.06% of the voting rights.

Treasury shares

At June 30, 2017, the Company held 37,397 shares, representing 0.18% of its capital, under the liquidity agreement entered into with Exane BNP Paribas.

Stock options, free shares and preference shares

At June 30, 2017, the Group's employees held 217,479 shares, representing 1% of the Company's capital, as well as 455,355 stock options, which if fully exercised, would represent a maximum of 2.2% of the current 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.

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 no performance conditions should apply to free shares granted to employees who, by the nature of their jobs, contribute less directly to the Company's results. At June 30, 2017, the number of free shares that could potentially vest corresponded to 231,600 new shares, representing 0.8% of the Company's capital at that date. This includes 84,000 performance shares granted under the plan approved at the Annual General Meeting of May 18, 2017.

No free shares have been granted to the Chief Executive Officer.

Since May 2015, the Group has also set up three 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, 2017, the maximum number of ordinary shares that could potentially be converted from the preference shares granted was 348,370, representing 1.7% of the Company's capital. This total includes 128,920 shares granted under the plan approved at the Annual General Meeting of May 18, 2017. Subsequent to the June 30, 2017 period-end, only 39% of the preference shares granted under the 2015 plan actually vested as the applicable performance conditions were only partially met. Consequently, the number of ordinary shares that could potentially be converted from the total preference shares granted to date now corresponds to 292,710, representing 1.4% of the Company's capital.

At June 30, 2017, the Chief Executive Officer, Luc Themelin, held 68,625 exercisable stock options (taking into account canceled options).

During the first half of 2017, a net gain of €0.5 million was recognized in respect of share-based payments, comprising:

- a €0.6 million charge relating to existing plans; and
- a €1.1 million gain, which was recorded because the Group expects that the vesting conditions of the free shares and stock options granted under the 2015 plans will not be fully met.

In first-half 2016 a net gain of €0.1 million was recognized in respect of share-based payments, comprising:

- a €0.7 million charge relating to existing plans; and
- a €0.8 million gain, which was recorded because the Group expects that the vesting conditions of the free shares and stock options granted under the 2014 plans will not be fully met.

Neither the Company nor its subsidiaries are subject to any specific capital requirements pursuant to external rules or regulations.

Note 8 Provisions, contingent liabilities and other liabilities

Provisions amounted to €16.4 million at June 30, 2017, €5.3 million lower than the end-December 2016 figure of €21.7 million, primarily as a result of using provisions recorded for restructurings that form part of the Competitiveness Plan (previously the Operational Excellence Plan).

Legal proceedings

No provisions have been recognized for any of the proceedings described below as the Group is not currently in a position to reliably measure the related financial risks.

Civil proceedings in Canada

The lawsuit launched 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. This action was instigated following the CAD 1 million fine that Morgan Crucible Ltd was ordered to pay in July 2004 for anti-trust practices in the graphite brushes sector from 1995 through 1998. In February 2007, the Canadian judge ruled that only Canadian urban transportation companies could join the proceedings in progress. The risk related to these proceedings for Mersen Toronto remains non-material.

Administrative and legal 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. The Paris Commercial Court has not yet issued its ruling. Mersen disputes all of the allegations and claims submitted by SNCF and both cases are still ongoing.

In 1999, the Group set up a worldwide compliance program to inform and train operational and commercial managers about anti-trust legislation. This program has been applied since it was developed and it was updated in June 2010 following the Group's change of corporate name and identity. In addition, the Group has put in place very stringent internal control measures and external audits in order to ensure that anti-trust legislation is scrupulously complied with in all of the countries in which it has operations.

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

The criminal investigation launched subsequent to the tragic accident at Mersen's Gennevilliers plant on April 7, 2010 is still ongoing and there were no significant developments in the first half of 2017.

The Group has reviewed the risks that could have a material effect on its business activities, financial position or results of operations (or on its ability to achieve its objectives) and believes that there are no material risks other than those presented.

The Group is not aware of any other governmental, judicial or arbitration proceedings, including any pending or potential proceedings, that could have or have had in the last 12 months, a material adverse effect on its business activities, financial position or results of operations.

