2018 FIRST-HALF FINANCIAL REPORT

MERSEN

2018 first-half financial report

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1 Management report

Consolidated results

→ Sales

Consolidated sales for Mersen amounted to €430 million in the first six months of 2018, a like-for-like increase of 11% compared with the same period last year. Including the negative impact of exchange rates for approximately €23 million and the effect of the first-time consolidation of Idealec, reported growth amounted to 5.2%.

In millions of euros	H1 2018	H1 2017 restated[(1)]	Like-for-like growth[(2)]	Scope effect	Currency effect	Reported growth
Advanced Materials	240.1	227.2	11.7%		-6.0%	5.7%
Electrical Power	190.2	182.3	10.2%	0.3%	-6.0%	4.3%
Europe	146.9	135.9	8.5%	0.3%	-0.7%	8.1%
Asia-Pacific	124.7	110.3	19.2%		-6.1%	13.1%
North America	141.8	146.3	7.4%		-10.5%	-3.1%
Rest of the World	16.9	17.0	9.3%		-10.0%	-0.7%
GROUP	**430.3**	**409.5**	**11.0%**	**0.3%**	**-6.1%**	**5.2%**

(1) Adjusted for the high-power switch and contactor business sold in October 2017.
(2) Like-for-like growth: determined by comparing sales for the year with sales for the previous year, restated at the current year's exchange rate, excluding acquisitions and/or disposals and the impact of IFRS 15.

Sales in the Advanced Materials segment rose by 11.7% like-for-like to €240 million, led by strong growth in the solar, electronics, aeronautics and process industries markets.

In the Electrical Power segment, first-half sales exceeded €190 million, up 10.2% like-for-like. The increase was driven by gains in renewable energies, process industries and, to a lesser extent, electrical distribution.

In Europe, growth was robust in both business segments, in the transportation and process industries markets. In Asia, the Group recorded strong like-for-like growth in first-half sales of more than 19%. China and South Korea were particularly dynamic thanks notably to the solar, electronics, chemicals and process industries markets. Growth in North America was led by sales to electrical distribution, electronics and process industries customers.

EBITDA and operating income before non-recurring items

In millions of euros	H1 2018	H1 2017 (restated)
Operating income before non-recurring items	45.8	36.0
as a % of sales	*10.6%*	*8.8%*
Depreciation and amortization	18.6	18.8
EBITDA	**64.4**	**54.8**
as a % of sales	*15.0%*	*13.4%*

Consolidated EBITDA totaled €64.4 million (15% of sales), up close to 18% year-on-year.

Operating income before non-recurring items came to €45.8 million, yielding an operating margin before non-recurring items of 10.6% that represented a sharp improvement on the first half of 2017 (8.8% restated).

Operating income before non-recurring items for the Advanced Materials segment was €33.9 million, resulting in an operating margin before non-recurring items of 14.1% of sales, compared to 11.1% for the same period in 2017. The improvement was attributable to a favorable volume effect, productivity gains and an increase in prices that was greater than the increase in raw materials costs.

Operating income before non-recurring items from the Electrical Power segment stood at €19.3 million, resulting in an operating margin before non-recurring items of 10.2%, in line with the 10.1% reported for first-half 2017. The segment's performance reflects the favorable impact of productivity gains and the unfavorable impact of exchange rates and higher payroll and raw materials costs. Recent price increases are expected to partly offset this rise in costs in the second half of the year.

In millions of euros	H1 2018	H1 2017 (restated)
Consolidated sales	430.3	409.5
Gross income	141.0	129.2
as a % of sales	*32.8%*	*31.6%*
Selling, marketing and other expenses	(41.0)	(41.5)
Administrative and research expenses	(53.6)	(51.1)
Fixed costs (excluding production)	(94.6)	(92.6)
Amortization of revalued intangible assets	(0.6)	(0.6)
Operating income before non-recurring items	**45.8**	**36.0**
as a % of sales	*10.6%*	*8.8%*

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

Fixed costs (excluding fixed production costs recognized in gross income) rose by around 5% at comparable exchange rates, well below the revenue growth rate.

Net income

Net income attributable to shareholders totaled €27.9 million compared with €18.1 million in first-half 2017.

In millions of euros	H1 2018	H1 2017 (restated)
Operating income before non-recurring items	**45.8**	**36.0**
Non-recurring income and expenses	(1.5)	(2.0)
Operating income	44.3	34.0
Net finance expense	(4.7)	(5.4)
Current and deferred income tax	(10.3)	(9.3)
Net loss from operations held for sale		(0.2)
Net income for the period	**29.3**	**19.1**
- Attributable to Mersen shareholders	27.9	18.1

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

- Non-recurring income and expense amounted to an expense of €1.5 million and corresponded to restructuring costs related to the competitiveness plans announced in 2016 and to acquisition costs. In first-half 2017, the net expense, also corresponding to restructuring charge, stood at -€2.0 million for the period.
- Net financial expense came to €4.7 million in first-half 2018, up slightly from the previous year thanks primarily to a favorable currency effect.
- Income tax expense totaled €10.3 million for the period, representing an effective tax rate of 26%, versus 33% in first-half 2017, with the Group benefiting from US tax reform.

Cash and debt

Condensed statement of cash flows

In millions of euros	H1 2018	H1 2017 (restated)
Cash generated by operating activities before change in working capital requirement	61.5	46.6
Change in working capital requirement	(40.9)	(23.8)
Income tax paid	(2.5)	(6.8)
Cash generated by continuing operating activities	18.1	16.0
Cash used in discontinued operating activities	(0.2)	(0.2)
Net cash generated by operating activities	**17.9**	**15.8**
Capital expenditure	(19.6)	(12.3)
Cash generated by operating activities after capital expenditure	(1.7)	3.5
Acquisitions	(7.9)	0
Other	(0.9)	0.2
Cash generated by operating and investing activities	**(10.5)**	**3.7**

Operating activities generated nearly €18 million in net cash flow in the first half of 2018. This figure takes into account an unfavorable change in working capital requirement (WCR) of €40 million, driven by strong growth in sales and a seasonal effect. The working capital to sales ratio stood at 22.6%, up 1.7 points on the prior-year period, due notably to contracts that are in progress in the chemicals market and the increase in bonuses paid for 2017.

As expected, capital expenditure was higher than in first-half 2017, coming in at €19.6 million. Of that amount, one-third is related to specific growth projects, such as the increase in graphite production capacity.

As a result, cash flow from operating and investing activities represented an outflow of €1.7 million, compared with an inflow of €3.5 million in the first half of 2017.

Balance sheet

Net debt at June 30, 2018 stood at €205 million, up €27 million on the €178 million reported at December 31, 2017. It includes €13 million in acquisition costs, of which €8 million in cash outlays and €5 million in debt (corresponding primarily to a potential earn-out payment), €7 million in share buybacks and €7 million for specific investment projects.

Despite these significant investments, the Group's financial structure remained robust, with a net debt-to-EBITDA[1] ratio of 1.53 versus 1.58 at December 31, 2017. The net debt-to-equity ratio stood at 40%.

