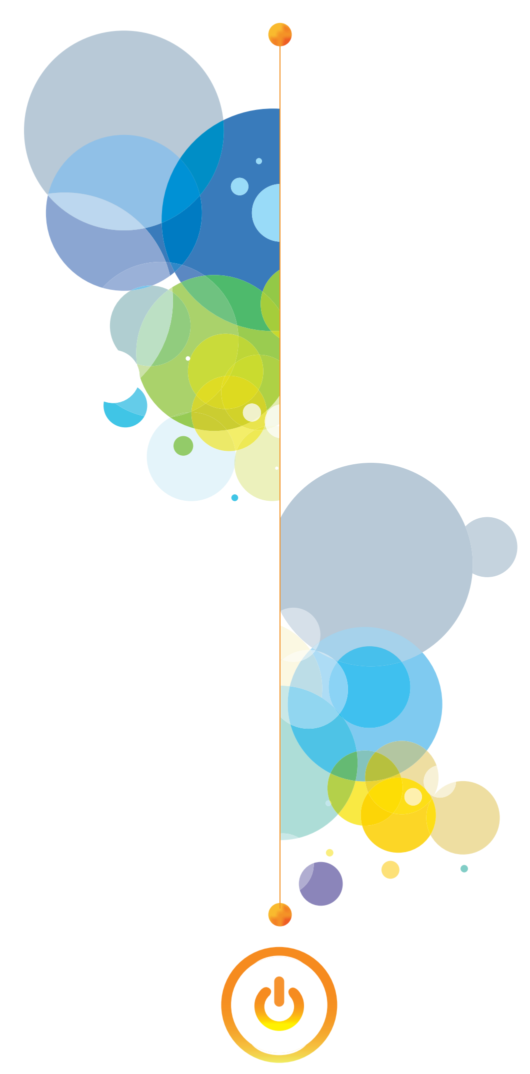
2012 First-half financial report



MERSEN

2012 First-half financial report

page

Message from the Chairman of the Management Board 2

1 Management Report 3

2 Consolidated financial statements 7

3 Appendix 17

4 Statutory auditors' report on the 2012 interim financial information 49

5 Statement of the officer 51

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

Message from the Chairman of the Management Board

Dear fellow shareholder,

After an outstanding 2011, this year began in a less favorable economic environment. However, while the situation in Europe deteriorated in the first half, North America and Asia helped to drive business momentum.

The first six months of the year also represented a period of adjustment in the solar market. Photovoltaic cell production considerably outstripped demand in 2011, prompting manufacturers to severely cut back their output in the latter part of the year to give the market time to absorb the excess inventories. These market conditions severely affected our sales to photovoltaic cell manufacturers who were restructuring their operations. Solar panels are nonetheless still being installed throughout the world and this year's volumes may well exceed those for 2011. This is a very positive development that will drive up the pace of cell inventory drawdowns, leading before too long to an upturn in orders for our Group. Polysilicon manufacturers continued to invest during the first half and the order flow in this segment remained solid.

The other renewable energy markets enjoyed strong growth, with the windpower segment benefiting from the market launch of new products that improve the turbines' performance.

Our chemicals-pharmaceuticals business has a significant order backlog, thanks to major capital expenditure programs by Asian and North American groups that rank among the world leaders in their markets.

A key strategic growth driver for our Group, the electronics market wavered in the first-half due to a slowdown in investment, particularly in new electrical networks, but its potential for growth over the medium term is unchanged.

Our other markets – transportation and the process industries – contracted during the first half in line with macroeconomic trends in Europe and worldwide.

Despite this fall-off in business and the increased proportion of revenue derived from the lower-margin chemicals segment, recurring operating margin nevertheless represented a solid 10.4% of sales. Considering the limited contribution of our two growth drivers – Solar Energy and Electronics – during the period, this represents an encouraging performance that attests to our Group's ability to withstand a business downturn and to act swiftly to align the cost base with changed market conditions.

During the period, we also kept up our efforts to maximize cash flow. This led to a sharp rise in net cash from operating activities to €40 million.

Lastly, in July we finalized the refinancing of our syndicated credit facility that was due to expire in July 2013. Demonstrating their confidence in Mersen, our financial partners have provided us with the financial resources needed to continue growing our business.

Our technological expertise and worldwide presence have helped to ensure that we remain competitive in this unsettled environment. We expect the solar market to pick up during the fourth quarter and some segments of the electronics market should also show signs of recovering. Our chemicals-pharmaceuticals business already has a solid order backlog and 2013 looks set to be a good year in this segment.

I'm convinced that our Group's unique positioning in buoyant markets and fast-growing regions, as well as our robust customer partnerships and our global business base, will serve us well in the coming years.

Luc Themelin
Chairman of the Management Board

Management report

Consolidated results

Sales

In the first half of 2012, Mersen's consolidated sales totaled €427.1 million, an increase of 1.8% taking into account the integration of Eldre and positive currency effects. At constant scope and exchange rates, sales were down 6%.

Economic conditions in Europe were tough during the period. Sales in the solar market also fell sharply, due to weak production of photovoltaic cells by Chinese manufacturers, which had built up large inventories in 2011. In addition, graphite sales for use in new solar kilns and invoiced to a North American customer in early 2011 did not recur. As a result, sales in this market in the first half of 2012 amounted to €28 million versus €57 million in the year-earlier period.

Outside the solar business, sales rose by 1.9% at constant scope and exchange rates. Business levels grew in wind power, conventional energy and chemicals/pharmaceuticals. In process industries, the trend was positive for the materials division, while the electrical division was affected by the European slowdown. The downturn seen at the start of the year intensified in Europe, with business levels falling in most countries. However, growth remained firm in Asia and North America, although it slowed at the end of the first-half period.

In millions of euros	2012 First half	2011 First half	Total growth	Organic growth
Advanced Materials and Technologies	184.3	189.4	-2.7%	-7.9%
Electrical Components and Technologies	242.8	230.0	5.6%	-4.3%
GROUP TOTAL	**427.1**	**419.4**	**1.8%**	**-6.0%**
Europe	150.7	158.0	-4.6%	-9.7%
Asia-Pacific	111.1	103.6	7.2%	-1.8%
North America	142.4	134.1	6.2%	-5.7%
Rest of the world	22.9	23.7	-3.5%	-2.4%
GROUP TOTAL	**427.1**	**419.4**	**1.8%**	**-6.0%**

Sales in Advanced Materials and Technologies fell by 7.9% at constant scope and exchange rates. The decline was caused by a temporary dip in sales in the solar market, and by a very high base for comparison. In other markets, the division's sales were up 9.6% at constant scope and exchange rates. Business levels were robust in process industries - mainly in the USA and Asia - and the Group has adjusted its graphite production capacity to cater for these industries. Sales also rose in the aerospace and chemicals/pharmaceuticals markets.

In Electrical Components and Technologies, sales were down 4.3% at constant scope and exchange rates. The fall in sales accelerated in the second quarter, and was driven in particular by the macroeconomic situation in Europe. Although business conditions were tough in the process industries, rail transport and power electronics markets, they remained positive in the wind power and aerospace markets.

1

EBITDA and operating income before non-recurring items

In millions of euros	2012 First half	2011 First half
Operating income before non-recurring items[a]	44.4	54.2
Impairment, depreciation and amortization	19.8	18.9
EBITDA	**64.2**	**73.1**
% of sales	*15.0%*	*17.4%*

(a) Based on the definition laid down in CNC regulation 2009.R.03.

Mersen generated EBITDA[1] of €64.2 million in the first half of 2012, down 12% on the year-earlier period due to tough operating conditions.

EBITDA margin was 15%, down 2.4 points year-on-year. Margins fell in both of the Group's divisions, and resulted mainly from lower business levels (at constant scope and exchange rates) and a less positive product mix. Sales fell sharply in the solar market, where Mersen achieves high margins, while they increased in the lower-margin chemicals/pharmaceuticals market. However, these two effects were partly offset by a productivity and cost containment plan, which had an overall impact of €8 million.

Operating margin before non-recurring items also fell to 10.4%, 2.5 points lower than in the first half of 2011. However, this margin figure represents a 0.5-point increase on the first half of 2010.

In millions of euros	2012 First half	2011 First half	Change
Sales	427.1	419.4	*+1.8%*
Gross margin	129.2	134.3	*-3.8%*
% of sales	*30.3%*	*32.0%*	
Selling, marketing and other costs	(40.6)	(40.7)	--
Administrative and R&D costs	(44.2)	(39.4)	*(12.2%)*
Total fixed costs (excluding production)	(84.8)	(80.1)	(5.9%)
Operating income before non-recurring items	**44.4**	**54.2**	**(18.1%)**
% of sales	*10.4%*	*12.9%*	

Gross margin fell because of weaker coverage of fixed production costs - particularly depreciation - as business levels declined. Administrative, selling, marketing and R&D costs were higher than in the first half of 2011, due to movements in exchange rates and the Eldre acquisition. At constant scope and exchange rates, they have slightly decreased because of a cost containment plan that offset the impact of inflation and expenses undertaken in late 2011.

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

Net income

Net income attributable to Group equity holders came in at €22.5 million, versus €31.5 million in the year-earlier period.

In millions of euros	2012 First half	2011 First half
Operating income before non-recurring items	**44.4**	**54.2**
Non-recurring income and expenses, net	(2.4)	(2.0)
Amortization and impairment of revalued intangible assets	(0.4)	(0.4)
Operating income	**41.6**	**51.8**
Net finance costs	(6.6)	(4.8)
Income tax	(11.7)	(15.7)
Net income from continuing operations	**23.3**	**31.3**
Net (loss)/income from operations sold or discontinued	(0.4)	1.6
Consolidated net income	**22.9**	**32.9**
Net income attributable to Group equity holders	***22.5***	***31.5***

The main items on the consolidated income statement are as follows:

- Non-recurring income and expenses resulted in a net charge of €2.4 million, relating to restructuring costs and acquisition fees.
- Amortization of revalued intangible assets amounted to €0.4 million, the same as in 2011.
- Mersen's net finance costs totaled €6.6 million in the first half of 2012, taking into account a year-on-year increase in interest charges.
- The tax charge was €11.7 million, giving an effective tax rate of 33%, in line with the 2011 rate.

Cash and debt

Condensed statement of cash flows

In millions of euros	2012 First half	2011 First half
Net cash from operating activities before change in WCR	61.2	72.3
Change in working capital requirement	(7.8)	(38.0)
Change in income tax	(13.7)	(16.3)
Net cash from discontinued operations	--	(0.2)
Net cash from operating activities	**39.7**	**17.8**
Capital expenditure	(14.7)	(21.5)
Net cash from continuing operations after capital expenditure	**25.0**	**(3.7)**
Impact of changes in the scope of consolidation	(26.9)	0.9
Disposals of non-current assets and other	(0.7)	3.1
Net cash from/(used by) operating and investing activities	**(2.6)**	**0.3**
Interest payments	(6.3)	(4.6)
Dividends paid	(0.1)	(0.3)
Issue of new shares and other		0.1
Net cash flow before change in debt	**(9.0)**	**(4.5)**

Net cash from operating activities increased substantially relative to the first half of 2011 due to a reduced working capital requirement as business levels fell and the "Cash Initiative" program continued.

Capital expenditure amounted to €14.7 million and related mainly to maintenance investments.

Cash flows relating to changes in the scope of consolidation concern the Eldre acquisition.

Balance sheet

At June 30, 2012, net debt totaled €255 million versus €239 million at end-2011. This €16 million increase reflects the cost of acquiring Eldre at the start of the year (around €30 million) and an adverse €5 million currency effect caused mainly by the rise in the US dollar against the euro.

The Group's financial position remains solid. At the end of the period, the net debt/EBITDA leverage ratio was 1.98* (1.61* at end-2011) and net debt/equity (gearing) was 46%* versus 44%* at end-2011.

	June 30, 2012	Dec. 31, 2011
Total net debt *(in millions of euros)*	255.2	239.5
Net debt/equity*	0.46	0.44
Net debt/EBITDA*	1.98	1.66

Recent trends and outlook for 2012

Financing

In July 2012, the Group finalized the refinancing of its syndicated revolving facility maturing in July 2013 by the implementation of new bank credit lines totaling €215 million.

These credit lines consist of:

- a syndicated credit revolving facility in two tranches, respectively, € 100 million and USD 75 million, both maturing in five years, repayable at maturity. This syndicated credit facility was subscribed by a banking syndicate comprising leading French and international banks.
- bilateral credits revolving facility totaling € 55 million, with an average maturity of four years.

The average maturity of the utilizations is now close to 5 years.

Outlook

The economic environment is expected to remain fairly unfavorable in the second half of the year. However, the solar market should pick up during the fourth quarter, although there has not yet been any sign of a significant rebound in the order flow.

Deliveries to the chemicals market look set to remain high, leading to a less favorable product-mix than in 2011 although the effect will be partly offset by on-going implementation of productivity and cost containment plans.

Looking further ahead, the Group will remain focused on its strategy and will maintain business momentum by leveraging its buoyant solar and electronics markets, along with its robust order backlog in the chemicals market.