Tax and customs proceedings

The Group regularly undergoes tax and customs audits carried out by the tax/customs authorities in the countries in which it operates.

In the past, the reassessments issued after tax/customs audits have been for non-material amounts.

At June 30, 2017, the most significant risks concerned the following:

Mersen do Brasil received notice in June 2013 of a customs audit covering the period from January 2008 through December 2012. Following this audit, the customs authorities issued a reassessment notice for an amount (principal and interest) of BRL 10.6 million, corresponding to approximately €2.7 million at the December 31, 2016 exchange rate. The Group has launched a procedure to contest this reassessment.

Mersen Chongqing received notice of a VAT reassessment covering 2012 to 2015 following a change in VAT calculation methods introduced in 2012 which the Group allegedly failed to respect. The Group agreed with the reassessment, which totaled €2.1 million. A provision was recognized for the full amount in the consolidated financial statements at December 31, 2016 and it was paid in early 2017.

On December 13, 2016, Mersen Gennevilliers received notice of a reassessment for (i) corporate property tax (CFE) relating to the years 2013 through 2016, and (ii) real estate tax for 2015 and 2016. The total amount of this reassessment was €2.0 million after taking into account the CET tax cap. On April 26, 2017, the reassessed amount – which covers real estate tax for 2016 and corporate property tax for 2013 through 2016 – was reduced to €0.4 million, which was accepted by Mersen Gennevilliers. Mersen Gennevilliers is also currently subject to an investigation by the French regional business, anti-trust, consumer protection and employment authorities (DIRECCTE) into supplier payment times for the period from October 1, 2015 through September 30, 2016. The company has recognized a €0.4 million provision to cover a potential lump-sum fine that could be imposed on it as a result of this investigation.

The Group is not aware of any other governmental, judicial or arbitration proceedings, including any pending or potential proceedings, that could have or have had in the last 12 months, a material adverse effect on its business activities, financial position or results of operations.

Unless stated otherwise, based on the information available at June 30, 2017, no provisions (other than for legal costs) have been recognized for any of the ongoing proceedings described above.

No other material contingent liabilities were identified by the Group at June 30, 2017.

Other liabilities (€13.4 million at June 30, 2017) include the €10.2 million dividend payable pursuant to the Annual General Meeting of May 18, 2017, as well as payables related to property, plant and equipment.

Note 9 Employee benefit obligations

The Mersen group's main pension plans are defined benefit plans that have been set up in the US (accounting for 46% of the overall defined benefit obligation), the UK (22%), France (12%) and Germany (9%).

The Group's defined benefit obligation was measured at December 31, 2016, with the assistance of independent actuaries and in accordance with IAS 19. The rates used for the main countries are summarized below:

Assumptions used to measure the Group's defined benefit obligation	Discount rate	Rate of salary increases	Inflation rate
France	1.35%	Between 2.0% and 6.25% depending on the beneficiary's age	1.8%
Germany	1.35%	2.50%	1.8%
United States	4.25%	Not applicable	Not applicable
United Kingdom	2.85%	2.75%	2.5%/3.5%

Reconciliation between recognized assets and liabilities

	June 30, 2017	Dec. 31, 2016
Present value of defined benefit obligation	179.9	186.4
Fair value of plan assets	(108.6)	(112.7)
PROVISION BEFORE IMPACT OF MINIMUM FUNDING REQUIREMENT/ASSET CEILING	**71.3**	**73.7**
Impact of minimum funding requirement/asset ceiling	0.2	0.2
PROVISION AFTER IMPACT OF MINIMUM FUNDING REQUIREMENT/ASSET CEILING	**71.5**	**73.9**

The expense recognized in relation to the Group's defined benefit plans amounted to €2.7 million in the six months ended June 30, 2017 compared with €3.3 million in the first half of 2016.

The lower discount rates used for the United States and the United Kingdom at June 30, 2017 did not result in any remeasurement of the Group's defined benefit obligation.

Note 10 Net debt

At June 30, 2017, Mersen had available confirmed credit facilities and borrowings totaling close to €392 million, of which 41% had been used.