	June 30, 2018	Dec. 31, 2017
Total net debt *(in millions of euros)*	204.8	178.1
Net debt/ EBITDA	1.53	1.58
Net debt/ equity	40%	37%

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

Subsequent events

In early July, Mersen completed the acquisition of FTCap, which specializes in the development and production of capacitors. The transaction will enable the Group to broaden its current range of key components for the development of efficient, high-performance power electronics systems. The company employs some 200 people and generated revenues of close to €20 million in 2017. FTCap will be consolidated in Mersen's financial statements from July 1, 2018. As a result, the Group's net debt will increase by around €23 million, prior to any adjustment in working capital requirement.

Outlook for 2018

In light of the results achieved in the first half and the high basis of comparison for the second half, Mersen is now expecting like-for-like growth in sales of between 7% and 9% (versus the previously published guidance of between 3% and 6%). The Group estimates the negative currency effect on full-year sales at between €25 million and €30 million, based on current exchange rates, and expects acquisitions to contribute close to 2% growth to sales for full-year 2018.

The Group's operating margin before non-recurring items is therefore expected to amount to between 10.1% and 10.4% (versus the previously published guidance of between 9.6% and 10.1%), including the impact of recent acquisitions.

2 CONSOLIDATED FINANCIAL STATEMENTS

CHANGES IN SCOPE OF CONSOLIDATION IN THE PAST TWO YEARS

The main changes in the scope of consolidation that impacted the consolidated financial statements in 2017 and the first half of 2018 are as follows:

- During 2017 Mersen sold the following businesses (see below in "Discontinued operations"):
  - The high-power switches business of the Saint-Loup-de-Naud site in March. This business had been classified as a discontinued operation since December 2016.
  - Mersen France Gorcy S.A.S. The high-power switches and contactors business was sold to a French manufacturer in October 2017. Consequently, it was classified as a discontinued operation in the consolidated financial statements at December 31, 2017 in compliance with IFRS 5 and the financial statements at June 30, 2017 have been restated accordingly.
- During the first half of 2018 Mersen acquired the following:
  - The non-controlling interests in the Spanish company, Cirprotec, in which the Group had held a majority stake since 2014. This buyout will allow Mersen to accelerate the development of surge protection devices and solutions in high-potential markets such as LED lighting, solar power and electrical vehicle charging solutions, as well as in growth countries, particularly in Asia.
  - All of the shares in Artimon, the parent company of Idealec – a France-based designer and manufacturer of laminated bus bars. This acquisition will enable the Electrical Power segment to consolidate its position as a leader in the laminated bus bar market and expand its client portfolio, particularly in the energy and rail sectors. It will also strengthen the Group's position as a preferred partner for the power electronics market.

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

Discontinued operations:

High-power switches and contactors business: sale of Mersen France Gorcy S.A.S.

The Group sold Mersen France Gorcy S.A.S in October 2017 in line with its strategy of divesting businesses that have few synergies with the other businesses in the Electrical Power segment.

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

On September 13, 2016, the Group announced its intention to enter into negotiations with a view to selling its high-power switches business at the Saint-Loup-de-Naud site, which offered few synergies with the Electrical Power segment's other businesses. The Group received a binding offer during the second half of 2016 from a European specialist in this business and the sale was completed on March 3, 2017.

These two businesses were classified as discontinued operations in the consolidated financial statements at December 31, 2017 in compliance with IFRS 5 and the financial statements at June 30, 2017 have been restated accordingly.

Consolidated income statement

* The income statement and statement of cash flows for the six months ended June 30, 2017 have been restated following the sale of Mersen Gorcy S.A.S. in 2017 and its consequent reclassification as a discontinued operation in the financial statements at December 31, 2017 in accordance with IFRS 5 (see "Changes in scope of consolidation in the past two years").

In millions of euros	Notes	Six months ended June 30, 2018	Six months ended June 30, 2017 (restated)
CONTINUING OPERATIONS			
Consolidated sales	13	430.3	409.5
Cost of sales		(289.3)	(280.3)
Total gross income		**141.0**	**129.2**
Selling and marketing expenses		(38.9)	(40.1)
Administrative and research expenses		(53.6)	(51.1)
Amortization of revalued intangible assets		(0.6)	(0.6)
Other operating expenses		(2.1)	(1.4)
Operating income before non-recurring items	13	**45.8**	**36.0**
Non-recurring expenses	12	(1.5)	(2.8)
Non-recurring income	12		0.8
Operating income	13	**44.3**	**34.0**
Financial expenses		(4.7)	(5.4)
Financial income			0.0
Finance costs		(4.7)	(5.4)
Net finance expense		**(4.7)**	**(5.4)**
Income from continuing operations before tax		**39.6**	**28.6**
Current and deferred income tax	15	(10.3)	(9.3)
Net income from continuing operations		**29.3**	**19.3**
Net income/(loss) from operations held for sale and discontinued operations	4		(0.2)
NET INCOME		**29.3**	**19.1**
Attributable to:			
- Owners of the parent		27.9	18.1
- Non-controlling interests		1.4	1.0
NET INCOME FOR THE PERIOD		**29.3**	**19.1**
Earnings per share	16		
Basic earnings per share *(€)*		1.36	0.88
Diluted earnings per share *(€)*		1.31	0.84
Earnings per share from continuing operations			
Basic earnings per share *(€)*		1.36	0.89
Diluted earnings per share *(€)*		1.31	0.85
Earnings per share from operations held for sale and discontinued operations	4		
Basic earnings per share *(€)*		0.00	(0.01)
Diluted earnings per share *(€)*		0.00	(0.01)

Condensed consolidated statement of comprehensive income

In millions of euros	Notes	Six months ended June 30, 2018	Six months ended June 30, 2017
NET INCOME FOR THE PERIOD		**29.3**	**19.1**
Items that will not be subsequently reclassified to income			
Financial assets at fair value through “Other comprehensive income”	11	1.2	
Remeasurements of the net defined benefit liability (asset)	**9**	5.3	
Tax impact		(1.0)	
		5.5	
Items that may subsequently be reclassified to income			
Change in fair value of hedging instruments		(0.1)	(0.3)
Exchange differences on translation of assets and liabilities at the period-end rate		4.9	(21.4)
Tax impact		0.0	(0.2)
		4.8	**(21.9)**
INCOME AND EXPENSES RECOGNIZED DIRECTLY IN EQUITY		**10.3**	**(21.9)**
TOTAL COMPREHENSIVE INCOME/(LOSS)		**39.6**	**(2.8)**
Attributable to:			
- Owners of the parent		38.1	(3.2)
- Non-controlling interests		1.5	0.4
TOTAL COMPREHENSIVE INCOME/(LOSS)		**39.6**	**(2.8)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

In millions of euros	Note	June 30, 2018	Dec. 31, 2017
NON-CURRENT ASSETS			
Intangible assets	5 and 6		
- *Goodwill*		268.6	265.2
- Other intangible assets		31.7	31.8
Property, plant and equipment	5 and 6		
- Land		30.1	30.3
- Buildings		68.7	70.0
- Plant, equipment and other assets		148.5	149.6
- Assets in progress		23.0	16.3
Non-current financial assets			
- Equity interests		5.1	2.3
- Non-current derivatives		0.2	0.3
- Other financial assets		4.3	4.5
Non-current tax assets			
- Deferred tax assets	15	27.0	28.2
- Long-term portion of current tax assets		5.7	7.7
TOTAL NON-CURRENT ASSETS		**612.9**	**606.2**
CURRENT ASSETS			
- Inventories		182.9	158.8
- Trade receivables		141.8	123.4
- Other operating receivables		20.8	17.4
- Short-term portion of current tax assets		0.8	5.0
- Other current assets			
- Current financial assets	10	16.9	12.6
- Current derivatives		0.7	0.5
- Cash and cash equivalents	10	30.6	25.9
- Assets held for sale and discontinued operations	4	0.0	0.1
TOTAL CURRENT ASSETS		**394.5**	**343.7**
TOTAL ASSETS		**1,007.4**	**949.9**