** according to the calculation used for covenants applied to the USD100m private placement issued in November 2011 and to the new syndicated credit facility subscribed in July 2012.*

Consolidated financial statements

Scope of consolidation at June 30, 2012

MERSEN

- 100% MERSEN China Holding Co Ltd, China
  - 100% Beijing Elsta M.Schneider Co Ltd, China
  - 60% MERSEN Yantai Co, China
  - 100% MERSEN Shanghai Co Ltd, China
  - 100% FERRAZ SHAWMUT (Kunshan) Co, China
  - 100% MERSEN Xianda Shanghai Co Ltd, China
  - 100% MERSEN Chongqing Co Ltd, China
  - 100% CARBONE LORRAINE Components Kunshan, China
  - 100% MERSEN Kunshan Co Ltd, China
  - 100% MERSEN Pudong Co Ltd, China
  - 100% SHANGHAI CL CHEMICAL EQUIPMENT, China
- 100% MERSEN Ibérica BCN, SA, Spain
- 100% MERSEN Benelux BV, Netherlands
- 100% MERSEN Nordic AB, Sweden
- 100% MERSEN Korea Co Ltd, South Korea
- 100% MERSEN Istanbul Sanayi Ürünleri AŞ, Turkey
- 100% MERSEN do Brasil Ltda, Brazil
- 50.01% MERSEN Ibérica, SA, Spain
- 100% MERSEN India Pvt Ltd, India
- 100% SCI Carbon Brushes Pvt Ltd, India
- 100% MERSEN France Gennevilliers SAS, France
  - 100% MERSEN France Cevins S.A.S, France
- 100% MERSEN France Amiens SAS, France
- 100% MERSEN France Py SAS, France
- 100% MERSEN France Grésy SA, France
- 85% Boostec, France
- 74% MERSEN Mexico Monterrey, S. de RL de CV, Mexico (26% held by MERSEN USA Bn Corp)
- 100% MERSEN Scot. Holding Ltd, United Kingdom
  - 100% MERSEN Scotland Holytown Ltd, United Kingdom
- 100% MERSEN France SB SAS, France
  - 100% Eldre SAS, France
  - 100% MIRO Holding SAS, France
    - 100% FUSES & SWITCH GEAR, Hong Kong
      - 100% ZHEIJANG MINGRONG ELECTRICAL PROTECTION Co, China
  - 100% MERSEN Tunisie SARL, Tunisia
  - 100% MERSEN Österreich Wien, Austria
  - 100% MERSEN CZ S.R.O., Czech Republic
  - 100% M. Schneider Hungaria Kft, Hungaria
  - 100% MERSEN France Gorcy SAS, France
  - 100% MERSEN France La Mure SAS, France
  - 19% MERSEN Canada Toronto Inc., Canada
  - 91.3% MERSEN FMA Japan, Japan (8.7% held directly by MERSEN)
    - 100% MERSEN Japan KK, Japan
- 100% MERSEN Deutschland Jestetten GmbH, Germany
- 100% MERSEN Canada Dn Ltée / Ltd, Canada
  - 81% MERSEN Canada Toronto Inc., Canada
- 100% MERSEN Deutschland Holding GmbH & Co KG, Germany
  - 90% MERSEN Deutschland FFM AG, Germany (10% held directly by MERSEN)
    - 100% MERSEN Deutschland Linsengericht GmbH, Germany
    - 100% MERSEN Deutschland Suhl GmbH, Germany
    - 100% MERSEN Deutschland Eggolsheim GmbH, Germany
    - 100% Kalinova GmbH, Germany
    - 100% Belanova GmbH, Germany
    - 100% MERSEN Österreich Hittisau Ges.m.b.H, Austria
- 100% MERSEN UK Holdings Ltd, United Kingdom
  - 100% LE CARBONE (Holdings) Ltd, United Kingdom
    - 100% MERSEN UK Teesside Ltd, United Kingdom
  - 100% MERSEN UK Portslade Ltd, United Kingdom
    - 14.7% MERSEN South Africa (Pty) Ltd, South Africa
- 54.7% MERSEN South Africa (Pty) Ltd, South Africa
  - 100% DUSTRIA INVESTMENT, South Africa
  - 100% STATCOR ELECTRICAL, South Africa
- 100% MERSEN Italia Spa., Italy
- 100% MERSEN Oceania, Pty Ltd, Australia
- 100% MERSEN Corporate Services SAS, France
- 100% MERSEN USA Bn Corp, United States
  - 100% MERSEN USA Holding Corp., United States
    - 100% Eldre Corporation, United States
    - 100% MERSEN USA Greenville-MI Corp., United States
    - 100% MERSEN USA St Marys-PA Corp., United States
    - 100% MERSEN USA Midland-MI Inc., United States
    - 100% MERSEN USA Oxnard-CA Inc., United States
      - 51% MERSEN USA Gonzales-LA Llc, United States
  - 100% UGIMAGNET Corp., United States
    - 100% MERSEN USA Newburyport-MA Llc, United States
      - 100% MERSEN de México Juarez, SA de CV, Mexico
  - 26% MERSEN Mexico Monterrey, S. de RL de CV, Mexico

2

LIST OF CONSOLIDATED COMPANIES

	Method of consolidation FC: Full consolidation	% of voting rights held by the Group	% of the share capital owned by the Group
1. **MERSEN** (France)	FC	100	100
2. **MERSEN France Amiens S.A.S** (France)	FC	100	100
3. **MERSEN France Gennevilliers S.A.S** (France)	FC	100	100
- MERSEN France Cevins S.A.S (France)	FC	100	100
4. **MERSEN France Py S.A.S** (France)	FC	100	100
5. **MERSEN Corporate Services S.A.S** (France)	FC	100	100
6. **MERSEN France SB S.A.S** (France)	FC	100	100
- MERSEN France La Mure S.A.S (France)	FC	100	100
- Eldre S.A.S (France)	FC	100	100
- MERSEN Österreich Wien Gmbh (Austria)	FC	100	100
- MERSEN CZ S.R.O. (Czech Republic)	FC	100	100
- M.Schneider Hungaria Kft (Hungary)	FC	100	100
- MERSEN Tunisie SARL (Tunisia)	FC	100	100
- MIRO Holding SAS (France)	FC	100	100
- FUSES & SWITCHGEAR (Hong-Kong)	FC	100	100
- Zhejiang Mingrong Electrical Protection Company (China)	FC	100	100
- MERSEN FMA Japan KK (Japan)	FC	100	100
- MERSEN Japan KK (Japan)	FC	100	100
- MERSEN France Gorcy S.A.S (France)	FC	100	100
7. **MERSEN France Grésy S.A.S** (France)	FC	100	100
8. **Boostec** (France)	FC	85	85
9. **MERSEN Deutschland Holding GmbH & Co. KG** (Germany)	FC	100	100
- MERSEN Deutschland FFM AG (Germany)	FC	100	100
- Belanova-Kalbach GmbH (Germany)	FC	100	100
- Kalinova-Kalbach GmbH (Germany)	FC	100	100
- MERSEN Österreich Hittisau Ges.m.b.H. (Austria)	FC	100	100
- MERSEN Deutschland Lisengericht GmbH (Germany)	FC	100	100
- MERSEN Deutschland Suhl GmbH (Germany)	FC	100	100
- MERSEN Deutschland Eggolsheim GmbH (Germany)	FC	100	100
10. **MERSEN Deutschland Jestetten GmbH** (Germany)	FC	100	100
11. **MERSEN Ibérica S.A** (Spain)	FC	50	50
12. **MERSEN Ibérica BCN S.A** (Spain)	FC	100	100
13. **MERSEN UK Holdings Ltd.** (UK)	FC	100	100
- MERSEN UK Portslade Ltd. (UK)	FC	100	100
- Le Carbone (Holdings) Ltd. (UK)	FC	100	100
- MERSEN UK Teeside Ltd. (UK)	FC	100	100

	Method of consolidation FC: Full consolidation	% of voting rights held by the Group	% of the share capital owned by the Group
14. **MERSEN Scot. Holding Ltd.** (UK)	FC	100	100
- MERSEN Scotland Holytown Ltd. (UK)	FC	100	100
15. **MERSEN Italia Spa.** (Italy)	FC	100	100
16. **MERSEN Benelux B.V** (Netherlands)	FC	100	100
17. **MERSEN Nordic AB** (Sweden)	FC	100	100
18. **MERSEN Canada Dn Ltée / Ltd.** (Canada)	FC	100	100
- MERSEN Canada Toronto Inc. (Canada)	FC	100	100
19. **MERSEN USA Bn Corp.** (Etats-Unis)	FC	100	100
- MERSEN USA Holding Corp. (USA)	FC	100	100
- MERSEN USA Greenville-MI Corp. (USA)	FC	100	100
- MERSEN USA St Marys-PA Corp. (USA)	FC	100	100
- MERSEN USA Midland-MI Inc. (USA)	FC	100	100
- MERSEN USA Oxnard-CA Inc. (USA)	FC	100	100
- MERSEN USA Gonzales-LA LLC (USA)	FC	51	51
- Eldre Corporation (USA)	FC	100	100
- Ugimagnet Corp. (USA)	FC	100	100
- MERSEN USA Newburyport-MA LLC (USA)	FC	100	100
- MERSEN de México Juarez, S.A DE. C.V (Mexico)	FC	100	100
20. **MERSEN México Monterrey, S de R.L. de C.V.** (Mexico)	FC	100	100
21. **MERSEN Oceania, Pty Ltd.** (Australia)	FC	100	100
22. **MERSEN Korea Co. Ltd.** (South Korea)	FC	100	100
23. **MERSEN India Pvt. Ltd.** (India)	FC	100	100
24. **SCI Carbon Brushes Pvt. Ltd.** (India)	FC	100	100
25. **MERSEN China holding Co. Ltd** (China)	FC	100	100
- MERSEN Pudong Co Ltd (China)	FC	100	100
- MERSEN Chongqing Co Ltd (China)	FC	100	100
- Carbone Lorraine Components Kunshan Co Ltd (China)	FC	100	100
- MERSEN Kunshan Co Ltd (China)	FC	100	100
- Shanghai Carbone Lorraine Chemical Equipment Cy Ltd (China)	FC	100	100
- MERSEN Xianda Shanghai Co. Ltd (China)	FC	100	100
- MERSEN Shanghai Co. Ltd (China)	FC	100	100
- Ferraz Shawmut (Kunshan) Company (China)	FC	100	100
- MERSEN Yantai Co (China)	FC	60	60
- Beijing Elsta M.Schneider Co Ltd (China)	FC	100	100
26. **MERSEN South Africa PTY Ltd** (South Africa)	FC	69	69
- Statcor Electrical (South Africa)	FC	69	69
- Dustria Investment (South Africa)	FC	69	69
27. **MERSEN do Brasil Ltda.** (Brazil)	FC	100	100
28. **MERSEN Istanbul** Sanayi Ürünleri AS (Turkey)	FC	100	100

The fiscal year of all these companies is the same as the calendar year

CHANGES IN THE SCOPE OF CONSOLIDATION

DURING THE PAST TWO YEARS

The principal changes that affected the consolidated financial statements in 2011 and 2012 are presented below:

- during fiscal 2011:
  - Chinese company Beijing Elsta M. Schneider Co. Ltd., whose non-controlling shareholders the Group bought out in the first half of 2011, was consolidated for the first time from January 1, 2011.
  - Mersen Istanbul Sanayi Ürünleri was consolidated for the first time from January 1, 2011.

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

- during fiscal 2012:
  - Mersen France SB S.A.S acquired a 100% stake in Eldre SAS, which was consolidated for the first time from January 1, 2012.
  - Mersen USA Holding Corp acquired a 100% stake in US company Eldre Corporation, which was consolidated for the first time from January 1, 2012.

CONSOLIDATED INCOME STATEMENT

In millions of euros	Note	2012 First half	2011 First half
CONTINUING OPERATIONS			
Consolidated sales	17	427.1	419.4
Cost of sales		(297.9)	(285.1)
Gross margin		**129.2**	**134.3**
Selling and marketing costs		(40.5)	(38.3)
Administrative and research costs		(44.2)	(39.4)
Other operating costs		(0.1)	(2.4)
Operating income before non-recurring items		**44.4**	**54.2**
Non-recurring charges	16	(2.4)	(3.4)
Non-recurring income	16		1.4
Amortization of revalued intangible assets		(0.4)	(0.4)
Operating income	**17/19**	**41.6**	**51.8**
Financial expense		(6.6)	(4.8)
Financial income			
Finance costs	20	(6.6)	(4.8)
Net finance costs		**(6.6)**	**(4.8)**
Income before tax and non-recurring items		**35.0**	**47.0**
Current and deferred income tax	21	(11.7)	(15.7)
Net income from continuing operations		**23.3**	**31.3**
Net income from assets held for sale or discontinued operations	4	(0.4)	1.6
Net (loss)/income for the year		**22.9**	**32.9**
Attributable to:			
- Group equity holders		22.5	31.5
- Minority interests		0.4	1.4
NET INCOME FOR THE PERIOD		**22.9**	**32.9**
Earnings per share	**22**		
Basic earnings per share *(€)*		1.11	1.58
Diluted earnings per share *(€)*		1.07	1.52
Earnings per share from continuing operations	**22**		
Basic earnings per share *(€)*		1.13	1.50
Diluted earnings per share *(€)*		1.09	1.44

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

In millions of euros	Note	2012 First half	2011 First half
NET INCOME FOR THE PERIOD		**22.9**	**32.9**
Change in fair value of hedging derivatives	20	(0.1)	1.0
Change in balance sheet items at year-end exchange rate		7.5	(18.4)
Tax on income recognized in equity	20	(0.1)	(0.4)
INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY		**7.3**	**(17.8)**
TOTAL INCOME AND EXPENSE RECOGNIZED DURING THE PERIOD		**30.2**	**15.1**
Attributable to:			
- Group equity holders		29.7	14.7
- Minority interests		0.5	0.4
TOTAL INCOME AND EXPENSE RECOGNIZED DURING THE PERIOD		**30.2**	**15.1**

STATEMENT OF FINANCIAL POSITION

Assets

In millions of euros	Note	June 30, 2012	Dec. 31, 2011
NON-CURRENT ASSETS			
Intangible assets			
- Goodwill	6	284.7	264.0
- Other intangible assets	8	39.4	40.0
Property, plant and equipment	8		
- Land		29.6	28.5
- Buildings		62.5	58.6
- Plant, equipment and other assets		191.4	189.5
- Assets in progress		33.4	29.6
Non-current financial assets			
- Investments	9	5.8	4.9
- Non-current derivatives			
- Other financial assets	3/15	7.2	8.6
Non-current tax assets			
- Deferred tax assets	21	27.6	25.7
- Long-term portion of current tax assets		2.7	2.1
TOTAL NON-CURRENT ASSETS		**684.3**	**651.5**
CURRENT ASSETS			
- Inventories	10	198.5	188.7
- Trade receivables	11	141.3	128.0
- Other receivables		24.5	20.7
- Short-term portion of current tax assets		3.0	4.6
- Other current assets			
- Current financial assets	15	9.0	5.3
- Current derivatives	3	0.4	0.5
- Financial assets	15		
- Cash and cash equivalents	15	39.4	52.2
TOTAL CURRENT ASSETS		**416.1**	**400.0**
TOTAL ASSETS		**1,100.4**	**1,051.5**

Liabilities and equity

In millions of euros	Note	June 30, 2012	Dec. 31, 2011
EQUITY			
- Share capital	12	40.6	40.6
- Premiums and retained earnings		493.2	455.8
- Net income for the period		22.5	56.9
- Cumulative translation adjustments		(13.4)	(20.8)
EQUITY ATTRIBUTABLE TO MERSEN'S SHAREHOLDERS		542.9	532.5
- Owners of non-controlling interests		10.8	10.4
EQUITY		553.7	542.9
NON-CURRENT LIABILITIES			
- Non-current provisions	13	0.7	0.5
- Employee benefits	14	37.3	35.6
- Deferred tax liabilities	21	25.9	24.8
- Borrowings	15	275.2	261.7
- Non-current derivatives	3	2.1	2.1
TOTAL NON-CURRENT LIABILITIES		341.2	324.7
CURRENT LIABILITIES			
- Trade payables		68.3	64.0
- Other payables		74.1	67.8
- Current provisions	13	2.6	5.0
- Short-term portion of current tax assets		3.9	5.5
- Other liabilities	13	27.3	5.1
- Other current financial liabilities	15	9.2	5.3
- Current derivatives	3	0.9	1.2
- Current advances	15		
- Bank overdrafts	15	19.2	30.0
TOTAL CURRENT LIABILITIES		205.5	183.9
TOTAL LIABILITIES AND EQUITY		1,100.4	1,051.5