Mersen's principal confirmed financing facilities are as follows:

- A €220 million multi-currency syndicated bank loan set up in July 2012 and amended in July 2014, with a five-year term and repayable in full in July 2019.
- A five-year syndicated loan set up with a pool of international banks in September 2013 and amended in October 2016, for the purpose of financing the Group's operations in China. The amount of the loan is RMB 120 million and it is repayable in full in October 2021. Interest on the loan is 95% of the People's Bank of China rate when drawdowns are made.
- Bilateral bank loans set up in September 2013 and amended in August 2016, corresponding to an aggregate RMB 130 million. These loans – which are repayable in installments up until 2019 – are also intended to finance the Group's operations in China.
- A USD 100 million US private placement (USPP) negotiated in November 2011 with a US investor, comprising one tranche of USD 50 million with a 10-year term and one tranche of USD 37.2 million with an eight-year term, both with a bullet structure. The investor receives a fixed rate of interest.
- A €60 million German private placement ("Schuldschein") arranged in November 2016 with a pool of European and Asian investors, repayable in full at maturity after seven years. Investors receive interest at a variable rate based on the Euribor plus a margin.

In addition, as part of its policy to diversify its sources of financing, Mersen set up a commercial paper program in March 2016 representing up to €220 million, of which €40 million had been used at June 30, 2017. The commercial paper issued under this program has a maturity of less than one year and it can be substituted at maturity by drawdowns under the Group syndicated loan.

Maturity schedule of confirmed credit facilities and borrowings

In millions of euros	Amount	Drawdown at June 30, 2017	Utilization rate at June 30, 2017	Maturity		
				Less than 1 year	From 1 to 5 years	More than 5 years
Group syndicated loan	220.0	0.0	0%	0.0	220.0	0.0
Confirmed credit facilities – China	29.0	18.9	65%	2.2	26.8	0.0
2016 German private placement	60.0	60.0	100%	0.0	0.0	60.0
2011 US private placement	81.1	81.1	100%	0.0	81.1	0.0
Other	1.7	1.7	100%	0.3	1.2	0.2
TOTAL	**391.8**	**161.7**	**41%**	**2.5**	**329.1**	**60.2**

Analysis of total net debt

In millions of euros	June 30, 2017	Dec. 31, 2016
Long- and medium-term borrowings	154.3	161.8
Current financial liabilities[(a)]	49.5	53.0
Financial current accounts	0.3	1.1
Bank overdrafts	19.2	22.1
TOTAL GROSS DEBT	**223.3**	**238.0**
Current financial assets	**(8.0)**	**(6.0)**
Cash and cash equivalents	(18.1)	(29.2)
Total cash and cash equivalents	**(18.1)**	**(29.2)**
TOTAL NET DEBT	**197.2**	**202.8**

(a) *Including €40 million at June 30, 2017 utilized under the commercial paper program, which may be substituted at maturity by drawdowns under the Group syndicated loan (€47 million at December 31, 2016).*

Total consolidated net debt amounted to €197.2 million at June 30, 2017 versus €202.8 million at December 31, 2016.

Out of the €223.3 million in total gross debt at June 30, 2017, €161.7 million stems from the use of confirmed credit facilities and borrowings, €40 million from use of the commercial paper program and the remainder chiefly from the use of non-confirmed facilities (bank overdrafts and other facilities).

Financial covenants at June 30, 2017

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. If it fails to comply with certain obligations, the banks or investors (for the US private placements) may require Mersen to repay the relevant borrowings in advance of term. Under the cross-default clauses, early repayment of one significant loan may trigger an obligation for 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 millions of euros	Net debt/EBITDA	Net debt/equity	EBITDA/ net interest
Covenant ratios			
Syndicated loan	< 3.50	< 1.3	-
2011 US private placement	< 3.50	< 1.3	> 3
2016 German private placement	< 3.50		
Confirmed credit facilities – China	< 3.50	< 1.3	
Actual ratios at June 30, 2017			
Syndicated loan	1.78	0.42	-
2011 US private placement	1.78	0.42	10.76
2016 German private placement	1.78		
Confirmed credit facilities – China	1.78	0.42	-
Actual ratios at December 31, 2016			
Syndicated loan	2.09	0.41	-
2011 US private placement	2.09	0.41	9.39
2016 German private placement	2.09		
Confirmed credit facilities – China	2.09	0.41	-

(a) Method for calculating the ratios for 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. For the purpose of the ratios in the covenants, net debt has to be recalculated using 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. For calculating the ratios at June 30, by convention EBITDA is deemed to be the EBITDA figure reported for the first six months of the year multiplied by two.