Equity and liabilities

In millions of euros	Note	June 30, 2018	Dec. 31, 2017
EQUITY			
- Share capital	7	41.4	41.3
- Retained earnings and other reserves		416.5	403.3
- Net income for the period		27.9	37.6
- Cumulative translation adjustments		(11.0)	(15.8)
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		**474.8**	**466.4**
- Non-controlling interests		16.2	17.6
TOTAL EQUITY		**491.0**	**484.0**
NON-CURRENT LIABILITIES			
- Non-current provisions	8	1.3	1.3
- Employee benefit obligations	9	63.1	68.3
- Deferred tax liabilities	15	22.3	20.5
- Long and medium-term borrowings	10	153.8	154.4
- Non-current derivatives		0.1	0.2
TOTAL NON-CURRENT LIABILITIES		**240.6**	**244.7**
CURRENT LIABILITIES			
- Trade payables		68.3	60.0
- Other operating payables		76.3	80.7
- Current provisions	8	11.0	11.9
- Short-term portion of current tax liabilities		3.0	2.8
- Miscellaneous liabilities		16.2	1.2
- Other current financial liabilities	10	72.3	37.8
- Current derivatives		1.4	1.0
- Financial current accounts	10	0.9	0.3
- Bank overdrafts	10	25.3	24.1
- Liabilities related to assets held for sale and discontinued operations	4	1.1	1.4
TOTAL CURRENT LIABILITIES		**275.8**	**221.2**
TOTAL EQUITY AND LIABILITIES		**1007.4**	**949.9**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In millions of euros	Attributable to owners of the parent						
	Share capital	Additional paid-in capital, retained earnings and other reserves	Net income for the period	Cumulative translation adjustments	Total	Non-controlling interests	Total equity
AT JANUARY 1, 2017	**40.9**	**415.7**	**1.8**	**16.2**	**474.6**	**18.0**	**492.6**
Prior-period net income		1.8	(1.8)		0.0		0.0
Net income for the period			18.1		18.1	1.0	19.1
Change in fair value of hedging instruments, net of tax		(0.5)			(0.5)		(0.5)
Remeasurements of the net defined benefit liability (asset) after tax					0.0		0.0
Translation adjustment				(20.8)	(20.8)	(0.6)	(21.4)
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)	**0.0**	**(0.5)**	**0.0**	**(20.8)**	**(21.3)**	**(0.6)**	**(21.9)**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**0.0**	**(0.5)**	**18.1**	**(20.8)**	**(3.2)**	**0.4**	**(2.8)**
Dividends paid		(10.2)			(10.2)	**(1.9)**	(12.1)
Treasury shares - Stock options and free shares					0.0		0.0
Capital increase	0.2	1.1			1.3		1.3
Stock options and free shares		(0.5)			(0.5)		(0.5)
Other					0.0		0.0
AT JUNE 30, 2017	**41.1**	**407.4**	**18.1**	**(4.6)**	**462.0**	**16.5**	**478.5**
AT DECEMBER 31, 2017	**41.3**	**403.3**	**37.6**	**(15.8)**	**466.4**	**17.6**	**484.0**
Prior-period net income		37.6	(37.6)		0.0		0.0
Net income for the period			27.9		27.9	1.4	29.3
Change in the fair value of derivative hedging instruments, net of tax		(0.1)			(0.1)		(0.1)
Financial assets as at their fair value		1.2			1.2		1.2
Remeasurements of the net defined liability (asset) after tax		4.3			4.3		4.3
Translation adjustment				4.8	4.8	0.1	4.9
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)	**0.0**	**5.4**	**0.0**	**4.8**	**10.2**	**0.1**	**10.3**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**0.0**	**5.4**	**27.9**	**4.8**	**38.1**	**1.5**	**39.6**
Dividends payable		(15.6)			(15.6)		(15.6)
Treasury shares		(7.3)			(7.3)		(7.3)
Capital increase	0.1	0.8			0.9		0.9
Stock options and free shares		0.8			0.8		0.8
Adjustment for first-time application of IFRS 9: Impairment of trade receivables		(0.6)			(0.6)		(0.6)
Buyout of non-controlling interests in Cirprotec		(7.9)			(7.9)	(2.9)	(10.8)
AT JUNE 30, 2018	**41.4**	**416.5**	**27.9**	**(11.0)**	**474.8**	**16.2**	**491.0**

Consolidated statement of cash flows

In millions of euros	Six months ended June 30, 2018	Six months ended June 30, 2017 (restated)
Income before tax	39.6	28.6
Depreciation and amortization	18.2	18.8
Additions to/(reversals from) provisions	(2.0)	(5.1)
Net finance expense	4.7	5.4
Capital gains/(losses) on asset disposals	0.1	0.4
Other	0.9	(1.5)
Cash generated by operating activities before change in WCR	**61.5**	**46.6**
Change in working capital requirement	(40.9)	(23.8)
Income tax paid	(2.5)	(6.8)
Net cash generated by continuing operating activities	**18.1**	**16.0**
Cash generated by/(used in) discontinued operations	**(0.2)**	**(0.2)**
Net cash generated by operating activities	**17.9**	**15.8**
Cash flows from investing activities		
Intangible assets	(1.4)	(1.1)
Property, plant and equipment	(19.2)	(12.6)
Decreases (increases) in amounts due to suppliers of non-current assets	(0.4)	0.3
Financial assets	(1.0)	0.0
Changes in scope of consolidation	(6.9)	0.0
Other cash flows from investing activities	0.5	2.3
Cash generated by/(used in) investing activities from continuing operations	**(28.4)**	**(11.1)**
Cash generated by/(used in) investing activities from discontinued operations	0.0	(1.0)
Net cash generated by/(used in) investing activities	**(28.4)**	**(12.1)**
Net cash generated by operating and investing activities	**(10.5)**	**3.7**
Amounts received/(paid) on capital increases/reductions and other changes in equity	(7.3)	1.4
Net dividends paid to shareholders and non-controlling interests	0.0	(1.8)
Interest payments	(3.9)	(4.4)
Change in debt	25.8	(15.6)
Net cash generated by/(used in) financing activities	**14.6**	**(20.4)**
Net increase/(decrease) in cash and cash equivalents	**4.1**	**(16.7)**
Cash and cash equivalents at beginning of period (Note 10)	25.9	29.2
Cash and cash equivalents at period-end (Note 10)	30.6	18.1
Changes in scope of consolidation		0.0
Impact of currency fluctuations	(0.6)	(5.6)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**4.1**	**(16.7)**

3 Notes

Notes to the consolidated financial statements

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Note 1 Compliance statement

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

The standards and interpretations whose application was mandatory at January 1, 2018 are presented in Note 2.

The accounting options selected by the Group are described in Note 2 to the 2017 annual report.

The interim consolidated financial statements for the six months ended June 30, 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all the information required for full annual financial statements, and should therefore be read in conjunction with the Group's financial statements for the year ended December 31, 2017, which are available on the Group's website at www.mersen.com. They do include a selection of notes explaining the major events and transactions for a better understanding of the changes that have occurred in the financial position and performance of the Group since the latest annual financial statements for the year ended December 31, 2017.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on July 30, 2018.