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to Mersen's shareholders						
In millions of euros	Share capital	Premiums and retained earnings	Net income for the period	Cumulative translation adjustment	Total	Non-controlling interests	Equity
EQUITY AT DEC. 31, 2010	**39.9**	**432.2**	**38.4**	**(29.7)**	**480.8**	**12.9**	**493.7**
Prior-period net income		38.4	(38.4)		0.0		0.0
Net income for the period			31.5		31.5	1.4	32.9
Change in fair value of hedging derivatives, net of taxes		0.6			0.6		0.6
Cumulative translation adjustment				(17.4)	(17.4)	(1.0)	(18.4)
TOTAL OTHER COMPREHENSIVE INCOME	**0.0**	**0.6**	**0.0**	**(17.4)**	**(16.8)**	**(1.0)**	**(17.8)**
COMPREHENSIVE INCOME FOR THE PERIOD	**0.0**	**0.6**	**31.5**	**(17.4)**	**14.7**	**0.4**	**15.1**
Dividends paid		(15.0)			(15.0)	(0.3)	(15.3)
Issue of new shares		0.1			0.1		0.1
Treasury shares		0.6			0.6		0.6
Other items		(10.4)			(10.4)	(4.1)	(14.5)
EQUITY AT JUNE 30, 2011	**39.9**	**446.5**	**31.5**	**(47.1)**	**470.8**	**8.9**	**479.7**
EQUITY AT DEC. 31, 2011	**40.6**	**455.8**	**56.9**	**(20.8)**	**532.5**	**10.4**	**542.9**
Prior-period net income		56.9	(56.9)		0.0		0.0
Net income for the period			22.5		22.5	0.4	22.9
Change in fair value of hedging derivatives, net of taxes		(0.2)			(0.2)		(0.2)
Cumulative translation adjustment				7.4	7.4	0.1	7.5
TOTAL OTHER COMPREHENSIVE INCOME	**0.0**	**(0.2)**	**0.0**	**7.4**	**7.2**	**0.1**	**7.3**
COMPREHENSIVE INCOME FOR THE PERIOD	**0.0**	**(0.2)**	**22.5**	**7.4**	**29.7**	**0.5**	**30.2**
Dividends not yet paid		(20.3)			(20.3)	(0.1)	(20.4)
Issue of new shares					0.0		0.0
Expenses on issue of new shares					0.0		0.0
Treasury shares		1.0			1.0		1.0
Change in non-controlling interests					0.0		0.0
Other items					0.0		0.0
EQUITY AT JUNE 30, 2012	**40.6**	**493.2**	**22.5**	**(13.4)**	**542.9**	**10.8**	**553.7**

CONSOLIDATED STATEMENT OF CASH FLOWS

In millions of euros	2012 First half	2011 First half
Income before tax	34.6	47.0
Depreciation and amortization	19.8	18.9
Additions to/(write-backs from) provisions	0.3	2.2
Net finance costs	6.5	4.8
Capital gains/(losses) on asset disposals		0.2
Other		(0.8)
Net cash from operating activities before change in WCR	**61.2**	**72.3**
Change in working capital requirement	(7.8)	(38.0)
Income tax paid	(13.7)	(16.3)
Net cash from continuing operations	**39.7**	**18.0**
Net cash from discontinued operations		**(0.2)**
Net cash from operating activities	**39.7**	**17.8**
Investing activities		
Increase in intangible assets	(0.2)	(0.3)
Increase in property, plant and equipment	(16.5)	(16.2)
Financial assets	(0.9)	
Impact of changes in the scope of consolidation	(26.9)	0.9
Other changes in net cash from/(used) by investing activities	2.2	(1.9)
Net cash from/(used by) investing activities from continuing operations	**(42.3)**	**(17.5)**
Net cash from/(used by) investing activities from discontinued operations		
Net cash from/(used by) investing activities	**(42.3)**	**(17.5)**
Net cash from/(used by) operating and investing activities	**(2.6)**	0.3
Proceeds from issue of new shares and other increases in equity	0.0	0.1
Net dividends paid to shareholders and non-controlling interests	(0.1)	(0.3)
Interest payments	(6.3)	(4.6)
Change in debt (Note 15)	(4.9)	4.0
Net cash from/(used by) financing activities	**(11.3)**	**(0.8)**
Change in cash	**(13.9)**	**(0.5)**
Cash at beginning of period (Note 15)	52.2	48.6
Cash at end of period (Note 15)	39.4	45.6
Impact of changes in the scope of consolidation	(0.8)	(0.4)
Impact of currency fluctuations	(0.3)	2.9
CHANGE IN CASH	**(13.9)**	**(0.5)**

Appendix

Notes to the consolidated financial statements

Note	Title	Page
Note 1	Statement of conformity	18
Note 2	Accounting policies and principles of consolidation	18
Note 3	Financial risk management	26
Note 4	Sale of the automobile and household electrical appliance brush division	29
Note 5	Business combinations	29
Note 6	Goodwill	30
Note 7	Asset impairment tests	31
Note 8	Property, plant and equipment and intangible assets	32
Note 9	Investments	33
Note 10	Inventories	33
Note 11	Trade receivables	34
Note 12	Equity	34
Note 13	Provisions, contingent liabilities and other liabilities	35
Note 14	Employee benefits	36
Note 15	Net debt	37
Note 16	Other non-recurring income and expenses	40
Note 17	Segment reporting	40
Note 18	Staff costs and headcount	42
Note 19	Operating income	42
Note 20	Financial income and costs	43
Note 21	Income tax	44
Note 22	Earnings per share	45
Note 23	Dividends	45
Note 24	Leases	45
Note 25	Related party disclosures	46
Note 26	Commitments and contingencies	48
Note 27	Subsequent events	48
Note 28	Approval of the financial statements	48

3

Note 1 Statement of conformity

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

The new standards and interpretations not yet applied are presented in Note W.

The options adopted by the Group are stated in the following chapters.

The interim consolidated financial statements for the six months ended June 30, 2012 have been prepared in accordance with IAS 34 "Interim financial reporting". They do not contain all information required in the full annual financial statements, and must be read in conjunction with the Group's financial statements for the year ended December 31, 2011, available at www.mersen.com.

The interim consolidated financial statements for the six months ended June 30, 2012 have been prepared using the recognition and measurement principles stated in the IFRSs adopted for use in the European Union at the same date.

Note 2 Accounting policies and principles of consolidation

A - Basis of consolidation

The consolidated financial statements include those of the parent company and of all those companies in which the Group holds a controlling interest. Control is defined as the power to govern the financial and operating policies of a business so as to obtain benefits from its activities. Subsidiaries over which the Group directly or indirectly exerts exclusive control are fully consolidated.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the acquisition date or up to the loss of control respectively.

All associate undertakings over which the Group exerts significant influence, which is presumed to exist when the latter holds at least 20% of voting rights, are accounted for under the equity method. Subsidiaries' financial statements have been adjusted where necessary to ensure consistency with the policies used by all Group entities within the scope of consolidation.

All intra-Group transactions and balances have been eliminated.

The consolidated financial statements have been prepared in euros.

The Group's business activities do not experience significant seasonal fluctuations. Both sales and purchases are spread on a linear basis throughout the year.

B - Presentation of the financial statements

The Mersen group prepares its financial statements in line with the accounting principles laid down in the revised IAS 1 - Presentation of financial statements.

B1 - Statement of comprehensive income

Given customary practice and the nature of its business activities, the Group has opted for the "by function of expense" format of the income statement, which consists of classifying costs according to their function under cost of sales, selling, administrative, research and development costs.

The Group presents comprehensive income in two statements consisting of an income statement and a separate statement showing income and other components of comprehensive income.

B2 - Statement of financial position

Assets and liabilities arising during the business cycle and those with a maturity of less than 12 months at the balance sheet date are classified as current. All other assets and liabilities are classified as non-current.

B3 - Statement of cash flows

The Group prepares the consolidated statement of cash flows using the indirect method and as stipulated in IAS 7.

The indirect method consists of determining cash flows from operating activities whose net income or loss is adjusted for the effects of non-cash transactions and items arising from investing or financing activities.

B4 - Assets and liabilities held for sale and discontinued operations

In accordance with IFRS 5, assets and liabilities that are immediately available for sale in their current state and the sale of which is highly probable are shown on the balance sheet under assets and liabilities held for sale. Where a group of assets is held for sale in a single transaction and the group of assets represents a distinct component of the entity (business line or principal and distinct geographical region covered by a single and coordinated disposal plan or a subsidiary acquired solely for resale), the group of assets and corresponding liabilities is considered as a whole. The disposal must take place in the year following this presentation of the asset or group of assets.

The non-current assets or group of assets held for sale are stated at the lower of their carrying amount and fair value net of disposal

costs. Non-current assets appearing on the balance sheet as held for sale are no longer depreciated once they are presented as such.

The results recorded by groups of assets satisfying the definition of a business held for sale or discontinued operation are presented by separating out their results from continuing operations, and their cash flows are presented separately on the cash flow statement.

C - Foreign currency translation

The financial statements of the Group's foreign subsidiaries are prepared in their functional currency.

The balance sheets of companies whose functional currency is not the euro are translated into euros at the closing rate, except for equity, which is translated at the historic exchange rate. Income statement items are translated at the average exchange rate for the period. The average exchange rate represents the approximate value of the exchange rate at the transaction date in the absence of significant fluctuations.

Foreign exchange differences resulting from translation are recognized under other comprehensive income and are presented in the currency translation reserve component of equity. However, if the transaction relates to a subsidiary that is not wholly owned, a foreign exchange difference proportional to the percentage of ownership is allocated to non-controlling interests. Where a foreign operation is sold and control or significant influence or joint control is lost, the aggregate amount of the corresponding foreign exchange differences is reclassified in income. Where the Group sells part of its equity interest in a subsidiary that includes a foreign operation while retaining control, a proportional share of the aggregate amount of the foreign exchange differences is reallocated to non-controlling interests. Where the Group sells just a part of its interest in an associate or proportionally consolidated company that includes a foreign operation, while retaining significant influence or joint control, the proportionate share of the aggregate amount of foreign exchange differences is reclassified in income.

Except for cash, which is translated at the closing rate, the cash flow statement items are translated at the average exchange rate, except where this is not appropriate.

Translation differences arising on balance sheet items are recorded separately in equity under cumulative translation adjustments. They comprise:

- the impact of changes in exchange rates on balance sheet items;
- the difference between net income calculated at the average exchange rate and net income calculated at the closing rate.

Goodwill and fair value adjustments deriving from the acquisition of subsidiaries whose functional currency is not the euro are treated as the relevant subsidiary's assets and liabilities. They are therefore stated in the subsidiary's functional currency and translated at the closing rate.

D - Foreign currency assets and liabilities

Foreign currency transactions are recognized and measured in line with IAS 21 - Effects of changes in foreign exchange rates.

Transactions denominated in currencies other than the euro are translated at the exchange rate on the transaction date. At the end of the fiscal year, monetary assets and liabilities denominated in foreign currencies are translated at the closing rate. Any gains and losses arising from currency translation are taken to operating income for the period under foreign exchange gains and losses.

Translation gains and losses on financial instruments denominated in foreign currencies representing a hedge of a net investment in a foreign operation are recorded in equity under cumulative translation adjustments.

E - Hedging

Hedging transactions are recognized and measured in line with the principles laid down in IAS 32 and 39.

E1 - Currency and commodity hedges

A currency derivative is eligible for hedge accounting where the hedging relationship was documented at the outset and its effectiveness has been demonstrated throughout its life.

A hedge is a way of protecting against fluctuations in the value of assets, liabilities and irrevocable commitments. A hedge also helps to protect against adverse fluctuations in cash flows (sales generated by the assets of the business, for instance).

Derivative instruments are stated at their fair value. Changes in the fair value of these instruments are accounted for as follows:

- changes in the fair value of instruments eligible as future cash flow hedges are accounted for directly in equity in respect of the effective portion of the hedge (intrinsic value). Changes in the fair value of these instruments are then recognized in operating income (under "cost of sales" for commodity hedges and under "other operating costs" for currency hedges) and offset changes in the value of assets, liabilities and firm commitments hedged, as they occur. The time value of hedges is recorded under "other operating costs" in operating income;
- changes in the fair value of instruments not eligible as cash flow hedges are taken directly to income.

E2 - Interest-rate hedging

Interest rate derivatives are stated at fair value on the balance sheet. Changes in their fair value are accounted for as follows:

- the ineffective portion of the derivative instrument is taken to income under the cost of debt;

- the effective portion of the derivative instrument is recognized as follows:
  - in equity for a derivative accounted for as a cash flow hedge (e.g. a swap turning a debt carrying a floating interest rate into a fixed-rate liability),
  - in income (cost of debt) for a derivative accounted for as a fair value hedge (e.g. a swap turning a fixed interest rate into a floating interest rate). This accounting treatment is offset by changes in the fair value of the hedged debt.

F - Intangible assets

The applicable standards are IAS 38 - Intangible assets, IAS 36 - Impairment of assets and IFRS 3 - Business combinations.

In accordance with IAS 38 - Intangible assets, only items in respect of which future economic benefits are likely to flow to the Group and the cost of which may be reliably determined are accounted for as intangible assets.

The Group's intangible assets primarily comprise goodwill.

Other intangible assets (customer relationships, technology) with a finite life are accounted for at cost less accumulated amortization and impairment. Amortization is expensed as incurred on a straight-line basis over the estimated useful life of the relevant intangible asset.

F1 - Goodwill

In line with the revised IFRS 3, upon a business combination, the Group measures goodwill as the fair value of the consideration transferred (including the fair value of any equity interest previously held in the acquiree), plus the amount of any non-controlling interest in the acquiree, less the net amount (generally the fair value) of the identifiable assets acquired and the liabilities assumed, with all these amounts being measured at the acquisition date. If the difference above is negative, the resulting gain is recognized as a bargain purchase in income.

On a transaction by transaction basis, the Group may choose to measure at the acquisition date any non-controlling interest either at fair value or at the relevant proportion of the acquiree's identifiable net assets.

For business combinations between January 1, 2004 and January 1, 2010:

Goodwill represents the excess amount of the acquisition cost over the Group's share in the amounts recognized (generally at fair value) in respect of the assets, liabilities and contingent liabilities.

Goodwill is allocated individually to the Group's cash generating units (CGUs). The Group has defined the following four CGUs:

- Electrical Applications
- Electrical Protection
- High-Temperature Applications
- Anticorrosion Equipment

In accordance with IFRS 3 - Business combinations, goodwill is not amortized. It undergoes an impairment test whenever evidence of impairment in the value of assets appears and at least once every year.