At June 30, 2017, 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:

Analysis of financial instruments

June 30, 2017	Carrying amount							Fair value			
Statement of financial position and category of instrument	Note	Financial assets and liabilities at fair value through profit or loss	Held-to-maturity investments	Available-for-sale financial assets	Loans and receivables	Financial liabilities at amortized cost	**Total carrying amount**	**Level 1**	**Level 2**	**Level 3**	**TOTAL**
Financial assets measured at fair value											
Unlisted investment securities				2.3			2.3			2.3	2.3
Derivatives held as current and non-current assets		1.3					1.3		1.3		1.3
		1.3	**0.0**	**2.3**	**0.0**	**0.0**	**3.6**	**0.0**	**1.3**	**2.3**	**3.6**
Financial assets not measured at fair value											
Current and non-current financial assets	10				12.2		12.2				
Trade receivables					135.4		135.4				
Cash and cash equivalents	10				18.1		18.1				
		0.0	**0.0**	**0.0**	**165.7**	**0.0**	**165.7**				
Financial liabilities measured at fair value											
Derivatives held as current and non-current liabilities		(0.5)					(0.5)		(0.5)		(0.5)
		(0.5)	**0.0**	**0.0**	**0.0**	**0.0**	**(0.5)**	**0.0**	**(0.5)**	**0.0**	**(0.5)**
Financial liabilities not measured at fair value											
Bank borrowings	10					(154.3)	(154.3)		(154.9)		
Financial current accounts	10					(0.3)	(0.3)				
Bank overdrafts	10					(19.2)	(19.2)				
Current financial liabilities	10					(49.5)	(49.5)				
Trade payables						(61.8)	(61.8)				
		0.0	**0.0**	**0.0**	**0.0**	**(285.1)**	**(285.1)**				
Carrying amount by category		**0.8**	**0.0**	**2.3**	**165.7**	**(285.1)**	**(116.3)**				

December 31, 2016 Statement of financial position and category of instrument	Note	Carrying amount Financial assets and liabilities at fair value through profit or loss	Held-to-maturity investments	Available-for-sale financial assets	Loans and receivables	Liabilities at amortized cost	Total carrying amount	Fair value Level 1	Level 2	Level 3	TOTAL
Financial assets measured at fair value											
Unlisted investment securities				2.3			2.3			2.3	2.3
Derivatives held as current and non-current assets		1.8					1.8		1.8		1.8
		1.8	**0.0**	**2.3**	**0.0**	**0.0**	**4.1**	**0.0**	**1.8**	**2.3**	**4.1**
Financial assets not measured at fair value											
Current and non-current financial assets	10				13.1		13.1				
Trade receivables					123.8		123.8				
Cash and cash equivalents	10				29.2		29.2				
		0.0	**0.0**	**0.0**	**166.1**	**0.0**	**166.1**				
Financial liabilities measured at fair value											
Derivatives held as current and non-current liabilities		(1.5)					(1.5)		(1.5)		(1.5)
		(1.5)	**0.0**	**0.0**	**0.0**	**0.0**	**(1.5)**	**0.0**	**(1.5)**	**0.0**	**(1.5)**
Financial liabilities not measured at fair value											
Bank borrowings	10					(161.8)	(161.8)		(161.4)		
Financial current accounts	10					(1.1)	(1.1)				
Bank overdrafts	10					(22.1)	(22.1)				
Current financial liabilities	10					(53.0)	(53.0)				
Trade payables						(61.6)	(61.6)				
		0.0	**0.0**	**0.0**	**0.0**	**(299.6)**	**(299.6)**				
Carrying amount by category		**0.3**	**0.0**	**2.3**	**166.1**	**(299.6)**	**(130.9)**				

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

The only significant change in the first half of 2017 concerning the management of interest rate, currency and commodity risks was that in March 2017 the Group set up an interest rate cap with a notional amount of €25 million in order to hedge part of its confirmed debt against exposure to a more than 1% increase in the Euribor.