Note 2 Summary of significant accounting policies and methods

Except for the cases described below, the accounting methods used to prepare these interim financial statements are the same as those used for the Group's consolidated financial statements for the year ended December 31, 2017.

The following changes in accounting methods will also concern the Group's consolidated financial statements for the year ending December 31, 2018.

New standards applicable in 2018

The Group has applied IFRS 15, "Revenue from Contracts with Customers" and IFRS 9, "Financial Instruments" since January 1, 2018. Several other new standards were also effective as from January 1, 2018 but have no impact on the Group's financial statements.

IFRS 15, Revenue from Contracts with Customers

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

The Group adopted IFRS 15 by cumulative catch-up adjustment (with no practical expedients), with the date of initial application corresponding to the standard's effective date (i.e. January 1, 2018). Consequently, the comparative information for 2017 has not been restated and is presented, as previously, in accordance with IAS 18 and IAS 11 and the related interpretations.

In its financial statements for the six months ended June 30, 2018:

- Concerning sales to distributors (mainly in the EP segment), selling and marketing expenses paid to distributors are now deducted from sales rather than expensed. (These expenses amounted to €1.3 million for full-year 2017 and €0.6 million in the first half of 2018).
- Concerning construction contracts (primarily in the AM segment), the impact of applying IFRS 15 was not material.

The Group's first-time application of IFRS 15 had no impact on net income or undistributed earnings.

IFRS 9, "Financial Instruments"

IFRS 9 – which was issued in July 2014 – replaces IAS 39, "Financial Instruments: Recognition and Measurement". It includes amended guidance for the classification and measurement of financial instruments, a new expected credit loss model for measuring impairment losses on financial assets and new requirements for general hedge accounting. IFRS 9 also carries over from IAS 39 the requirements for recognition and derecognition of financial instruments.

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

The impacts on the Group's financial statements of the first-time application of IFRS 9 were as follows:

- Recognition and measurement of financial assets: the Group has elected to account for its investments at fair value through other comprehensive income, with
  - no impact on opening reserves; and
  - the recognition at June 30, 2018 of a €1.2 million net gain in "Other comprehensive income".
- Credit losses on financial assets: the Group's impairment losses on financial assets increased as a result of using the new expected credit loss model introduced in the standard, which gave rise to:
  - a €0.6 million loss recognized in "Other comprehensive income" as a result of a change in accounting method; and
  - a loss of less than €0.1 million recognized in the income statement.

New standards and interpretations not yet applied by the Group

IFRS 16, Leases

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

During first-half 2018 the Group finalized its preliminary assessment of the potential impact of IFRS 16 on its consolidated financial statements but it has not yet completed its detailed analysis. The effects on the Group's financial statements during the period in which it applies IFRS 16 for the first time will depend on future economic conditions, particularly (i) the interest rate on the Group's borrowings at January 1, 2019, (ii) the composition of its lease portfolio, (iii) its most recent valuation of any lease renewal options, and (iv) its accounting choices for applying simplification measures and exemptions. Consequently, no precise figures can be given at this stage for the impact that IFRS 9 will have on the Group's financial statements when it applies the new standard as from January 1, 2019. However, the most significant potential impact identified to date relates to the fact that the Group will recognize new assets and liabilities for the operating leases of certain manufacturing facilities and administrative premises. Minimum future lease payments on non-cancelable real estate leases totaled €30.2 million at December 31, 2017 (undiscounted).

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

Use of judgments and estimates

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

Critical judgments exercised by Management in order to apply the Group's accounting methods and the main sources of uncertainty for estimates were the same as those affecting the consolidated financial statements for the year ended December 31, 2017.

Note 3 Business combinations

During the first half of 2018 the Group purchased all of the shares in Artimon, the parent company of Idealec – a France-based designer and manufacturer of laminated bus bars This acquisition will enable the Electrical Power segment to consolidate its position as a leader in the laminated bus bar market and expand its client portfolio, particularly in the energy and rail sectors. It will also strengthen the Group's position as a preferred partner for the power electronics market.

Artimon generates annual sales of around €5 million and its sales in first-half 2018 following its acquisition by Mersen amounted to €1.2 million. The company's net income figure was not material either in 2017 or in first-half 2018 after the acquisition.

The fair values of the assets acquired and liabilities assumed in relation to this acquisition are currently being measured and the final allocation of goodwill will be completed by the 2018 year-end.

The net assets acquired in the transaction and the related goodwill are presented below.

In millions of euros	Acquisition-date fair value	Fair value adjustments	Purchase price allocation	Fair value
Non-current assets	0.2	0.2		0.4
Current assets	2.4	(0.3)		2.1
Non-current liabilities	(0.6)	(0.2)		(0.8)
Current liabilities	(2.0)	0.2		(1.9)
Net assets	**0.0**	**0.0**	**0.0**	**0.0**
Goodwill				**0.2**
Non-controlling interests				0.0
Consideration transferred				**0.0**

Idealec's goodwill is the only goodwill that is in the process of being allocated by the Group.

Note 4 Operations held for sale and discontinued operations

High-power switches and contactors business: sale of Mersen France Gorcy S.A.S.

The Group sold Mersen France Gorcy S.A.S in October 2017 in line with its strategy of divesting businesses that have few synergies with the other businesses in the Electrical Power segment.

In first-half 2017, sales generated by this business (including sales from Mersen France Gorcy and four other Group subsidiaries) totaled €2.5 million and it recorded a €0.6 million operating loss before non-recurring items.

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

On March 3, 2017, the Group sold its high-power switches business at the Saint-Loup-de-Naud site. An impairment loss had been recognized in 2016 in the amount of €4.7 million. The initial disposal loss recognized on this sale was increased by €0.2 million at June 30, 2017.

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

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

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

None of the above operations had any impact on Mersen's consolidated income statement for the six months ended June 30, 2018.

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

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

ASSETS

In millions of euros	June 30, 2018	Dec. 31, 2017
- Trade receivables		0.1
ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS	**0.0**	**0.1**

LIABILITIES

In millions of euros	June 30, 2018	Dec. 31, 2017
- Current provisions	0.5	0.5
- Trade payables	0.6	0.9
- Other operating liabilities		
LIABILITIES RELATED TO ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS	**1.1**	**1.4**
NET ASSETS (LIABILITIES) HELD FOR SALE AND DISCONTINUED OPERATIONS	**(1.1)**	**(1.3)**

Income statement for operations held for sale and discontinued operations

In millions of euros	Six months ended June 20, 2018	Six months ended June 20, 2017 (restated)
Sales	0.0	4.5
Cost of sales	0.0	(3.3)
Total gross income	**0.0**	**1.2**
Selling and marketing expenses	0.0	(0.2)
Administrative and research expenses	0.0	(0.8)
Other operating expenses	0.0	0.0
Operating income before non-recurring items	**0.0**	**0.2**
Non-recurring income and expenses	0.0	0.0
Impairment losses/Disposal gains/(losses)	0.0	(0.2)
Operating income	**0.0**	**0.0**
Net finance income/(expense)	0.0	0.0
Income from continuing operations before tax	**0.0**	**0.0**
Current and deferred income tax	0.0	(0.2)
Net income/(loss) from operations held for sale and discontinued operations	**0.0**	**(0.2)**
Earnings per share from operations held for sale and discontinued operations:		
- Basic earnings per share *(€)*	-	(0.01)
- Diluted earnings per share *(€)*	-	(0.01)

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

Goodwill totaled €268.6 million at June 30, 2018, up €3.4 million compared with December 31, 2017 including €0.2 million due to the acquisition of Idealec (goodwill in progress) and to changes in foreign exchange rates.