In accordance with IAS 36, the Group tests for impairment by:

- preparing cash flow projections after normalized tax based on the Strategic Plan for the relevant CGU;
- determining a value in use using a method comparable to any business valuation, by discounting cash flows at the segment's weighted average cost of capital (WACC);
- comparing this value in use with the carrying amount of the relevant assets to determine whether or not an impairment loss needs to be recognized.

Value in use is determined based on free cash flow projections discounted over a period of five years and a terminal value. The discount rate used for these calculations is the weighted average cost of capital for each of the cash generating units (see Note 7).

The assumptions made for sales growth and terminal values are reasonable and consistent with the market data available for each of the operating activities.

Goodwill impairment losses are irreversible.

F2 - Patents and licenses

Patents and licenses are amortized on a straight line basis over the period for which they are protected by law.

Software is amortized on a straight line basis over its probable service life, which may not exceed five years.

F3 - Development costs

Under IAS 38 - Intangible assets, development costs are capitalized where:

- the entity has the intent and the financial and technical ability to see the development project through to completion;
- it is probable that the expected future economic benefits deriving from development costs will flow to the entity;
- the cost of the asset can be measured reliably;
- and the manner in which the intangible asset will probably generate future economic benefits is demonstrated.

Research and development costs that do not meet the aforementioned criteria are expensed as incurred. Capitalized development costs meeting the criteria laid down in the new accounting standards are recognized as an asset on the balance sheet. They are amortized on a straight line basis over their useful life, which does not generally exceed three years.

F4 - Intangible assets acquired in connection with a business combination

Intangible assets also include technology, brands and customer relationships valued upon the acquisition of companies in accordance with IFRS 3 - Business combinations.

Amortization is expensed on a straight-line basis over the estimated useful life of the relevant intangible assets other than goodwill, once they are ready for operational use. The estimated useful lives applied for the period in question and the comparative period were as follows for the acquisitions completed:

- brands with a finite useful life up to 30 years
- patents and technologies up to 30 years
- customer relationships up to 30 years

The Group studies external and internal factors associated with the asset based on the criteria laid down in the relevant accounting standard when establishing whether an intangible asset has a finite or infinite useful life.

G - Property, plant and equipment

In accordance with IAS 16 - Property, plant and equipment, only items whose cost may be determined reliably and in respect of which future economic benefits are likely to flow to the Group are accounted for as property, plant and equipment.

Property, plant and equipment is stated at historical cost less accumulated depreciation and any impairment losses, except for land, which was revalued at the IFRS transition date.

Borrowing costs directly attributable to the acquisition, construction and production of qualifying assets are included in the cost of the asset.

Depreciation is calculated based on the rate of consumption of the expected economic benefits per item based on acquisition cost, less, where appropriate, residual value.

The various components of an item of property, plant and equipment are recognized separately where their estimated useful life and thus their depreciation period are materially different.

The Group applies the straight-line method of depreciation according to the expected service life of the item.

The periods used are as follows:

- buildings: 20 to 50 years;
- fixtures and fittings: 10 to 15 years;
- plant and equipment: 3 to 10 years;
- vehicles: 3 to 5 years.

These depreciation periods, as well as the residual values, are reviewed and adjusted at the end of each fiscal year. Changes are applied prospectively.

Investment grants are recognized at the outset as a deduction from the gross value of the non-current asset.

H - Leases

Under IAS 17, a lease is classified as a finance lease if it transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset.

Where the criteria laid down in the standard are not met, the costs resulting from leases are charged to income for the period and the lease is considered as an operating lease.

Non-current assets used under a finance lease give rise to the recognition on the Group's balance sheet of both an item of property, plant and equipment and an obligation to make future lease payments. Leases are recognized at the lower of the fair value of the leased property and the present value of minimum payments. At the commencement of the lease term, the asset and relevant liability of the same value corresponding to the future payments under the lease are recognized on the balance sheet.

Lease payments are broken down into a finance charge and the repayment of the outstanding debt. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The capitalized asset is depreciated over the useful life adopted by the Group for non-current assets of the same type. Where the Group is not reasonably certain that the lessee will take ownership of the asset at the end of the lease term, the asset is depreciated in full over the shorter of the term of the lease and the useful life.

In addition, a portion of the capital amount of the debt is repaid in accordance with the debt repayment schedule contained in the finance lease agreement.

I - Impairment of property, plant and equipment and intangible assets

In accordance with IAS 36 - Impairment of assets, when events or changes in the market environment indicate a risk of impairment, the Group's intangible assets and property, plant and equipment undergo a detailed review to determine whether their carrying amount is below their recoverable amount. This amount is defined as the higher of fair value less costs to sell and value in use.

Should the recoverable amount of assets fall below their carrying amount, an impairment loss is recognized in respect of the difference between these two amounts. Impairment losses recognized on property, plant and equipment and intangible assets (except for goodwill) with a definite useful life may be reversed subsequently if the recoverable amount becomes higher than the carrying amount again (without exceeding the impairment loss initially recognized).

The recoverable amount of assets is usually determined based on their value in use. Value in use is defined as the expected future economic benefits from their use and from their sale. It is assessed notably by reference to the discounted future cash flows projected based on economic assumptions and operating budgets drawn up by the Mersen group's senior management.

IAS 36 defines the discount rate to be used as the pre-tax interest rate reflecting the current assessment of time value per market and the risks specific to the asset. It represents the return that investors would require if they had to choose an investment, the amount, maturity and risks of which are equivalent to those of the relevant asset or Cash-Generating Unit (CGU).

The discount rate used for impairment testing takes into account the financial structure and gearing of companies in the sector, i.e. of peers and not of the business or group to which the asset or CGU belongs.

J - Financial assets and liabilities

Financial assets and liabilities are measured and recognized in line with IAS 39 (Financial instruments: Recognition and Measurement), IAS 32 (Financial Instruments: Disclosure and Presentation) and IFRS 7 (Disclosures).

Financial assets comprise investments available for sale, investments held to maturity, trading assets, margin deposits paid, derivatives held as assets, loans, receivables, and cash and cash equivalents.

Upon their initial measurement, all assets and liabilities not stated at fair value are measured at fair value taking transaction costs into account.

Subsequently, loans and receivables are recognized at amortized cost.

Financial liabilities comprise borrowings, other financing and bank overdrafts, derivatives held as liabilities, margin deposits received in relation to derivatives and other liabilities.

Except where covered by a fair value hedge (see E2), borrowings and other financial liabilities are stated at amortized cost calculated using the effective interest rate (EIR). For example, lending fees are deducted from the initial amount of the debt, then added back period by period according to the calculation of the EIR, with the amounts added back being recognized in income.

Current assets include operating receivables measured at amortized cost, with impairment losses being recognized where the carrying amount exceeds the recoverable amount.

J1 - Investments

Investments in unconsolidated subsidiaries are non-current financial assets classified in the available-for-sale category. They are stated at fair value. In the rare instances in which their fair value cannot be obtained, they are stated at cost.

Where there is objective evidence of impairment (financial difficulties, deterioration in performance without any growth prospects, local economic situation, etc.), any significant and long-term impairment losses are recognized in income.

These impairment losses are irreversible and are not written back.

The principal activity of the unconsolidated subsidiaries is the distribution of products manufactured by the Group's consolidated companies.

Subsidiaries that, considered alone and on an aggregate basis, are not material are not included in the scope of consolidation.

A company is included in the scope of consolidation when two of the following four criteria are met for two consecutive years:

- **Equity:** the difference between the value of the securities and net equity exceeds 1% of the Group's equity in the previous year;
- **Debt:** the amount of non-Group debt exceeds €5 million;
- **Sales to third parties:** the entity's sales less intra-Group sales represent more than 1% of Group sales in the previous year;
- **Net income:** net income exceeds €0.5 million.

The materiality of unconsolidated subsidiaries is reassessed at each balance sheet date.

J2 - Other non-current financial assets

These are receivables that do not arise during the business cycle. In accordance with IAS 39, they are stated at amortized cost, with an impairment loss being recognized when the recoverable amount falls below the carrying amount.

K - Share capital

Ordinary shares are classified as equity instruments. Incidental costs directly attributable to the issue of ordinary shares or stock options are deducted from equity, net of tax.

Treasury shares are deducted from equity at their acquisition cost. Any gains or losses from the sale of these shares are recognized directly in equity and are not taken to income for the year.

L - Provisions

In accordance with IAS 37 - Provisions, contingent liabilities and contingent assets, provisions are recorded when the Group is under an obligation to a third party at the end of the fiscal year that is likely or certain to trigger an outflow of resources to the third party representing future economic benefits.

The relevant obligation may be legal, regulatory, or contractual in nature. It may also derive from the Group's business practices or from its public commitments where the Group has created a legitimate expectation among such third parties that it will assume certain responsibilities.

The estimated amount shown in provisions represents the outflow of resources that the Group will have to incur to extinguish its

obligation. Where this amount cannot be measured reliably, no provision is recorded. In this instance, information is disclosed in the notes to the financial statements.

Contingent liabilities consist of a possible obligation arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or a probable obligation for which the outflow of resources is not likely. They are disclosed in the notes to the financial statements.

With restructurings, an obligation exists where the restructuring has been announced and a detailed plan drawn up or execution of the plan has commenced prior to the balance sheet date.

Where the entity has a reliable schedule, the liabilities are discounted where discounting has a material effect.

M - Inventories

Inventories are carried at the lower of cost and their probable net realizable value.

Cost comprises acquisition or production cost.

The only indirect costs taken into account in the measurement of work in progress and finished goods are production-related expenses. No interest costs are capitalized.

N - Consolidated sales

Net sales include sales of finished goods and related services, sales of scrap, sales of goods purchased for resale and invoiced shipping costs.

On an incidental basis, the Group enters into construction contracts via several subsidiaries. If the outcome of a construction contract can be estimated reliably, revenues are recognized in income in proportion to the stage of completion of contract activity. The contract costs are expensed as incurred, except where they represent an asset linked to future contract activity.

A sale is recognized when the entity transfers to the buyer the risks and rewards incidental to ownership.

A sale is measured at the fair value of the consideration received or receivable. Where payment is deferred, leading to a significant impact on determination of fair value, this is reflected by discounting future payments.

The amount of revenue from the sale of goods and equipment is usually recognized when there is a formal agreement with the customer stipulating that risks have been transferred, the amount of revenue can be measured reliably and it is likely that the economic benefits arising from the transaction will flow to the Group. With agreements providing for formal acceptance of the goods, equipment or services received by the customer, recognition of the revenue is normally deferred until the date of acceptance.

Income from ancillary activities is recorded under the appropriate heading of the income statement, i.e. other revenues, financial income, or as a deduction from expenses of the same type (selling, general, administrative or research).

O - Employee benefits

Under defined contribution plans, the Group is under no obligation other than to pay contributions. The corresponding charge, which reflects the payment of contributions, is expensed as incurred.

In line with IAS 19, defined benefit pension plans undergo an actuarial valuation using the projected unit credit method. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. This final obligation is then discounted to present value.

These actuarial calculations are based on various estimates:

- mortality tables;
- retirement dates;
- rate of future salary and benefit increases and employee turnover;
- expected return on plan assets;
- discount and inflation rates set for each of the relevant entities taking into account their local macro-economic environment.

Actuarial gains and losses comprise the cumulative impact of:

- experience adjustments (difference between previous actuarial assumptions and that which has actually occurred); and
- changes in actuarial assumptions.

IAS 19 states that actuarial gains and losses may offset one another in the long term. As a result, it provides for the so-called corridor approach for the recognition of post-employment benefit obligations.

The Group has opted to use the following method:

- cumulative unrecognized actuarial gains and losses falling outside a corridor of plus or minus 10% of the value of the higher of the plan's assets and obligations are recognized and amortized over the expected average remaining working lives of the employees participating in the plan;
- gains and losses falling within the 10% corridor are not recognized;
- unrecognized net cumulative actuarial gains and losses include both the cumulative portion of the 10% within the corridor, as well as the portion outside the corridor, which has not been recognized at the balance sheet date. In accordance with IAS 19, they are disclosed in the notes to the financial statements.

O1 - Recognition of post-employment benefit obligations

The Group's post-employment benefit obligations are accounted for as follows:

- on the face of the balance sheet:

  the amount recognized under liabilities in respect of defined contributions is equal to the total of:

  - the present value of defined benefit obligations at the balance sheet date,

- less the fair value at the balance sheet date of plan assets used directly to pay or finance the obligations,
- plus unrecognized actuarial gains (or less unrecognized actuarial losses) that exist under the aforementioned rule,
- less as-yet-unrecognized past service costs and payments;

- on the face of the income statement:

  the amount expensed or recognized in income (net periodic cost of employee benefits) is the total amount net of the following items:

  - current service cost incurred during the period (or rights vested during the period),
  - interest cost (also called the discounting effect),
  - expected return on plan assets: this expected return is determined based on market expectations at the beginning of the period for returns on plan assets over the entire duration of the corresponding liability (long term),
  - actuarial gains and losses: portion recognized during the period,
  - past service cost: portion recognized during the period,
  - losses/(gains) on any curtailment or settlement of the plan.

O2 - Recognition of unrecognized past service cost

Unrecognized past benefits are recognized in income on a pro-rata basis with the corresponding obligation.

P - Non-recurring income and expenses

Non-recurring items correspond to income and expense not arising during the normal course of the Company's business activities. Major events likely to skew operating performance are recognized under this heading, which does not include any recurring operating expenses.

Non-recurring income and expenses include the following items:

- material non-recurring gains and losses on disposal: on property, plant and equipment, intangible assets, investments, other financial assets and other assets;
- impairment losses recognized on investments, loans, goodwill and other assets;
- certain types of provision;
- reorganization and restructuring costs.

Q - Operating income

Operating income is shown before net finance costs, taxes and non-controlling interests.

Investment grants are shown as a deduction from the costs to which the grant relates.

R - Deferred taxes

Accounting restatements or consolidation adjustments may affect the results of the consolidated companies. Temporary differences are differences between the carrying amount of an asset or liability on the balance sheet and its tax base, which give rise to the calculation of deferred taxes.

In accordance with IAS 12, the Group discloses deferred taxes on the consolidated balance sheet separately from other assets and liabilities. Deferred tax assets are recognized on the balance sheet where it is more likely than not that they will be recovered in subsequent years. Deferred tax assets and liabilities are not discounted.

When assessing the Group's ability to recover these assets, the following items in particular are taken into consideration:

- projections of its future taxable income;
- its taxable income in previous years.

Deferred tax assets and liabilities are stated using the liability method for the balance sheet, i.e. using the tax rate that is expected to be applied in the fiscal year in which the asset will be realized or the liability settled, based on tax rates (and tax laws) enacted or substantively enacted at the balance sheet date, taking into account future tax rate increases or decreases.