Note 12 Other non-recurring income and expenses

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

In millions of euros	H1 2017	H1 2016
Competitiveness Plan (formerly the Operational Excellence Plan)	(3.0)	
Restructuring costs		(3.5)
Transform Plan	0.2	0.9
Other	0.8	(0.9)
TOTAL	**(2.0)**	**(3.5)**

In the six months ended June 30, 2017, other non-recurring income and expenses represented a net expense of €2.0 million, primarily including:

- €3.0 million in costs related to projects put in place under the Competitiveness Plan (formerly the Operational Excellence Plan).
- A €0.5 million reversal of an impairment loss previously recognized against industrial equipment in China, as business began to pick up in that country (see Note 6).
- Other income and expenses representing net income of €0.3 million.

In the first half of 2016, non-recurring income and expenses represented a net expense of €3.5 million and mainly included:

- €3.5 million in restructuring costs, chiefly stemming from competitiveness plans and expenses related to the withdrawal of a product range in the Electrical Power segment.
- The sale of land and buildings as part of the Transform Plan, resulting in a gain of €0.9 million, net of residual costs.
- Other income and expenses representing a net expense of €0.9 million.

Note 13 Segment reporting

The data for first-half 2016 has been restated to reflect the changes in presentation described in Note 2 and the disposal of the high-power switches business (see Note 4).

In millions of euros	Advanced Materials (AM)			Electrical Power (EP)			Total for continuing operations		
	H1 2017	H1 2016 (restated)	H1 2016 (reported)	H1 2017	H1 2016 (restated)	H1 2016 (reported)	H1 2017	H1 2016 (restated)	H1 2016 (reported)
Sales to third parties	227.2	210.5	210.5	184.8	176.7	179.4	412.0	387.2	389.9
Proportion of total sales	55.1%	54.4%	54.0%	44.9%	45.6%	46.0%	100.0%	100.0%	100.0%
Segment operating income before non-recurring items	**25.1**	**16.5**	**16.8**	**19.1**	**20.3**	**20.6**	**44.2**	**36.8**	**37.4**
Recurring unallocated costs							(7.6)	(6.9)	(6.9)
Segment operating margin before non-recurring items*	11.1%	7.9%	8.0%	10.3%	11.5%	11.5%			
Operating income from continuing operations before non-recurring items							36.6	29.9	30.5
Operating margin from continuing operations before non-recurring items							8.9%	7.7%	7.8%
Segment non-recurring income and expenses	0.0	(1.3)	(1.3)	(2.0)	(2.1)	(2.1)	(2.0)	(3.4)	(3.4)
Amortization of revalued intangible assets			(0.3)			(0.4)	0.0	0.0	(0.7)
Segment operating income	**25.1**	**15.2**	**15.2**	**17.1**	**18.2**	**18.1**	**42.2**	**33.4**	**33.3**
Segment operating margin*	11.0%	7.2%	7.2%	9.3%	10.3%	10.1%			
EBITDA margin[(1)]	17.5%	14.7%	14.7%	12.9%	14.1%	13.9%	13.6%	12.7%	12.6%
Non-recurring unallocated costs							0,0	(0,1)	(0,1)
Operating income from continuing operations							**34,6**	**26,4**	**26,3**
Operating margin from continuing operations							8,4 %	6,8 %	6,7 %
Net finance expense							(5,4)	(6,0)	(6,0)
Current and deferred income tax							(9,5)	(7,0)	(7,0)
Net income from continuing operations							**19,7**	**13,4**	**13,3**

** 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 variations.

Note 14 Payroll costs and headcount

Group payroll costs (including social security contributions, provisions for pension obligations and retirement indemnities) came to €132.5 million in the first half of 2017 compared with €125.9 million in the same period of 2016.

Based on a comparable Group structure and constant exchange rates (like-for-like), payroll costs (including those concerning temporary staff) were 3.2% higher year on year, reflecting (i) an increase in provisions for staff bonuses in view of the Group's first-half 2017 performance, and (ii) a rise in the number of temporary staff as a result of strong business growth.