The currency effect also increased the carrying amount of property, plant and equipment by €4.1 million in the first half of 2018. Purchases of property, plant and equipment amounted to €19.6 million during the period.

Note 6 Asset impairment tests

1. Goodwill

No impairment losses were recognized following the impairment tests carried out at December 31, 2017.

In accordance with IAS 36, as there were no indications that goodwill had been impaired during the six months ended June 30, 2018, no impairment tests were carried out at that date.

Goodwill will be tested for impairment again at the 2018 year-end.

2. Specific assets

The Group reviewed the recoverable amount of its other non-current assets at June 30, 2018. No other material changes were identified.

Note 7 Equity

At June 30, 2018, the Company's share capital amounted to €41,371,376, comprising 20,685,868 shares, each with a par value of €2. These shares break down as 20,684,379 category A shares (ordinary shares) and 317 and 1,172 category B and C shares respectively (preference shares).

The theoretical number of voting rights at that date – i.e. excluding treasury shares which do not carry voting rights – was 25,323,655. Since April 3, 2016, a double voting right has been attached to all shares that meet both of the following conditions: (i) they have been held in registered form for at least two years and (ii) they are fully paid up.

Number of shares (unless stated otherwise)	**Ordinary shares**
Number of shares at January 1, 2018	20,637,041
Capital increase/reduction *(in millions of euros)*	0.9
Number of shares at June 30, 2018	20,685,868
Number of shares in issue and fully paid-up during the period	48,827
Number of treasury shares canceled	0
Number of shares in issue and not fully paid-up	0
Par value per share *(€)*	2
Mersen shares held by the Company or by its subsidiaries and associates	175,633

To the best of the Company's knowledge, its ownership structure at June 30, 2018 was as follows:

- French institutional investors: 48.6%
- International institutional investors: 41.6%
- Private shareholders: 8.2%
- Employee shareholders: 0.8%
- Treasury shares: 0.8%

The following disclosure thresholds (provided for by law or the Company's bylaws) have been crossed since January 1, 2018, as reported by the shareholders concerned:

- On March 16, 2018: Norges Bank Investment Management disclosed that it had raised its interest to above the threshold of 5% of the Company's capital and voting rights and that at that date it held 1,626,603 shares, representing 7.9% of the capital and 5.7% of the voting rights.
- On March 20, 2018: ACF I Investment disclosed that it had reduced its interest to below the threshold of 15% of the Company's capital and voting rights and that at that date it held 2,121,055 shares, representing 10.3% of the capital and 14.9% of the voting rights.
- On March 20, 2018: Sofina disclosed that it had reduced its interest to below the threshold of 5% of the Company's capital and voting rights and that at that date it held 883,101 shares, representing 4.3% of the capital and 3.1% of the voting rights.
- On March 22, 2018: Crédit Suisse disclosed that it had reduced its interest to below the threshold of 1% of the Company's capital and that at that date it held 198,559 shares, representing 0.96% of the capital.
- On April 3, 2018: Crédit Suisse disclosed that it had raised its interest to above the threshold of 1% of the Company's capital and that at that date it held 207,005 shares, representing 1.01% of the capital.
- On April 3, 2018: Covéa Finance disclosed that it had raised its interest to above the threshold of 1% of the Company's capital and that at that date it held 236,554 shares, representing 1.15% of the capital.
- On April 11, 2018: La Caisse des Dépôts de Consignations (including Bpifrance Participations) disclosed that it had indirectly raised its interest to above the threshold of 20% of the Company's voting rights and that at that date it held 3,216,489 shares, representing 15.6% of the capital and 21.5% of the voting rights.

- On April 20, 2018: OppenheimerFunds disclosed that it had raised its interest to above the threshold of 1% of the Company's capital and that at that date it held 246,382 shares, representing 1.19% of the capital.
- On April 23, 2018: UBS disclosed that it had reduced its interest to below the threshold of 1% of the Company's voting rights and that at that date it held 211,807 shares, representing 1.03% of the capital and 0.84% of the voting rights.
- On April 23, 2018: OppenheimerFunds disclosed that it had raised its interest to above the threshold of 1% of the Company's voting rights and that at that date it held 285,163 shares, representing 1.13% of the voting rights.
- On April 24, 2018: Dimensional disclosed that it had raised its interest to above the threshold of 2% of the Company's capital and that at that date it held 558,707 shares, representing 2.7% of the capital and 2.2% of voting rights.
- On April 26, 2018: OppenheimerFunds disclosed that it had raised its interest to above the thresholds of 2% and 3% of the Company's capital and voting rights and that at that date it held 729,047 shares, representing 3.5% of the capital and 2.9% of the voting rights.
- On April 27, 2018: Norges Bank Investment Management disclosed that it had reduced its interest to below the threshold of 6% of the Company's capital and that at that date it held 1,138,731 shares, representing 5.5% of the capital.
- On April 30, 2018: OppenheimerFunds disclosed that it had raised its interest to above the thresholds of 3% and 4% of the Company's capital and voting rights and that at that date it held 851,934 shares, representing 4.3% of the capital and 3.4% of the voting rights.
- On May 9, 2018: Tocqueville Finance disclosed that it had raised its interest to above the threshold of 1% of the Company's capital and that at that date it held 206,000 shares, representing 1.05% of the capital.
- On May 14, 2018: UBS disclosed that it had reduced its interest to below the threshold of 1% of the Company's voting rights and that at that date it held 223,372 shares, representing 1.08% of the capital and 0.87% of the voting rights.
- On May 22, 2018: Norges Bank Investment Management disclosed that it had reduced its interest to below the thresholds of 4% and 5% of the Company's capital and voting rights and that at that date it held 1,011,735 shares, representing 3.96% of the capital and 4.9% of the voting rights.

Treasury shares

At June 30, 2018, the Company held 175,633 treasury shares, representing 0.8% of its capital, of which 34,380 shares were held in connection with the liquidity agreement entered into with Exane BNP Paribas.

Share buybacks

During the first half of 2018 the Group bought back 200,000 shares for €7 million as part of an Accelerated Book Building carried out by Ardian and Sofina.

Stock options, free shares and preference shares

At June 30, 2018, the Group's employees held 174,201 shares, namely 0.8 % of the share capital, plus 227,226 stock subscription options which, if exercised in full, would represent 1.1% of the current share capital. The stock option plans set up by the Group are based on an exercise price determined without any discount, as the options may only be exercised if certain conditions related to the Group's future performance are met. This enables the Group to ensure that the interests of its managers are closely aligned with those of its shareholders.

In addition, for several years now the Group has implemented a policy of granting free shares. The final allocation of these shares is contingent on the beneficiaries still forming part of the Group at the end of the vesting period. Free shares granted to members of Management and employees who Management considers have contributed significantly to the Company's performance only vest if certain pre-defined performance conditions are met. Management has, however, decided that no performance conditions should apply to free shares granted to employees who, by the nature of their jobs, contribute less directly to the Company's results. At June 30, 2018, the number of free shares that could potentially vest corresponded to 209,275 new shares, representing 1% of the Company's capital at that date. This includes 67,050 performance shares granted under the plan approved at the Annual General Meeting of May 17, 2018.