The measurement of deferred tax assets and liabilities reflects the tax consequences arising from the manner in which the entity expects at the balance sheet date to recover or to settle the carrying amount of these assets and liabilities.

S - Segment reporting

IFRS 8, which deals with segment reporting, defines an operating segment as a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses,
- whose operating results are reviewed regularly by the entity's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance, and
- for which discrete financial information is available.

The internal reporting provided to the chief operating decision-maker, i.e. the Management Board, and to the Supervisory Board, reflects the management structure of the Mersen Group, which is based on the following segmentation:

Advanced Materials and Technologies: graphite equipment and other high-performance materials dedicated to extreme industrial environments.

Electrical Components and Technologies: systems and components contributing to the performance and protection of electrical equipment.

Pursuant to IFRS 8, the Group identifies and presents operating segments based on the information provided internally to the Management Board.

T - Earnings per share

Basic and diluted earnings per share are shown both for total net income and net income from continuing operations.

Basic earnings per share are calculated by dividing net income for the period attributable to holders of ordinary shares by the weighted average number of ordinary shares in issue during the period.

For the calculation of diluted earnings per share, net income attributable to holders of ordinary shares and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares.

U - Equity-linked benefits granted to employees

In accordance with IFRS 2 - Share-based payment, stock purchase and subscription options and offerings reserved for employees related to shares in the Group are recognized at fair value at the grant date.

The value of stock purchase and subscription options depends notably on the exercise price, the probability of the conditions attached to exercise of the options being met, the life of the options, current price of the underlying shares, anticipated volatility of the share price, expected dividends and the risk-free interest rate over the life of the option. This value is recognized in staff costs on a straight-line basis over the vesting period of the rights with a direct equivalent entry in equity for plans settled in equity and in liabilities to employees for plans settled in cash.

V - Use of estimates

For the preparation of the consolidated financial statements, the calculation of certain figures shown in the financial statements requires that assumptions, estimates or assessments be made, particularly in relation to the calculation of provisions and impairment testing. These assumptions, estimates or assessments are prepared on the basis of the information available and the position at the balance sheet date. These estimates and assumptions are made based on past experience and various other factors. The current backdrop of a severe deterioration in the economic and financial environment has made it hard to assess the business outlook. It is conceivable that actual figures will subsequently differ from the estimates and assumptions adopted.

Actual events occurring after the balance-sheet date may differ from the assumptions, estimates or assessments used.

Use of management estimates in the application of the Group's accounting standards

Mersen may make estimates and use assumptions affecting the carrying amount of assets and liabilities, income and expense, and information about underlying assets and liabilities. Future results are liable to diverge significantly from these estimates.

The estimates and underlying assumptions are made based on past experience and other factors considered to be reasonable based on circumstances. They serve as the basis for the judgment exercised to determine the carrying amount of assets and liabilities, which cannot be obtained directly from other sources. Actual values may differ from estimated values.

Estimates and underlying assumptions are reviewed continuously. The effect of changes in accounting estimates is recognized during the period of the change if it affects only that period, or during the period of the change and subsequent periods if the latter are also affected by the change.

Note 5 relates to net assets held for sale and discontinued operations. The impairment in these assets has been calculated by comparing the carrying amount of these assets and liabilities with a best estimate of their realizable value.

Notes 2-F1, 2-I and 7 concern the testing of goodwill and other non-current assets for impairment. The Group's management carried out this testing based on the most reliable expectations of future business trends at the relevant units taking discount rates into account.

Notes 13 and 14 concerning provisions and employee benefits describe the provisions set aside by Mersen. To determine these provisions, the Group used the most reliable estimate of these obligations.

Note 22 concerning tax expense reflects the Group's tax position, which is based for France and Germany on the Group's best estimate of trends in its future taxable income.

All these estimates are predicated on a structured process for collecting projections of future cash flows, providing for validation by line managers, as well as on expectations for market data based on external indicators and used in line with consistent and documented methods.

W – New standards and interpretations not yet applied

No new standard, amendment to a standard or interpretation had any impact on the consolidated financial statements.

Note 3 Financial risk management

The Group is exposed to the following risks through its use of financial instruments:

- liquidity risk;
- interest-rate risk;
- commodity risk;
- currency risk;
- credit risk.

This note discloses information about the Group's exposure to each of the aforementioned risk factors, its objectives, its risk measurement and management policy and procedures.

Quantitative information is also provided in other sections of the consolidated financial statements.

Capital management is presented in Note 12.

Liquidity risk

Mersen has credit lines and confirmed borrowings at its disposal representing a total amount of €488 million with an average maturity of 2.7 years, of which 57% was drawn down at June 30, 2012. The average maturity of drawn-down facilities was 3.6 years.

Mersen has five major financing agreements:

- A USD100 million private placement negotiated in November 2011 with a US investor, comprising one USD50 million tranche with a maturity of 10 years and one €37.2 million tranche with a maturity of 8 years, with all principal repayable on maturity. The interest paid to the investor carries a fixed rate.
- A USD350 million loan arranged in July 2008 with a maturity of five years, syndicated with an international pool of banks. The interest rates on the syndicated loan equal the interbank rate for the relevant foreign currency when drawings are made plus a fixed credit margin. This loan was refinanced in July 2012 in an amount of €215 million.
- A RMB490 million loan arranged in September 2010, with a maturity of three years, syndicated with an international pool of banks, intended to finance the Mersen group's operations in China. Interest is payable at the PBOC (People's Bank of China) interest rate, with no credit margin, applicable when drawdowns are made. Under an extension granted in September 2011, the maturity of this loan was extended by a year, and so the loan will now mature in September 2014.
- A €40 million bond issue comprising bonds convertible into new and/or exchangeable for existing shares through attached warrants ("OBSAAR" bonds) finalized in November 2007 and repayable in one-third installments between 2012 and 2014, giving it an average life of six years (at issue). The interest rate paid is 3-month Euribor plus a fixed margin. This margin is negative owing to the sale of the warrants;
- A USD85 million private placement negotiated in May 2003 with US investors, comprising one USD65 million tranche with a final maturity of 10 years and one USD20 million tranche with a final maturity of 12 years. The average duration of the private placement was initially around eight years because it is repayable in installments. The interest paid to investors carries a fixed rate.

In July 2012, Mersen completed the refinancing of its USD350 million syndicated loan due to mature in July 2013 by arranging bank facilities totaling €215 million. As is customary, this syndicated loan is subject to compliance with certain financial covenants. The interest rates on these facilities equal the interbank rate for the relevant foreign currency when drawings are made plus a fixed credit margin.

These facilities consist of:

- a syndicated loan in 2 tranches (€100 million and USD75 million), both with a 5-year maturity and with all principal repayable on maturity.

  This syndicated loan was arranged with a pool of leading French and international banks.
- bilateral loans totaling €55 million, with an average maturity of 4 years.

At end-July 2012, Mersen had €425 million of confirmed financing, of which around 50% was drawn down. The average maturity of drawn-down financing is now 4.7 years.

Breakdown by maturity of credit lines and confirmed borrowings

In millions of euros	Amount	Amount drawn down at June 30, 2012	% drawn down at June 30, 2012	Maturities: less than 1 year	Maturities: between 1 and 5 years	Maturities: over 5 years
Group syndicated loan	278.0	77.7	28%	0.0	278.0	0.0
Confirmed credit lines, China	64.5	52.5	81%	5.9	58.6	0.0
US private placements	93.9	93.9	100%	10.6	6.4	76.9
OBSAAR bonds	40.0	40.0	100%	13.3	26.7	0.0
Confirmed credit lines, UK	7.9	7.9	100%	4.7	1.3	1.9
Other	4.2	4.2	100%	4.0	0.2	0.0
TOTAL	488.5	276.2	57%	AVERAGE MATURITY = 2.7 YEARS		

Breakdown by maturity of cash flows from credit line drawdowns and confirmed borrowings

In millions of euros DRAW-DOWNS	Amount drawn down at June 30, 2012	Expected cash flows	Maturities 1-6 months	6-12 months	Over 1 year
Group syndicated loan	77.7	77.8	77.8		
Confirmed credit lines, China	52.5	58.3	9.9	5.7	42.7
2003 US private placements	16.9	18.5	0.5	11.1	6.9
2011 US private placements	77.0	107.9	1.8	1.8	104.3
OBSAAR bonds	40.0	41.5	13.9	0.3	27.3
Confirmed credit lines, UK	7.9	8.9	2.4	2.4	4.1
Other	4.2	4.5	0.2	4.2	0.1
TOTAL	**276.2**	**317.4**	**106.5**	**25.5**	**185.4**

Interest-rate risk

The interest-rate risk management policy is approved by the Group's Management Board based on the proposals submitted by Mersen's finance department and consists of establishing positions from time to time as a function of the direction of interest rates.

In May 2003, the Group purchased several interest-rate swaps covering an aggregate nominal amount of USD85 million to turn the interest payable on the US private placements into a floating rate. These swaps were sold again in April 2009, bringing the debt back to a fixed rate.

When it was acquired by Mersen, Mersen Scotland Holytown had an interest rate swap with a nominal amount of GBP4 million that was arranged on January 15, 2008 to convert part of the interest on its confirmed medium-term debt into a fixed rate. Under this swap, the Company receives interest due to the lender and pays a fixed rate of 5.38%. The repayment and duration profile of the swap match those of the debt. At June 30, 2012, the nominal amount stood at GBP2.8 million.

In June 2009, the Group took out an interest-rate swap with an aggregate amount of €39 million to convert the interest due on the OBSAAR bonds into a fixed rate. Under this swap, the Company receives the interest due to the lenders and pays a fixed rate of 2.815%, with a repayment profile and term equivalent to those of the OBSAAR bonds.

The 2011 US private placements are fixed-rate, with an average coupon of 4.7%.

In millions of euros	Amount *(in €)*	Interest rate received	Interest rate paid	Maturities less than 1 year	between 1 and 5 years	over 5 years
EUR swap	39.0	3-month EUR Libor - margin	2.815%	13.0	26.0	0.0
GBP swap	3.6	1-month GBP Libor + margin	5.38%	0.2	1.3	1.9

In millions of euros ***SWAP***	MTM (a)	Expected cash flows	Maturities less than 1 year	between 1 and 5 years	over 5 years
Assets	0.0	0.5	0.2	0.2	0.0
Liabilities	(2.1)	(2.7)	(1.1)	(1.3)	(0.3)

(a) Marked-to-market = adjusted to market value.

Commodity risk

Certain Group companies purchase raw materials or components comprising commodities, such as non-ferrous metals like copper, silver and zinc. Copper and silver are the two metals that account for a significant volume of the Mersen Group's purchases (around €25 million). Different hedging techniques, such as index-linking of purchase prices, index-linking of selling prices and bank hedging, can be applied.

The commodity price risk-management policy is approved by the Group's Management Board based on proposals submitted by Mersen's finance and procurement departments and consists of establishing positions in commodity futures contracts or in zero-premium collars.

Around 97% of copper price exposure and silver price exposure can be covered through bank hedging.

At end-June 2012, around 45% of the hedgable tonnage of copper for full-year 2012 was hedged. As regards silver, around 60% of the hedgable tonnage was covered.

Impact of commodity hedging

In millions of euros	2012 balance sheet impact	2012 income statement impact
Copper	0.1	0.3
Silver	(0.4)	0.0

Currency risk

Fluctuations in the principal currencies used by the Group

	GBP	JPY	KRW	RMB	USD
Average exchange rate from Jan. 1, 2011 through June 30, 2011[a]	0.8680	114.91	1,544.56	9.1755	1.4046
Closing exchange rate at June 30, 2011[b]	0.9026	116.25	1543.19	9.3416	1.4453
Average exchange rate from Jan. 1, 2012 through June 30, 2012[a]	0.8225	103.37	1480.62	8.1918	1.2965
Closing exchange rate at June 30, 2012[b]	0.8068	100.13	1441.00	8.0011	1.2590

(a) Exchange rates used to convert the statement of cash flows and the income statement.
(b) Exchange rates used to translate the balance sheet.

The currency risk management policy is approved by the Group's Management Board based on proposals submitted by the Finance Department.

Based on a complete inventory of internal and external risks, it consists of entering into forward currency purchases with prime lending institutions.

The Group's usual business policy is to hedge currency risks as soon as orders are taken or to hedge an annual budget. The main currency risk derives from intra-Group sales transactions.

The Group's usual policy is to arrange borrowings in local currencies, except in special circumstances. Borrowings in foreign currencies arranged by the parent company match loans made in the same currencies to its subsidiaries.

For consolidation purposes, the income statement and statements of cash flows of foreign subsidiaries are translated into euros at the average exchange rate for the relevant period, while balance sheet items are translated at the closing rate. The impact of this currency translation may be material. The principal effect derives from the impact of fluctuations in the US dollar exchange rate on the Group's equity and debt.

The Group's operating income before non-recurring items is exposed to exchange rate fluctuations principally through the translation of earnings recorded by companies whose local currency is not the euro. The principal exposure is to the US dollar. A 10% decline in the value of the US dollar compared with the average recorded from January to June 2012 would have had a translation impact of negative €2.7 million on the Group's first-half operating income before non-recurring items. Conversely, a 10% decline in the US dollar compared with the exchange rate at end-June 2012 would have had a translation impact of negative €6.2 million on the Group's net debt at June 30, 2012.

Except in special cases, hedging is centralized by the parent company. It is carried out under strictly defined procedures. Hedges are valued as described below.

Recognition at end-June 2012 of currency transactions

MTM [a] *(stated in millions of euros)*		**June 30, 2012**
Marking to market value of currency hedges	Equity	(0.2)
	Other financial components of operating income	(0.1)

(a) *Marked-to-market = adjusted to market value.*

Future cash flows on currency transactions recognized at June 30, 2012

CURRENCY *(in millions of euros)*	**MTM**	**Expected cash flows**
Assets	0.3	0.3
Liabilities	(0.6)	(0.6)

Currency hedges are adjusted as a function of the underlyings, and so there is no timing difference between their maturities.

Credit risk

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

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

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

Note 4 Sale of the automobile and household electrical appliance brush division

The Group finalized the sale of its automobile and household electrical appliance brush and brushholder division on May 1, 2009.

The financial results of activities held for sale and discontinued operations included operations temporarily maintained, but closely related to the sale and intended to be discontinued – notably under short-term service and outsourcing agreements.

Net income from operations sold or discontinued in the first half of 2011 amounted to €1.6 million. This income arose mainly from the recognition of an earn-out payment under a performance clause included in the contract of sale.

The net loss from operations sold or discontinued in the first half of 2012 amounted to €0.4 million.

Note 5 Business combinations

On January 3, 2012, the Group acquired Eldre, a family-owned US company with production sites in the USA (Rochester, New York) and France (Saint Sylvain d'Anjou). Eldre produces laminated busbars.