Headcount* of consolidated companies at end of period, by geographical area

Geographical area	June 30, 2017	%	June 30, 2016	%
France	1,339	21%	1,438	23%
Rest of Europe	762	12%	758	12%
North America	1,915	31%	1,891	31%
Asia	1,722	27%	1,612	26%
Rest of the world	526	8%	492	8%
TOTAL	**6,264**	**100%**	**6,191**	**100%**

** Excluding temporary staff.*

The Group's headcount at June 30, 2017 includes 104 employees newly hired for the start of Mersen Hatan's operations in China.

Based on a comparable Group structure, headcount decreased by 31 persons.

Note 15 Income tax

In millions of euros	H1 2017	H1 2016
Current income tax	(7.9)	(10.8)
Deferred income tax	(1.4)	4.2
Withholding tax	(0.2)	(0.4)
TOTAL TAX EXPENSE	**(9.5)**	**(7.0)**

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 2017 was 33% (34% in the first six months of 2016).

Note 16 Earnings per share

Basic and diluted earnings per share are presented below:

Continuing operations and discontinued operations	June 30, 2017	June 30, 2016 (restated)
Numerator: net income used to calculate basic earnings per share (net income for the period in millions of euros)	18.1	11.3
Denominator: weighted average number of ordinary shares used to calculate basic earnings per share	20,504,099	20,317,291
Maximum effect of dilutive ordinary shares: unexercised options	1,035,325	894,527
Weighted average number of ordinary shares used to calculate diluted earnings per share	21,539,424	21,211,818
Basic earnings per share *(€)*	0.88	0.56
Diluted earnings per share *(€)*	0.84	0.53

Continuing operations	June 30, 2017	June 30, 2016 (restated)
Numerator: net income used to calculate basic earnings per share (net income for the period in millions of euros)	18.7	12.4
Denominator: weighted average number of ordinary shares used to calculate basic earnings per share	20,504,099	20,317,291
Maximum effect of dilutive ordinary shares: unexercised options	1,035,325	894,527
Weighted average number of ordinary shares used to calculate diluted earnings per share	21,539,424	21,211,818
Basic earnings per share *(€)*	0.91	0.61
Diluted earnings per share *(€)*	0.87	0.58

Note 17 Dividends

At the Annual General Meeting held on May 18, 2017, the Company's shareholders approved the payment of a dividend of €0.50 per share for 2016 (unchanged from 2015). This dividend was paid in cash in July 2017 and represented a total payout of €10.2 million.

Note 18 Off balance sheet commitments

At June 30, 2017 there were no material changes to off balance sheet commitments compared with December 31, 2016.

Note 19 Subsequent events

Mersen France Gorcy SAS

In July 2017, Mersen received and accepted a firm offer from a French manufacturer to acquire, subject to conditions precedent, its switch and contactor business, based at the plant in Gorcy, France. The business will therefore be accounted for as an asset held for sale in the 2017 financial statements. The impact on these statements will not be material. In 2016, the business generated nearly €6 million in sales and its operating margin before non-recurring items was 20%.

Amendment of the syndicated loan

On July 18, 2017, the Group amended its multi-currency syndicated loan set up in July 2012 which was originally scheduled to mature in July 2019.

This process involved extending the maturity of the loan by three years to July 2022 (for €200 million), while at the same time benefiting from the current favorable conditions in the lending market.

4 Statutory Auditors' report on the 2017 interim financial information

January 1 to June 30, 2017

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 consolidated interim financial statements of Mersen SA for the period from January 1, 2017 to June 30, 2017;
- the verification of the information contained in the interim management report.

The Board of Directors was responsible for preparing these condensed consolidated interim financial statements. Our role is to express a conclusion on these financial statements based on our limited review.

I – Conclusion on the financial statements

We conducted our limited review in accordance with professional standards applicable in France. A limited 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 the financial statements, taken as a whole, are free from material misstatements, as we would not become aware of all significant matters that might be identified in an audit.

Based on our limited 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, 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 limited 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 28, 2017
KPMG Audit
Department of KPMG S.A.

Philippe Cherqui
Partner

Neuilly-sur-Seine, July 28, 2017
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 28, 2017

Luc Themelin

Chief Executive Officer

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