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

Since May 2015, the Group has also set up four plans for granting preference shares (which can be converted into ordinary shares), with performance conditions attached. These shares have been granted to certain categories of employees and corporate officers, mostly members of the Executive Committee. At June 30, 2018 the maximum number of ordinary shares that could potentially be converted from the preference shares granted was 396,110, representing 1.9 % of the Company's capital. This includes 103,400 shares as part of the plan approved at the Annual General Meeting of May 17, 2018.

At June 30, 2018, the Chief Executive Officer, Luc Themelin, held 73,125 exercisable stock options (taking into account canceled options).

A €0.8 million net charge was recognized in first-half 2018 for share-based payments, breaking down as:

- a €0.6 million charge relating to existing plans; and
- a €0.2 million gain, recorded because the Group expects that the vesting conditions of the free shares and stock options granted under the 2016 plans will not be fully met.

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

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

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

Note 8 Provisions, contingent liabilities and other liabilities

Provisions amounted to €12.3 million at June 30, 2018, €0.9 million lower than the end-December 2017 figure of €13.2 million, primarily as a result of using provisions recorded for restructurings that form part of the Competitiveness Plan (previously the Operational Excellence Plan).

Legal proceedings

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

Civil proceedings in Canada

The lawsuit launched during 2004 in Canada by certain customers against the main Canadian manufacturers of graphite brushes, including Mersen Toronto (a Canadian subsidiary of Mersen) is still in progress and there have been no new developments since 2007. This action was instigated following the CAD 1 million fine that Morgan Crucible Ltd was ordered to pay in July 2004 for anti-trust practices in the graphite brushes sector from 1995 through 1998. In February 2007, the Canadian judge ruled that only Canadian urban transportation companies could join the proceedings in progress. The risk related to these proceedings for Mersen Toronto remains non-material.

Administrative and legal proceedings in France

In 2013, SNCF launched two procedures against Morgan, SGL, Schunk and Mersen, in the Paris Administrative Court and the Paris Commercial Court respectively. SNCF is attempting to secure redress for losses that it allegedly suffered following practices that were sanctioned in December 2003 by the European Commission in connection with brushes for electric motors and products for mechanical applications. In 2014, the Paris Administrative Court rejected all of the claims lodged by SNCF, which appealed the decision. The Paris Commercial Court stayed the proceedings pending the decision by the Administrative Court of Appeal. Mersen disputes all of the allegations and claims submitted the SNCF and both cases are still undergoing.

In 1999, the Group set up a worldwide compliance program to inform and train operational and commercial managers about anti-trust legislation. It was updated in June 2010 following the change in the Group's name and corporate identity and is currently being updated once again for rollout in the second half of 2018.

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

Criminal proceedings that were initiated after the tragic accident on April 7, 2010 at Mersen's site in Gennevilliers are still in progress, with no significant developments in 2018.

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

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

Tax and customs proceedings

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

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

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

Mersen do Brasil received notice in June 2013 of a customs audit covering the period from January 2008 through December 2012. Customs officials issued a notice of reassessment (principal and interest) in the amount of 11.3 million Brazilian reals, or approximately €2.9 million at the exchange rate on December 31, 2016. The Group contested the reassessment and won the case in first instance proceedings. This decision was then appealed and the second instance proceedings are still under way.

On September 22, 2017, Mersen France SB SAS received notice of an accounting audit for financial years 2014 to 2016, extended to July 31, 2017, covering sales taxes and including its research tax credit claim for expenses incurred between 2013 and 2016. The outcome of this audit was a €0.2 million cost.

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

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

No other material contingent liabilities were identified at end-June 2018.

Other liabilities (€16.2 million at June 30, 2018) include the €15.6 million dividend payable pursuant to the Annual General Meeting of May 17, 2018, as well as payables related to property, plant and equipment.

Note 9 Employee benefit obligations

The Mersen group's main pension plans are defined benefit plans that have been set up in the US (accounting for 45% of the overall defined benefit obligation), the UK (22%), France (15%) and Germany (9%).

The Group's obligations were measured at December 31, 2017 with the assistance of independent actuaries and in accordance with IAS 19. The rates used for the main countries are summarized below:

Assumptions used to measure the Group's defined benefit obligation 2017	Discount rate	Rate of salary increases	Inflation rate
France	1.20%	Between 2.0% and 6.25% depending on the beneficiary's age	1.8%
Germany	1.20%	2.50%	1.8%
United States	3.65%	Not applicable	Not applicable
United Kingdom	2.60%	3.0%	3.40%

Reconciliation between recognized assets and liabilities

In millions of euros	June 30, 2018	Dec. 31, 2017
Present value of defined benefit obligation	172.7	178.1
Fair value of plan assets	(109.7)	(109.9)
PROVISION BEFORE IMPACT OF MINIMUM FUNDING REQUIREMENT/ASSET CEILING	**63.0**	**68.2**
Impact of minimum funding requirement/asset ceiling	0.1	0.1
PROVISION AFTER IMPACT OF MINIMUM FUNDING REQUIREMENT/ASSET CEILING	**63.1**	**68.3**

The expense recognized in relation to the Group's defined benefit plans amounted to €2.4 million in the six months ended June 30, 2018 compared with €2.7 million in the first half of 2017.

In view of the higher discount rates used for the United States and the United Kingdom at June 30 2018, the Group remeasured its defined benefit obligation, which led to a €7.4 million decrease in its provisions for employee benefit obligations.

Note 10 Net debt

At June 30, 2018, Mersen had available confirmed credit facilities and borrowings totaling close to €369 million, of which 43% had been used.

Mersen's principal confirmed financing facilities are as follows:

- A multi-currency syndicated bank loan, set up in July 2012 and amended in 2014 and 2017. The amount is €200 million and it has a five-year maturity, repayable in full in 2023. The interest payable are at variable rates, plus a credit margin.
- A five-year syndicated loan set up with a pool of international banks in September 2013 and amended in October 2016, for the purpose of financing the Group's operations in China. The amount of the loan is RMB 120 million and it is repayable in full in October 2021. Interest on the loan is 95% of the People's Bank of China rate when drawdowns are made.
- Bilateral bank loans set up in September 2013 and amended in August 2016, corresponding to an aggregate RMB 130 million. These loans – which are repayable in installments up until 2021 – are also intended to finance the Group's operations in China.
- A USD 100 million US private placement (USPP) negotiated in November 2011 with a US investor, comprising one tranche of USD 50 million with a 10-year term and one tranche of USD 37.2 million with an eight-year term, both with a bullet structure. The investor receives a fixed rate of interest.
- A €60 million German private placement ("Schuldschein") arranged in November 2016 with a pool of European and Asian investors, repayable in full at maturity after seven years. Investors receive interest at a variable rate based on the Euribor plus a margin.

In addition, as part of its policy to diversify its sources of financing, Mersen set up a commercial paper program in March 2016 representing up to €200 million, of which €62 million had been used at June 30, 2018. The commercial paper issued under this program has a maturity of less than one year and it can be substituted at maturity by drawdowns under the Group syndicated loan.