The purchase price and goodwill reflect the strengthening of the Group's position as a key global partner in power electronics.

Power electronics components are used in key Mersen growth markets like energy (solar, wind etc.), transportation (rail traction etc.) and electronics (drives, inverters etc.).

This acquisition fits with the Group's profitable growth strategy, which involves strengthening its leadership position in its expanding markets.

The net assets acquired in these transactions and related goodwill are presented below:

Total acquisitions *In millions of euros*	Net assets at acquisition date	Fair value adjustments	Allocation of the acquisition cost	Fair value of net assets
Non-current assets	5.5	2.9	0.0	8.4
Cash acquired	0.9			0.9
Other assets	9.4	(0.2)	0.0	9.2
Non-current liabilities	(0.6)	(1.1)	0.0	(1.7)
Current liabilities	(4.2)	0.0	0.0	(4.2)
Net assets	**11.0**	**1.6**	**0.0**	**12.6**
Goodwill				16.8
Non-controlling interests				0.0
Acquisition price				29.4

The allocation of goodwill is currently being assessed and will be disclosed in the full-year consolidated financial statements.

The expected tax-deductible amount of goodwill relating to Eldre Corp. is $14.9m, deductible over a 15-year period.

Revenue from acquired companies in the first half of 2012 totaled €13.6 million and operating income was €1.3 million.

Eldre acquisition costs amounted to €1.3 million, and were recognized under non-recurring charges (€0.9 million in 2011 and €0.3 million in 2012).

Note 6 Goodwill

In millions of euros	June 30, 2012	Dec. 31, 2011
Carrying amount at end of period	264.0	260.8
Acquisitions	16.8	1.1
Other movements	0.1	(1.8)
Translation adjustments	3.8	3.9
Carrying amount at end of period	284.7	264.0
Gross value at end of period	284.7	264.0
Total impairment losses at end of period	**0.0**	**0.0**

A breakdown by cash-generating unit is shown in the following table:

	Dec. 31, 2011	Movements during 2012			June 30, 2012
In millions of euros	Carrying amount	Acquisitions	Other movements	Cumulative translation adjustment	Carrying amount
Anticorrosion Equipment	69.1			1.5	70.6
High-Temperature Applications	93.0			0.8	93.8
Electrical Applications	12.8		0.1		12.9
Electrical Protection	89.1	16.8		1.5	107.4
TOTAL	**264.0**	**16.8**	**0.1**	**3.8**	**284.7**

Acquisitions relate to the goodwill of Eldre S.A.S (France) and Eldre Corporation (USA) (see note 5).

Note 7 Asset impairment tests

Impairment tests were conducted for each of the cash-generating units when the balance sheet at December 31, 2011 was prepared.

Under IAS 36, tests were carried out on the basis of value in use determined using the discounted cash flow method. The key assumptions used were as follows:

- five-year cash flow forecasts based on the 2012 budget and projections for the following four fiscal years. As regards the Anticorrosion Equipment CGU, it was assumed that margins would gradually rise back to historical levels after a year affected by deliveries of lower-margin equipment;
- a discount rate after tax of 8.5% for all the CGUs. There was no significant evidence suggesting that different discount rates should be applied to the individual CGUs.
- a perpetual growth rate of 3.5% for the Anticorrosion Equipment CGU, 2% for the Electrical Applications CGU and 3% for the Electrical Protection and High-Temperature Applications CGUs. The 3.5% rate applied to the Anticorrosion Equipment CGU is the result of this CGU's business growth in the pharmaceuticals and renewable energies markets;
- a normalized tax rate of 34%.

The discount rate applied is an after-tax rate, since the application of a rate before tax has no impact on value in use calculations for the CGUs.

A sensitivity test was performed by decreasing in the first instance the perpetual growth rate by 1 point and in the second instance by increasing the after-tax discount rate by 1 point compared with the estimate used for each of the CGUs. The sensitivity tests did not cast doubt on the results obtained.

A calculation of sensitivity to the discount rate was conducted such that the recoverable amount was equal to the carrying amount. The discount rates obtained are:

- around 19% for the Electrical Applications CGU;
- around 21% for the Electrical Protection CGU;
- around 11% for the Anticorrosion Equipment CGU; and
- and around 13% for the High-Temperature Applications CGU.

Given the economic background and movements in certain performance indicators, Mersen performed an impairment test on that date on the CGU showing the smallest differential between the recoverable amount and the carrying amount. No impairment loss was recognized after this test. Impairment testing will be carried out again at the 2012 year-end.

Note 8 Property, plant and equipment and intangible assets

In millions of euros	Other intangible assets	Land	Buildings	Plant, equipment and other	Non-current assets in progress	Total property, plant and equipment
Carrying amount at January 1, 2011	**37.1**	**29.5**	**51.1**	**172.5**	**34.1**	**287.2**
Acquisitions of non-current assets	0.4		1.2	4.0	11.2	16.4
Retirements and disposals		(1.2)	(0.9)	(0.3)	(0.1)	(2.5)
Depreciation and amortization	(1.1)	(0.1)	(5.4)	(12.3)		(17.8)
Translation adjustments	(0.6)	(0.5)	(2.2)	(7.0)	(1.7)	(11.4)
Other movements	3.3	(0.9)	4.7	5.5	(9.3)	0.0
Carrying amount at June 30, 2011	**39.1**	**26.8**	**48.5**	**162.4**	**34.2**	**271.9**
Gross value at June 30, 2011	65.8	27.5	98.5	428.5	34.2	588.7
Total depreciation and amortization at June 30, 2011	(26.7)	(0.7)	(50.0)	(266.1)		(316.8)
Total impairment losses at June 30, 2011						0.0
Carrying amount at December 31, 2011	**40.0**	**28.5**	**58.6**	**189.5**	**29.6**	**306.2**
Gross value at December 31, 2011	68.2	29.2	107.9	480.2	29.6	646.9
Total depreciation and amortization at December 31, 2011	(28.2)	(0.7)	(49.3)	(290.7)		(340.7)
Total impairment losses at December 31, 2011						0.0
Carrying amount at January 1, 2012	**40.0**	**28.5**	**58.6**	**189.5**	**29.6**	**306.2**
Acquisitions of non-current assets	0.2		0.1	5.4	11.0	16.5
Retirements and disposals				(0.1)		(0.1)
Depreciation and amortization	(0.7)		(1.6)	(17.5)		(19.1)
Translation adjustments	0.2	0.1	1.1	3.3	0.5	5.0
Impact of changes in the scope of consolidation	0.0	1.0	3.7	3.5		8.2
Other movements	(0.3)		0.6	7.3	(7.7)	0.2
CARRYING AMOUNT AT JUNE 30, 2012	**39.4**	**29.6**	**62.5**	**191.4**	**33.4**	**316.9**
GROSS VALUE AT JUNE 30, 2012	**68.7**	**30.3**	**113.9**	**501.4**	**33.4**	**679.0**
TOTAL DEPRECIATION AND AMORTIZATION AT JUNE 30, 2012	**(29.3)**	**(0.7)**	**(51.4)**	**(310.0)**		**(362.1)**
TOTAL IMPAIRMENT LOSSES AT JUNE 30, 2012						**0.0**

Spending on research (or for the research phase of an internal project) is expensed as incurred.

An intangible asset is recognized in respect of development costs resulting from development (or the development phase of an internal project) if and only if the Group can demonstrate that the developments satisfy the criteria in the standard.

At June 30, 2012, the Group had not identified any development costs over the period satisfying these criteria.

Note 9 Investments

At period-end, the value of the unconsolidated shareholdings held by consolidated companies was as follows:

In millions of euros	June 30, 2012	Dec. 31, 2011
Gross value	9.7	8.8
Impairment losses	(3.9)	(3.9)
CARRYING AMOUNT	**5.8**	**4.9**

The increase in investments was the result of share issues by Mersen Russia and Mersen Maroc SARL.

Impairment losses recognized on investments at June 30, 2012 mainly concern Argentina and Greece.

The main investments in unconsolidated subsidiaries and associates are as follows:

In millions of euros Company name	% held	Gross value	Carrying amount
Fusetech	50%	1.3	1.3
Mersen Argentina	100%	3.7	0.8
Mersen Russia	100%	1.2	1.2
Mersen Maroc SARL	100%	1.2	1.2
Nortroll	34%	0.8	0.5
GMI	25%	0.2	0.2
Mersen Chile Ltd	100%	0.2	0.2
Mersen Hellas SA	100%	0.8	0.1
Investments in other companies		0.3	0.3
TOTAL		**9.7**	**5.8**

Note 10 Inventories

In millions of euros	June 30, 2012	Dec. 31, 2011
Raw materials and other supplies	101.1	91.6
Work in progress	72.9	74.0
Finished goods	35.5	31.8
Gross carrying amount of inventories	**209.5**	**197.4**
Impairment losses	(11.0)	(8.7)
NET CARRYING AMOUNT OF INVENTORIES	**198.5**	**188.7**

Inventories increased by €9.8 million in the first half of 2012, with an increase of €4.9 million attributable to changes in the scope of consolidation. Currency effects had a positive effect of €2.7 million. On a like-for-like basis, inventories grew by €2.2 million or 1.2%.

Note 11 Trade receivables

In millions of euros	June 30, 2012	Dec. 31, 2011
Gross trade receivables	145.7	131.9
Impairment losses	(4.4)	(3.9)
NET TRADE RECEIVABLES	**141.3**	**128.0**

Net trade receivables increased by €13.3 million in the first half of 2012, with an increase of €3.5 million attributable to changes in the scope of consolidation and a €2.1 million increase to currency effects. On a like-for-like basis, trade receivables grew by €7.7 million or 6%.

The movements related to impairment losses on trade receivables were as follows:

In millions of euros	June 30, 2012	Dec. 31, 2011
Impairment losses at January 1	(3.9)	(3.2)
Additions / write-backs during the period	(0.5)	(0.7)
IMPAIRMENT LOSSES AT END OF PERIOD	**(4.4)**	**(3.9)**

Impairment in trade receivables is reviewed on a customer-by-customer basis by each unit depending on procedures in progress.

Note 12 Equity

Breakdown of the share capital

In number of shares (unless otherwise stated)	Ordinary shares
Number of shares at January 1, 2012	20,288,354
Issue of new shares *(in millions of euros)*	0.0
Number of shares at June 30, 2012	20,288,354
Number of shares in issue and fully paid-up	20,288,354
Number of shares in issue and not fully paid-up	0
Par value of shares *(€)*	2
Entity's shares held by itself or by its subsidiaries and associates	58,690

Capital management

The Company's share capital at June 30, 2012 amounted to €40,576,708, comprising 20,288,354 shares each with a par value of €2 and all belonging to the same category. The number of voting rights stood at 20,229,664, since shares held in treasury do not carry voting rights. There are no double voting rights.

To the best Company's knowledge, ownership of the share capital broke down as follows at December 31, 2011:

- French institutional investors: 47.3%
- Institutional investors from other countries: 33.7%
- Individual shareholders: 17.8%
- Employees: 1.0%
- Treasury shares: 0.2%

Since December 31, 2011, certain shareholders have reported crossing the following disclosure thresholds:

February 24, 2012: Threadneedle (subsidiary of Ameriprise Financial) announced that its stake in Mersen's capital and voting rights had fallen below 5% and that it owned 1,006,994 shares on February 21, 2012, representing 4.963% of the capital and voting rights.

March 30, 2012: BNP Paribas Asset Management, in the name and on behalf of Cam Gestion, Fundquest France and Fortis Investments entities integrated within BNP Paribas Investment Partners, announced that it owned 415,244 shares on March 29, 2012, representing 2.0467% of the capital and voting rights.

May 8, 2012: Threadneedle (subsidiary of Ameriprise Financial) announced that its stake in Mersen's capital and voting rights had fallen below 4% and that it owned 773,226 shares on May 4, 2012, representing 3.81% of the capital and voting rights.

May 19, 2012: Threadneedle (subsidiary of Ameriprise Financial) announced that its stake in Mersen's capital and voting rights had fallen below 3% and that it owned 608,108 shares on May 18, 2012, representing 2.997% of the capital and voting rights.

At June 30, 2012, 58,690 shares or 0.2% of the share capital was held under a liquidity agreement approved by the Autorité des Marchés Financiers and entrusted to investment services provider Exane.

At June 30, 2012 the Group's employees owned 151,161 shares, representing 0.7% of the share capital, plus 507,857 stock options that, if exercised in full, would represent 2.5% of the current share capital. The stock option plans set up by the Group are based on an exercise price determined without any discount, since exercise of the options is subject to conditions linked to the Group's future performance. Using this method, the Group ensures that the interests of its managers are aligned with those of its shareholders.

The Group has also implemented a policy of allotting bonus shares. Definitive allotment of the shares is contingent upon the relevant beneficiaries' presence on the Group's payroll at the end of the vesting period. Awards to members of the Management Board and employees that, in the Management Board's view, have made a significant contribution to the Company's performance are subject to performance conditions. However, the Management Board has not set performance conditions for employees who, because of their role, contribute less directly to the Company's financial results. At June 30, 2012, the number of bonus shares with the potential to be allotted definitively was 248,388, representing 1.2% of the current share capital.

Through the fourth resolution of the General Meeting of May 23, 2012, it was decided that shareholders would have the option of receiving all dividends in the form of new Mersen shares. On May 24, 2012, the Management Board set the price for new shares at €20.49. On July 2, 2012, the Management Board noted that at the end of the option period, 1,262,560 rights had been reinvested in new shares, and decided to issue 62,615 new shares with par value of €2 each.

Note 13 Provisions, contingent liabilities and other liabilities

In millions of euros	June 30, 2012		Dec. 31, 2011	
	Non-current	Current	Non-current	Current
- provision for restructuring	0.3	1.8	0.4	2.9
- provision for litigation	0.2	0.2		
- other provisions	0.2	0.6	0.1	2.1
TOTAL	**0.7**	**2.6**	**0.5**	**5.0**

Provisions amounted to €3.3 million at June 30, 2012 (€5.5 million at December 31, 2011) and primarily comprise a restructuring provision following the closure of the M.Schneider Allemagne site.

€1.5 million of the provision set aside in 2010 for decontamination as a result of the processes and products used by a manufacturing facility has been released after the risk was reassessed.

As regards litigation:

Some customers who opted out of the US class action lawsuit in 2009 initiated proceedings in the United Kingdom before the CAT *(Competition Appeal Tribunal)*. Through these proceedings, the plaintiffs are claiming damages for losses that they allegedly suffered as a result of practices in the market for electric motor brushes and products for mechanical applications, against which the European Commission ruled in December 2003. Since the Group considers that there is no basis for this legal action, no provision was set aside.

In February 2011, the Deutsche Bahn group, together with other European rail companies, commenced legal action against Morgan, SGL, Schunk and Mersen in the UK's CAT. Through these proceedings, the plaintiffs are claiming damages for losses that they allegedly suffered as a result of practices in the market for electric motor brushes and products for mechanical applications, against which the European Commission ruled in December 2003. The Group has made submissions defending the claim. Legal proceedings are still in progress. The Group does not currently possess sufficient information to estimate the risk linked to these proceedings, and no provision was thus set aside.

Other liabilities (€27.3 million at June 30, 2012) mainly included €20 million of dividends not yet paid to shareholders and amounts payable on property, plant and equipment.

No other material contingent liabilities were identified at end-June 2012.

Note 14 Employee benefits

The Mersen group's principal pension plans are defined benefit plans and are located in the US (39% of obligations), the UK (24% of obligations), France (14% of obligations) and Germany (9% of obligations).

The Group's obligations were measured at December 31, 2011 with the assistance of independent actuaries in accordance with IAS 19. Obligations, assets covering those obligations and the charge recognized at June 30, 2012 were calculated by projecting forward the valuation at December 31, 2011.

The rates used for the principal countries are summarized below:

2011	Discount rate	Return on plan assets	Average rate of salary increases	Inflation rate
France	5.0%	3.80% / 4.95%	2.0%	2.2%
Germany	5.0%	Not applicable	2.5%	2.2%
United States	5.0%	6.75%	Not applicable	Not applicable
United Kingdom	5.15%	5.10%	3.60%	3.10%

Reconciliation between assets and liabilities recognized

In millions of euros	June 30, 2012	Dec. 31, 2011
Actuarial obligation	132.4	126.3
Fair value of plan assets	(68.7)	(64.4)
Unrecognized actuarial gains and losses	(24.7)	(23.8)
Unrecognized past service cost (rights not vested)	(1.7)	(2.5)
PROVISION BEFORE THE LIMIT ON ASSETS	**37.3**	**35.6**
Surplus management reserve		
PROVISION AFTER THE LIMIT ON ASSETS	**37.3**	**35.6**

Breakdown of the Group's net obligations at June 30, 2012 by geographical area

In millions of euros	France	Germany	United States	United Kingdom	Rest of the world	Total at June 30, 2012
Actuarial obligation	18.2	12.1	51.7	31.7	18.7	132.4
Fair value of plan assets	(0.2)	0.0	(30.5)	(28.8)	(9.2)	(68.7)
Unrecognized actuarial gains and losses	(1.9)		(14.5)	(3.6)	(4.7)	(24.7)
Unrecognized past service cost (rights not vested)	(1.7)					(1.7)
Net amount recognized	14.4	12.1	6.7	(0.7)	4.8	37.3

Change in the Group's obligations

In millions of euros	France	Germany	United States	United Kingdom	Rest of the world	Total
December 31, 2011	**17.6**	**12.2**	**48.9**	**29.6**	**18.0**	**126.3**
Payments	(0.4)	(0.4)	(1.3)	0.2	(0.6)	(2.5)
Expense charged to income	0.8	0.3	2.4	0.9	0.9	5.3
Translation adjustment			1.5	1.0	0.3	2.8
Actuarial gains and losses			0.2		0.1	0.3
Other movements	0.2					0.2
JUNE 30, 2012	**18.2**	**12.1**	**51.7**	**31.7**	**18.7**	**132.4**

Change in plan assets

In millions of euros	France	Germany	United States	United Kingdom	Rest of the world	Total
December 31, 2011	**0.2**	**0.0**	**28.5**	**27.0**	**8.7**	**64.4**
Return on plan assets			0.9	0.7	0.2	1.8
Employer contribution			0.3	0.1	0.2	0.6
Employee contribution						0.0
Payment of benefits						0.0
Translation adjustment			0.8	1.0	0.1	1.9
Other movements						0.0
JUNE 30, 2012	**0.2**	**0.0**	**30.5**	**28.8**	**9.2**	**68.7**

UK plan assets account for 42% of total plan assets, with 50% invested in equities and 46% in government bonds.

US plan assets account for 44% of total plan assets, with 48% invested in equities and 52% in bonds.

The charge recognized at June 30, 2012 in respect of these plans was €4.4 million, compared with €3.7 million at June 30, 2011. This charge breaks down as follows:

In millions of euros	France	Germany	United States	United Kingdom	Rest of the world	Total at June 30, 2012	Total at June 30, 2011
Current service cost	0.4	0.1	1.3	0.1	0.5	2.4	2.0
Interest cost	0.4	0.2	1.1	0.8	0.4	2.9	2.8
Expected return on plan assets			(1.0)	(0.7)	(0.2)	(1.9)	(1.9)
Amortization of actuarial gains and losses	0.2		0.5		0.3	1.0	0.7
Impact of the limit on assets						0.0	0.1
Other movements						0.0	0.0
TOTAL CHARGE FOR THE PERIOD	**1.0**	**0.3**	**1.9**	**0.2**	**1.0**	**4.4**	**3.7**

Between December 31, 2011 and June 30, 2012, discount rates fell by around 1 percentage point. This did not have any impact on the amount of the provision, due to the corridor method.

At December 31, 2011, a decrease of 0.25 points in discount rates would have led to an increase of €4.1 million in the estimated actuarial obligation.

Note 15 Net debt

Analysis of total net debt at June 30, 2012

In millions of euros	June 30, 2012	Dec. 31, 2011
Borrowings	275.2	261.7
Current financial liabilities	9.2	5.3
Bank overdrafts	19.2	30.0
TOTAL GROSS DEBT	**303.6**	**297.0**
Including use of confirmed credit lines	*276.2*	*260.2*
Current financial assets	**(9.0)**	**(5.3)**
Cash and cash equivalents	**(39.4)**	**(52.2)**
TOTAL NET DEBT	**255.2**	**239.5**

Total consolidated net debt at June 30, 2012 was €255.2 million versus €239.5 million at year-end 2011.

Of the €303.6 million in total gross debt, €276.2 million stems from the use of the confirmed loans and borrowings and the remainder chiefly from use of the non-confirmed lines (bank overdrafts and other lines).

Reconciliation between changes in net debt shown on the balance sheet and on the statement of cash flows

In millions of euros	June 30, 2012	June 30, 2011
Debt at Dec. 31 of the prior period	**239.5**	**220.1**
Net cash from operating and investing activities after tax	(25.7)	(0.2)
Cash used by restructurings	1.4	0.6
Net cash (inflows)/outflows attributable to changes in the scope of consolidation	26.9	(0.9)
Net cash from operating and investing activities of continuing operations	**2.6**	**(0.5)**
Net cash from operating and investing activities of assets held for sale and discontinued operations	**0.0**	**0.2**
Proceeds from issuance of new shares	0.0	(0.1)
Dividends paid	0.1	0.3
Interest payments	6.3	4.6
Translation adjustments and other	4.8	(7.7)
Impact of changes in the scope of consolidation	0.7	15.1
Other changes	1.2	(3.2)
DEBT AT JUNE 30 OF THE CURRENT PERIOD	**255.2**	**228.8**

** In 2011, the amount reflects the change in debt on the buy-out of non-controlling interests in Mingrong Electrical Protection.*

Financial covenants at June 30, 2012

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

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

Financial covenants[(a)] (consolidated financial statements)

In millions of euros	Net debt/ EBITDA	Net debt/ equity	EBITDA/ net interest expense
Covenant ratios			
Group syndicated loan	< 3.35	< 1.3	-
2003 US private placement	< 3.35	< 1.3	> 3
2011 US private placement [(b)]	< 3.35	< 1.3	> 3
OBSAAR bonds	-	< 1.35	-
Syndicated loan, China		< 1.35	
Actual ratios at June 30, 2012			
Group syndicated loan	1.93	0.46	
2003 US private placement	1.93	0.46	10.41
2011 US private placement	1.98	0.46	10.19
OBSAAR bonds		0.47	
Syndicated loan, China		0.46	
Actual ratios at December 31, 2011			
Group syndicated loan	1.61	0.44	
2003 US private placement	1.61	0.44	14.76
2011 US private placement	1.66	0.44	14.36
OBSAAR bonds		0.45	
Syndicated loan, China		0.44	

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

(b) Following July 2012 committed borrowings refinancing, the financial covenant Net debt to EBITDA of the new Group syndicated loan, confirmed bilateral borrowings and the 2011 US private placement has been increased to 3.50.
The new Group syndicated loan and the 2011 US private placement benefit of Net debt to Equity and Net debt to EBITDA ratio level aligned.
The financial covenant Net debt to EBITDA of these two borrowings are aligned downward up to a minimum threshold of 3.35.

At June 30, 2012, there were no material borrowings or liabilities secured by assets or guaranteed by third parties.

Breakdown by currency of the drawdowns on credit lines and confirmed long- and medium-term borrowings including the short-term portion at June 30, 2012

Operating receivables and payables all mature in less than one year. A breakdown of borrowings by maturity is shown below.

In millions of euros	Total	< 1 year	> 1 and < 5 years	> 5 years
Borrowings in USD	71.7	10.6	21.4	39.7
Borrowings in EUR	108.5	17.4	53.8	37.3
Borrowings in GBP	43.5	4.6	37.0	1.9
Borrowings in RMB	52.5	5.9	46.6	0.0
TOTAL	**276.2**	**38.5**	**158.8**	**78.9**
Amortization of issuance costs at the EIR[a]	(0.9)			
Fair value of interest-rate derivatives	0.4			
TOTAL	**275.7**			

(a) Effective interest rate.

Of the €158.8 million in debt due to mature in between one and five years' time, €104.6 million had a maturity of over two years at June 30, 2012.

Analysis of total net debt at June 30, 2012

By currency	%
EUR	41.5
USD	26.5
RMB	18.3
GBP	15.0
Other[a]	-1.3

(a) Net financial surplus on other currencies

By interest rate	%
Fixed	53.4
Floating	46.6

In millions of euros	Total	o/w maturity < 5 years	o/w maturity > 5 years
Debt	303.6	224.7	78.9
Financial assets	(48.4)	(48.4)	0.0
Net position before hedging	**255.2**	**176.3**	**78.9**
Fixed-rate debt	136.4	57.5	78.9
Net position after hedging	**118.8**	**118.8**	**0.0**

Assuming Mersen's debt and exchange rates remain unchanged at their June 30, 2012 level and taking into account the swaps held in the portfolio, an increase of 100 basis points in floating interest rates would increase the Group's annual interest costs by around €1.2 million.

Note 16 Other non-recurring income and expenses

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

In millions of euros	2012 First half	2011 First half
Transfers/restructuring	(0.6)	(2.9)
Prior period losses of newly consolidated companies and acquisition costs	(0.5)	(0.2)
Other expenses	(1.3)	1.1
TOTAL	(2.4)	(2.0)

In the first half of 2012, non-recurring income and expenses resulted in a net charge of €2.4 million. Other expenses related mainly to debt write-offs and various disputes.

In the first half of 2011, non-recurring income and expenses resulted in a net charge of €2.0 million. This primarily reflected the cost of reorganizing the M.Schneider Allemagne production facilities and charges linked to acquisitions (prior-period losses and acquisition costs). Other non-recurring income and expenses mainly consisted of the sale of the sauna lighting business in Germany and the closure of the Czech subsidiary.

Note 17 Segment reporting

Operating income

In millions of euros	Advanced Materials and Technologies (AMT)		Electrical Components and Technologies (ECS)		Total for continuing operations	
Sales	2012 First half	2011 First half	2012 First half	2011 First half	2012 First half	2011 First half
Sales to third parties	184.3	189.4	242.8	230.0	427.1	419.4
Breakdown of sales	43.2%	45.2%	56.8%	54.8%	100.0%	100.0%
Segment operating income before non-recurring items	22.1	30.2	29.2	31.3	51.3	61.5
Segment operating margin before non-recurring items*	12.0%	15.9%	12.0%	13.6%		
Segment non-recurring income and expenses	(1.0)	(0.8)	(1.4)	(1.9)	(2.4)	(2.7)
Amortization of revalued intangible assets	(0.3)	(0.3)	(0.1)	(0.1)	(0.4)	(0.4)
Segment operating income	20.8	29.1	27.7	29.3	48.5	58.4
Segment operating margin*	11.3%	15.4%	11.4%	12.7%		
EBITDA margin [(1)]	19.4%	22.5%	14.5%	16.4%		
Recurring unallocated costs					(6.9)	(7.3)
Non-recurring unallocated costs					0.0	0.7
Operating income from continuing operations					41.6	51.8
Operating margin from continuing operations					9.7%	12.3%
Net finance costs					(6.6)	(4.8)
Current and deferred income tax					(11.7)	(15.7)
Net income from continuing operations					23.3	31.3

** 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 business activities do not experience significant seasonal fluctuations.

Breakdown of depreciation and amortization recognized by segment

In millions of euros	2012 First half				2011 First half			
	AMT	ECS	Unallocated	Total	AMT	ECS	Unallocated	Total
TOTAL	(13.7)	(5.9)	(0.2)	(19.8)	(12.4)	(6.4)	(0.1)	(18.9)

Segment assets

In millions of euros	AMT	ECS	TOTAL	Intra-Group transactions eliminated	Total at June 30, 2012
Non-current assets, net (excluding investments)	428.8	219.4	648.2		648.2
Inventories	110.3	88.2	198.5		198.5
Trade receivables	90.2	99.8	190.0	(48.7)	141.3
Other receivables	18.9	11.4	30.3	(5.8)	24.5
TOTAL SEGMENT ASSETS	648.2	418.8	1067.0	(54.5)	1012.5
Investments					5.8
Deferred tax assets					27.6
Long-term portion of current tax assets					2.7
Short-term portion of current tax assets					3
Other current assets					0
Current financial assets					9
Current derivatives					0.4
Financial assets					0
Cash and cash equivalents					39.4
TOTAL UNALLOCATED ASSETS					87.9
TOTAL					1100.4

Segment liabilities

In millions of euros	AMT	ECS	TOTAL	Intra-Group transactions eliminated	Total at June 30, 2012
Trade payables	58.8	58.2	117.0	(48.7)	68.3
Other payables and other liabilities	59.4	47.8	107.2	(5.8)	101.4
Non-current and current provisions	0.6	2.7	3.3		3.3
Employee benefits	11.0	26.3	37.3		37.3
TOTAL SEGMENT LIABILITIES	129.8	135.0	264.8	(54.5)	210.3
Deferred tax liabilities					25.9
Borrowings					275.2
Non-current derivatives					2.1
Short-term portion of current tax liabilities					3.9
Other current financial liabilities					9.2
Current derivatives					0.9
Current advances					0.0
Bank overdrafts					19.2
TOTAL UNALLOCATED LIABILITIES					336.4
TOTAL					546.7

Note 18 Staff costs and headcount

Group payroll costs (including social security contributions, provisions for pension obligations and retirement indemnities) came to €138 million in the first half of 2012 compared with €123.1 million in the first half of 2011.