Maturity schedule of confirmed credit facilities and borrowings

In millions of euros	Amount	Drawdown at June 30, 2018	Utilization rate at June 30, 2018	Maturity		
				Less than 1 year	From 1 to 5 years	More than 5 years
Group syndicated loan	200.0	0.0	0%	0.0	0.0	200.0
Confirmed credit facilities – China	26.9	15.1	56%	2.8	24.1	0.0
2016 German private placement	60.0	60.0	100%	0.0	0.0	60.0
2011 US private placement	80.2	80.2	100%	0.0	80.2	0.0
Other	1.4	1.4	100%	0.3	1.1	0.0
TOTAL	**368.5**	**156.7**	**43%**	**3.1**	**105.4**	**260.0**

Analysis of total net debt

In millions of euros	June 30, 2018	Dec. 31, 2017
Long- and medium-term borrowings	153.8	154.4
Current financial liabilities(a)	72.3	37.8
Financial current accounts	0.9	0.3
Bank overdrafts	25.3	24.1
TOTAL GROSS DEBT	**252.3**	**216.6**
Current financial assets	**(16.9)**	**(12.6)**
Cash and cash equivalents	(30.6)	(25.9)
Total cash and cash equivalents	**(30.6)**	**(25.9)**
TOTAL NET DEBT	**204.8**	**178.1**

(a) *Including €62 million at June 30, 2018 utilized under the commercial paper program, which may be substituted at maturity by drawdowns under the Group syndicated loan (€32 million at December 31, 2017).*

Total consolidated net debt amounted to €204.8 million at June 30, 2018 versus €178.1 million at December 31, 2017.

Out of the €252.3 million in total gross debt at June 30, 2018, €156.7 million stems from the use of confirmed credit facilities and borrowings, €62 million from use of the commercial paper program and the remainder chiefly from the use of non-confirmed facilities (bank overdrafts and other facilities).

Financial covenants at June 30, 2018

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

Mersen must comply with the following financial covenants at June 30 2018 and December 31, 2017:

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

In millions of euros	Net debt/ EBITDA	Net debt/ equity	EBITDA/ net interest
Covenant ratios			
Confirmed credit facilities, Group	< 3.50	< 1.3	-
2011 US private placement	< 3.50	< 1.3	> 3
2016 German private placement	< 3.50		
Confirmed credit facilities, China	< 3.50	< 1.3	
Actual ratios at June 30, 2018			
Confirmed credit facilities, Group	1.53	0.40	-
2011 US private placement	1.53	0.40	13.91
2016 German private placement	1.53		
Confirmed credit facilities, China	1.53	0.40	-
Actual ratios at December 31, 2017			
Confirmed credit facilities, Group	1.58	0.37	-
2011 US private placement	1.58	0.37	11.98
2016 German private placement	1.58		
Confirmed credit facilities, China	1.58	0.37	-

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

At June 30, 2018, there were no material borrowings or liabilities secured by assets or guaranteed by third parties.

Note 11 Financial instruments

The following tables show the fair value of the Group's financial assets and liabilities and their carrying amounts in the statement of financial position, as well as their ranking in the fair value hierarchy for instruments measured at fair value. The tables do not include information about impairment losses on financial assets and liabilities not measured at fair value, as the carrying amounts of these assets and liabilities correspond to a reasonable approximation of the impairment loss concerned.

Classification of financial instruments measured at fair value

June 30, 2018		Carrying amount					Fair value			
Statement of financial position and category of instrument	Note	Fair value - hedging instruments	Fair value through other comprehensive income	**Financial assets at amortized cost**	**Other financial liabilities**	**Total carrying amount**	**Level 1**	**Level 2**	**Level 3**	**TOTAL**
Financial assets measured at fair value										
Unlisted investment securities			5.1			5.1			5.1	5.1
Derivatives held as current and non-current assets		0.9				0.9		0.9		0.9
		0.9	**5.1**	**0.0**	**0.0**	**6.0**	**0.0**	**0.9**	**5.1**	**6.0**
Financial assets not measured at their fair value										
Current and non-current financial assets	10			21.2		21.2				
Trade receivables				141.8		141.8				
Cash and cash equivalents	10			30.6		30.6				
		0.0	**0.0**	**193.6**	**0.0**	**193.6**				
Financial liabilities measured at fair value										
Derivatives held as current and non-current liabilities		(1.5)				(1.5)		(1.5)		(1.5)
		(1.5)	**0.0**	**0.0**	**0.0**	**(1.5)**	**0.0**	**(1.5)**	**0.0**	**(1.5)**
Financial liabilities not measured at fair value										
Bank borrowings	10				(153.8)	(153.8)		(154.0)		
Financial current accounts	10				(0.9)	(0.9)				
Bank overdrafts	10				(25.3)	(25.3)				
Current financial liabilities	10				(72.3)	(72.3)				
Trade payables					(68.3)	(68.3)				
		0.0	**0.0**	**0.0**	**(320.6)**	**(320.6)**				
Carrying amount by category		**(0.6)**	**5.1**	**193.6**	**(320.6)**	**(122.5)**				

December 31, 2017		Carrying amount					Fair value			
Statement of financial position and category of instrument	Note	Fair value - hedging instruments	Fair value through other comprehensive income	**Financial assets at amortized cost**	**Other financial liabilities**	**Total carrying amount of the category of instrument**	**Level 1**	**Level 2**	**Level 3**	**TOTAL**
Financial assets measured at fair value										
Unlisted investment securities			2.3			2.3			2.3	2.3
Derivatives held as current and non-current assets		0.8				0.8		0.8		0.8
		0.8	**2.3**	**0.0**	**0.0**	**3.1**	**0.0**	**0.8**	**2.3**	**3.1**
Financial assets not measured at fair value										
Current and non-current financial assets	10			17.1		17.1				
Trade receivables				123.4		123.4				
Cash and cash equivalents	10			25.9		25.9				
		0.0	**0.0**	**166.4**	**0.0**	**166.4**				
Financial liabilities measured at fair value										
Derivatives held as current and non-current liabilities		(1.2)				(1.2)		(1.2)		(1.2)
		(1.2)	**0.0**	**0.0**	**0.0**	**(1.2)**	**0.0**	**(1.2)**	**0.0**	**(1.2)**
Financial liabilities not measured at fair value										
Bank borrowings	10				(154.4)	(154.4)		(153.5)		
Financial current accounts	10				(0.3)	(0.3)				
Bank overdrafts	10				(24.1)	(24.1)				
Current financial liabilities	10				(37.8)	(37.8)				
Trade payables					(60.0)	(60.0)				
		0.0	**0.0**	**0.0**	**(276.6)**	**(276.6)**				
Carrying amount by category		**(0.4)**	**2.3**	**166.4**	**(276.6)**	**(108.3)**				

Financial risk management

Credit risk

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

Interest rate, currency and commodity risks

There have been no material changes in interest rate, currency and commodity risks since the closing of the financial statements at December 31, 2017.

Note 12 Other non-recurring income and expenses

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

In millions of euros	Six months ended June 30, 2018	Six months ended June 30, 2017
Competitiveness Plan	(0.9)	(3.0)
Transform Plan		0.2
Other	(0.6)	0.8
TOTAL	**(1.5)**	**(2.0)**

At end June 2018, non-recurring income and expenses totaled €1.5 million, and included mainly:

- €0.9 million in restructuring costs, chiefly stemming from competitiveness plans, and
- €0.6 million in acquisition costs.