On a like-for-like basis, staff costs - including the cost of temporary staff - increased by 3.7%.

Headcount of consolidated companies at end of period (continuing operations) by geographical area

Geographical area	June 30, 2012	%	June 30, 2011	%
France	1,666	24%	1,534	22%
Rest of Europe (+Tunisia)	1,141	16%	1,319	18%
North America (+Mexico)	2,102	30%	2,064	29%
Asia	1,820	26%	1,957	28%
Rest of the world	269	4%	226	3%
TOTAL	**6,998**	**100%**	**7,100**	**100%**

At comparable scope, period-end headcount fell by 405 and average headcount by around 270.

Note 19 Operating income

An analysis of operating income by category of income and expense is shown in the following table:

In millions of euros	2012 First half	2011 First half
Product sales	412.8	405.9
Trading sales	14.3	13.5
TOTAL SALES	**427.1**	**419.4**
Other operating revenues	4.4	4.8
Cost of trading sales	(10.0)	(9.5)
Raw material costs	(109.8)	(113.6)
Costs on other operating revenues	(0.4)	(0.3)
Manufacturing costs	(75.9)	(71.0)
Salary costs	(136.4)	(119.7)
Employee incentives and profit-sharing	(1.6)	(3.4)
Other expenses	(32.0)	(31.4)
Financial components of operating income	(1.4)	(2.0)
Depreciation and amortization	(19.8)	(18.9)
Provisions	(2.8)	(2.8)
Gains/(losses) on asset disposals	0.2	0.2
OPERATING INCOME	**41.6**	**51.8**

Note 20 Financial income and costs

In millions of euros	2012 First half	2011 First half
Amortization of bond issuance costs	(0.2)	(0.2)
Interest paid on debt	(6.1)	(4.3)
Short-term financial expense		
Commission on debt	(0.3)	(0.3)
Ineffective portion of interest-rate hedges		
Interest income from bank deposits		
Net finance costs	**(6.6)**	**(4.8)**

The net finance costs shown above include the following items from assets and liabilities that are not shown at fair value through profit or loss:

Total interest income from financial assets	(6.6)	(4.8)
Total interest income from financial liabilities	0.0	0.0
Net finance costs	**(6.6)**	**(4.8)**

Recognized directly in equity *In millions of euros*	2012 First half	2011 First half
Change in fair value of currency hedges	0.2	0.6
Change in fair value of interest-rate hedges	(0.1)	0.7
Change in fair value of commodity hedges	(0.2)	(0.3)
Impact on changes recognized in equity	(0.1)	(0.4)
Net finance costs recognized directly in equity, net of tax	**(0.2)**	**0.6**

Note 21 Income tax

The Group has:

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

The Group's effective tax rate on continuing operations came to 33% in the first half of 2012, the same as in full-year 2011.

Analysis of income tax expense

In millions of euros	2012 First half
NET INCOME	**22.9**
Income tax expense/(benefit) on continuing operations	(11.7)
TOTAL INCOME TAX EXPENSE/(BENEFIT)	**(11.7)**
TAXABLE INCOME	**34.6**
Current tax rate in France	36.1%
Theoretical tax benefit/(expense) (taxable income x current income tax rate in France)	(12.5)
Difference between income tax rate in France and other jurisdictions	(0.4)
Transactions qualifying for a reduced rate of taxation	
Permanent timing differences	(0.3)
Impact of limiting deferred tax assets	2.0
Other	(0.5)
ACTUAL INCOME TAX BENEFIT/(EXPENSE) RECOGNIZED	**(11.7)**

The deferred tax assets and liabilities recognized on the balance sheet are as follows:

In millions of euros	June 30, 2012	Dec. 31, 2011
Deferred tax assets	27.5	25.7
Deferred tax liabilities	(25.8)	(24.8)
Net position	**1.7**	**0.9**

Deferred tax movements during the first half of 2012 were as follows:

*In millions of euros**	Dec. 31, 2011	Net income for the year	Other	Cumulative translation adjustment	June 30, 2012
Employee benefit obligations	8.1	0.3		0.1	8.5
Depreciation of non-current assets	(22.4)	(1.0)	(0.3)	(0.6)	(24.3)
Tax-regulated provisions	(3.7)	(0.1)	0.6		(3.2)
Impact of tax losses	23.3	2.2	0.1	(0.2)	25.4
Impairment losses	0.3		(0.1)		0.2
Other	(4.7)	0.1	(0.3)		(4.9)
DEFERRED TAX ON THE BALANCE SHEET – NET POSITION	**0.9**	**1.5**	**0.0**	**(0.7)**	**1.7**

* *(liability) / asset.*

Deferred tax assets were recognized based on their recoverability. France, Germany, China and the US were the main tax jurisdictions affected.

Note 22 Earnings per share

Basic and diluted earnings per share are presented below:

Continuing operations and assets held for sale	2012 First half	2011 First half
Numerator: Net income used to compute basic earnings per share (net income for the period in millions of euros)	22.5	31.5
Denominator: Weighted average number of ordinary shares used to compute basic earnings per share	20,229,664	19,937,051
Adjustment for dilutive potential ordinary shares: - unexercised options*	756,245	827,201
Weighted average number of ordinary shares used to compute diluted earnings per share	20,985,909	20,764,252
Basic earnings per share *(€)*	1.11	1.58
Diluted earnings per share *(€)*	1.07	1.52

Continuing operations	June 30, 2012	2011 First half
Numerator: Net income used to compute basic earnings per share (net income for the period in millions of euros)	22.9	29.9
Denominator: Weighted average number of ordinary shares used to compute basic earnings per share	20,229,664	19,937,051
Adjustment for dilutive potential ordinary shares: - unexercised options*	756,245	827,201
Weighted average number of ordinary shares used to compute diluted earnings per share	20,985,909	20,764,252
Basic earnings per share *(€)*	1.13	1.5
Diluted earnings per share *(€)*	1.09	1.44

** reduction related to the cancellation of 2007 stock options.*

Note 23 Dividends

In the May 23, 2012 General Meeting, shareholders approved a dividend payment of €1 per share with respect to 2011. In the same meeting, a motion was passed to enable shareholders to choose between having the dividend paid in cash or shares. On July 2, 2012, the Management Board noted the option selected by shareholders to reinvest 1,262,560 rights in new shares. As a result, a €1.3 million capital increase (involving the issue of 62,615 new shares) was completed in July 2012 and the Group will pay cash dividends totaling €19 million.

Note 24 Leases

1 - Finance leases

Carrying amount by asset category

The Group has no finance leases.

2 - Operating leases (where the Group is the lessee)

Schedule of minimum payments

In millions of euros	Total at June 30, 2012	< 1 year	> 1 year and < 5 years	> 5 years
Minimum payments	56.7	7.4	20.9	28.4

Minimum payments represent the amount of certain future property lease payments up until the expiration of the lease prior to any renewals. The leases do not contain any clause restricting debt or on dividend payments.

The largest item (€32.4 million) relates to rent payments at Mersen Xianda Shanghai's plant in China.

The €5.3 million increase in minimum lease payments by comparison with December 31, 2011 relates mainly to the renewal of leases and a currency translation effect.

Note 25 Related party disclosures

Mersen SA is a holding company that manages its investments in subsidiaries and affiliates and the Group's financing activities, and charges subsidiaries for services related to the intangible assets and property, plant and equipment that it owns.

Mersen SA belongs to the Mersen group, which encompasses 93 consolidated and unconsolidated companies in 37 countries.

Transactions between the Group's consolidated companies are eliminated for consolidation purposes.

1 - Relations with unconsolidated subsidiaries and associates

Group sales to unconsolidated subsidiaries amounted to €7.8 million in the first half of 2012, compared with €5.9 million in the first half of 2011.

In the first half of 2012, the management and administrative fees charged to unconsolidated subsidiaries by the Group (deducted from administrative costs) amounted to €0.1 million, the same as in full-year 2011.

The amounts receivable by the Group from its unconsolidated subsidiaries came to €5.7 million at June 30, 2012, while amounts payable amounted to €0.6 million.

Shareholders' advances made to unconsolidated subsidiaries by Mersen amounted to €0.7 million at June 30, 2012 versus €1.2 million at end-2011.

2 - Compensation paid to key management personnel (Management Board including the Chairman)

In millions of euros	2012 First half	2011 First half
Salaries, bonuses, benefits in kind and attendance fees [(a)]	0.9	2.2
Top-up pension plan payments [(b)]	0.1	(0.6)
Other long-term employee benefits		
TOTAL	**1.0**	**1.6**

(a) 2011 figures take into account the departure of Ernest Totino and the arrival of four new members to the Management Board.
(b) Members of the Management Board have a contractual entitlement to top-up pension payments defined as follows: provided that the relevant person is still employed by the Group upon retirement, this regime guarantees top-up pension income of 10-20% of the basic reference salary depending on length of service during the final three years prior to retirement plus variable remuneration set at 50% of the maximum bonus. Actuarial obligations were measured at €1.3 million at June 30, 2012, compared with €1.2 million at December 31, 2011.

Members of the Management Board do not qualify for any other long-term employee benefits.

Should his appointment be terminated, the Chairman of the Group's Management Board will receive a severance payment of no more than 0.5 times the total gross compensation and benefits paid to him in respect of the thirty-six month period preceding termination, subject to the attainment of performance criteria.

If his term of office as Chairman and his membership of the Management Board were terminated and, in return for a non-compete and non-solicitation undertaking made by Luc Themelin and lasting for a year following termination, monthly compensation equal to 50% of the last gross fixed monthly remuneration he received immediately before termination of his office will be paid.

Furthermore, the five current members of the Management Board (including the Chairman of the Management Board) were awarded the following share-based payments:

- Stock options:

	2007 plan Tranche 11
Date of Board of Directors' meeting	July 25, 2007
Total number of shares allotted	94,188
Subscription price	53.10
Start of exercise period	July 2011
Expiration date	July 2017

	2009 plan Tranche 12
Date of Board of Directors' meeting	January 22, 2009
Total number of shares allotted	171,518
Subscription price	17.53
Start of exercise period	February 2013
Expiration date	February 2019

- Bonus share allotments:

	2006 plan Tranche 2
Date of Board of Directors' meeting	June 28, 2006
Total number of shares allotted	1,497
Reference price at the allotment date	40.07
Definitive allotment date (end of the vesting period)	July 1, 2008
End of lock-up period	July 1, 2011

	2011 plan Tranche 6
Date of Board of Directors' meeting	May 27, 2011
Total number of shares allotted	58,000
Reference price at the allotment date	35.34
Definitive allotment date (end of the vesting period)	May 27, 2015
End of lock-up period	May 28, 2015

In the General Meeting of May 23, 2012, the Management Board was authorized to re-allot 20,000 shares to the 2011 plan, after the allotment of those shares had been cancelled after introduction of the plan. On June 27, 2012, the Management Board - with the approval of the Supervisory Board - decided to re-allot these 20,000 shares according to the same performance conditions as set out in the 2011 plan, including 10,000 to Management Board members to reflect the increase in the Management Board from two to five members. The re-allotment of bonus shares gave rise to a new plan:

	2012 plan Tranche 7
Date of Board of Directors' meeting	June 27, 2012
Total number of shares allotted	10,000
Reference price at the allotment date	18.22
Definitive allotment date (end of the vesting period)	June 27, 2016
End of lock-up period	June 28, 2016

All bonus share allotment plans are subject to performance conditions.

Note 26 Commitments and contingencies

A - Financial commitments and liabilities

In millions of euros	June 30, 2012	Dec. 31, 2011
Commitments received		
Guarantees and endorsements	0.0	0.0
Other commitments received	0.0	0.0
TOTAL	**0.0**	**0.0**
Commitments given		
Collateralized debts and commitments	0.0	0.0
Market guarantees	18.3	21.1
Payment guarantee on acquisitions	0.0	0.0
Other guarantees	23.8	23.7
Other commitments given	5.9	6.5
TOTAL	**48.0**	**51.3**

The above table summarizes the Group's commitments and contingencies.

Nature

The largest item, which amounted to €23.8 million, comprises other guarantees, which include a €16 million guarantee covering the maximum daily drawings by subsidiaries under the European cash pooling arrangements.

Maturity

Commitments and contingencies with a maturity of over one year amounted to €19.3 million. They include the €16 million linked to the cash pooling system, which remains in force for as long as the cash pooling agreements are in place. Market guarantees generally last for less than one year, except for a few market guarantees, the duration of which does not exceed five years.

Internal control

Under the Group's internal control organization, Group companies are not authorized to enter into transactions giving rise to commitments and contingencies without obtaining the prior approval of the Group's Finance Department and, where appropriate, of the Management Board. Nonetheless, certain Group companies have the option of issuing market guarantees not exceeding €150,000 with a maturity of less than two years without prior authorization in the normal course of their business activities. These guarantees are listed in the documents completed by the companies as part of the accounts consolidation procedure.

As far as the Company is aware, no material commitments or contingencies under the accounting standards in force have been omitted.

B - Title retention clause

None

C – Individual Right to Training

In France, employees have an individual right to training. No provisions are set aside to cover these rights because the Group does not have the requisite information to assess them reliably.

Note 27 Subsequent events

Following the decision made at the Annual General Meeting of May 23, 2012, allowing shareholders to opt for payment of dividends in new shares and the Management Board's decision on July 2, 2012 in the light of shareholders' decision to reinvest 1,262,560 rights in new shares, the Group completed a €1.3 million capital increase (62,615 new shares) in July 2012 and will make a cash payment of €19 million in respect of the dividend.

In July 2012, Mersen completed the refinancing of its USD350 million syndicated loan due to mature in July 2013 by arranging bank facilities totaling €215 million.

Note 28 Approval of the financial statements

The Group's consolidated financial statements for the six months to June 30, 2012 were approved by the Management Board at its meeting on August 29, 2012.

Statutory Auditors' report on the 2012 interim financial information

To the Shareholders,

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

- the review of the accompanying condensed interim consolidated financial statements of Mersen SA for the period from January 1, 2012 to June 30, 2012,
- the verification of the information contained in the interim management report.

The Management Board was responsible for preparing these condensed consolidated interim financial statements. Our role is to express an opinion on these financial statements based on our review.

I - Conclusion on the financial statements

We conducted our review in accordance with the professional standards applicable in France. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. 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. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 – "Interim Financial Reporting" of the IFRSs, as adopted by the European Union.

II - Specific verification

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

Paris La Défense and Neuilly-sur-Seine, August 29, 2012

The Statutory auditors

KPMG Audit ID	Deloitte & Associés
Catherine Porta *Partner*	Joël Assayah *Partner*

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 value of the assets and liabilities, financial position and the results of operations of the Company and of all the entities included in the consolidation, and that the attached interim business report presents a faithful picture 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 financial year.

Paris, August 29, 2012

Luc Themelin

Chairman of the Managing Board

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