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

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

Note 13 Segment reporting

Data for 2017 has been restated to reflect the sale of Mersen France Gorcy.

In millions of euros	Advanced Materials (AM)		Electrical Power (EP)		Total for continuing operations	
	Six months ended June 30, 2018	Six months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017 (restated)	Six months ended June 30, 2018	Six months ended June 30, 2017 (restated)
Sales to third parties	240.1	227.2	190.2	182.3	430.3	409.5
Proportion of total sales	55.8%	55.5%	44.2%	44.5%	100.0%	100.0%
Segment operating income before non-recurring items	**33.9**	**25.1**	**19.3**	**18.5**	**53.2**	**43.6**
Recurring unallocated costs					(7.4)	(7.6)
Segment operating margin before non-recurring items*	14.1%	11.1%	10.2%	10.1%		
Operating income from continuing operations before non-recurring items					45.8	36.0
Operating margin from continuing operations before non-recurring items					10.6%	8.8%
Segment non-recurring income and expenses	0.5	0.0	(2.0)	(2.0)	(1.5)	(2.0)
Segment operating income	**34.4**	**25.1**	**17.3**	**16.5**	**51.7**	**41.6**
Segment operating margin*	14.3%	11.0%	9.1%	9.1%		
EBITDA margin(1)	20.0%	17.5%	12.5%	12.7%	15.0%	13.6%
Non-recurring unallocated costs					0.0	0.0
Operating income from continuing operations					**44.3**	**34.0**
Operating margin from continuing operations					10.3%	8.3%
Net finance income/(expense)					(4.7)	(5.4)
Current and deferred income tax					(10.3)	(9.3)
Net income from continuing operations					**29.3**	**19.3**

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

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

Note 14 Payroll costs and headcount

Group payroll costs (including social security contributions, provisions for pension obligations and retirement indemnities) came to €133.8 million in the first half of 2018 compared with €131.8 million in the same period of 2017.

Based on a comparable Group structure and constant exchange rates (like-for-like), payroll costs (including those concerning temporary staff) were 5.5% higher year on year, reflecting a rise in the number of temporary staff as a result of strong business growth.

Headcount of consolidated companies at end of period by geographical area

Geographical area	June 30, 2018	%	June 30, 2017	%
France	1,323	20%	1,339	21%
Rest of Europe	778	12%	762	12%
North America (+ Mexico)	2,033	31%	1,915	31%
Asia	1,736	27%	1,722	27%
Rest of the world	638	10%	526	8%
TOTAL	**6,508**	**100%**	**6,264**	**100%**

The Group's headcount at end-June 2018 included 29 employees linked to the acquisition of Idealec.

Based on a comparable Group structure, headcount increased by 215 persons.

Note 15 Income tax

In millions of euros	Six months ended June 30, 2018	Six months ended June 30, 2017
Current income tax	(9.0)	(7.9)
Deferred income tax	(1.0)	(1.4)
Withholding tax	(0.3)	(0.2)
TOTAL TAX EXPENSE	**(10.3)**	**(9.5)**

The Group has:

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

The effective tax rate in first-half 2018 was 26% (33% in the first six months of 2017), due to the US tax reforms introduced in late 2017.

Note 16 Earnings per share

Basic and diluted earnings per share are presented below:

Continuing operations and discontinued operations	Six months ended June 30, 2018	Six months ended June 30, 2017 (restated)
Numerator: net income used to calculate basic earnings per share (net income for the period in millions of euros)	27.9	18.1
Denominator: weighted average number of ordinary shares used to calculate basic earnings per share	20,510,235	20,504,099
Maximum effect of dilutive ordinary shares: unexercised options	832,611	1,035,325
Weighted average number of ordinary shares used to calculate diluted earnings per share	21,342,846	21,539,424
Basic earnings per share *(€)*	1.36	0.88
Diluted earnings per share *(€)*	1.31	0.84

Continuing operations	Six months ended June 30, 2018	Six months ended June 30, 2017 (restated)
Numerator: net income used to calculate basic earnings per share (net income for the period in millions of euros)	27.9	18.3
Denominator: weighted average number of ordinary shares used to calculate basic earnings per share	20,510,235	20,504,099
Maximum effect of dilutive ordinary shares: unexercised options	832,611	1,035,325
Weighted average number of ordinary shares used to calculate diluted earnings per share	21,342,846	21,539,424
Basic earnings per share *(€)*	1.36	0.89
Diluted earnings per share *(€)*	1.31	0.85

After restating net income for the period to exclude the items set out below, earnings per share figures for the six months ended June 30, 2018 and 2017 are as follows:

	Six months ended June 30, 2018	Six months ended June 30, 2017 (restated)
Continuing operations and discontinued operations		
Basic earnings per share *(€)*	1.39	0.98
Diluted earnings per share *(€)*	1.33	0.93

	Six months ended June 30, 2018	Six months ended June 30, 2017 (restated)
Continued operations		
Basic earnings per share *(€)*	1.39	0.98
Diluted earnings per share *(€)*	1.33	0.93

Restatements of net income:

	Six months ended June 30, 2018	Six months ended June 30, 2017 (restated)
Net income	27.9	18.1
Non-recurring expenses for the Competitiveness Plan, net of tax	0.6	1.8
Net income from discontinued operations	0	0.1
Restated net income	**28.5**	**20.0**

Note 17 Dividends

At the Annual General Meeting held on May 17, 2018, the Company's shareholders approved the payment of a dividend of €0.75 per share for 2017 (compared with a €0.50 per-share dividend for 2016). This dividend was paid in cash in July 2018 and represented a total payout of €15.6 million.

Note 18 Off balance sheet commitments

At June 30, 2018, off balance sheet commitments increased by €4 million versus December 31, 2017 as a result of a guarantee given for a contract in the Advanced Materials division in China.

Note 19 Subsequent events

In early July, Mersen completed the acquisition of **FTCap**, which specializes in the development and production of capacitors. The transaction will enable the Group to broaden its current range of key components for the development of efficient, high-performance power electronics systems. The company employs some 200 people and generated revenues of close to €20 million in 2017. FTCap will be consolidated in Mersen's financial statements from July 1, 2018. As a result, the Group's net debt will increase by around €23 million, prior to any adjustment in working capital requirement.

4 Statutory Auditors' review report on the 2018 interim financial information

Six months ended June 30, 2018

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

To the Shareholders

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

- the review of the accompanying condensed interim consolidated financial statements of Mersen SA for the six months ended June 30, 2018;
- the verification of the information contained in the interim management report.

These condensed interim consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

→ I – Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

Without qualifying our conclusion, we draw your attention to Note 2 "Summary of significant accounting policies and methods" to the consolidated financial statements, which describes the change in accounting method resulting from the application of IFRS 9 – "Financial instruments" and IFRS 15 – "Revenue from Contracts with Customers" as from January 1, 2018.

→ II – Specific verification

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

Paris La Défense, July 30, 2018
KPMG Audit
Department of KPMG SA

Philippe Cherqui
Partner

Paris La Défense, July 30, 2018
Deloitte & Associés

Laurent Odobez
Partner

5 Statement of the officer

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

Paris, July 30, 2018

Luc Themelin

Chief Executive Officer

MERSEN
TOUR EQHO
2, AVENUE GAMBETTA
CS 10077
F-92066 LA DÉFENSE CEDEX

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