2019 FIRST-HALF FINANCIAL REPORT

MERSEN

2019 first-half financial report

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1 MANAGEMENT REPORT

CONSOLIDATED RESULTS

Sales

Consolidated sales for Mersen amounted to €484 million in the first six months of 2019, a like-for-like increase of 6.5% compared with the same period last year. Including the currency effect and the impact of consolidating the companies acquired or formed in 2018, year-on-year sales growth came to 12.4%.

In millions of euros	H1 2019	H1 2018	Like-for-like growth	Scope effect	Currency effect	Reported growth
Advanced Materials	278.1	240.1	13.1%	0.8%	1.7%	15.8%
Electrical Power	205.6	190.2	-1.7%	7.0%	2.8%	8.1%
Europe	167.0	146.9	5.8%	8.4%	-0.5%	13.6%
Asia-Pacific	130.3	124.7	1.6%	1.4%	1.5%	4.6%
North America	166.7	141.8	10.0%	0.7%	6.3%	17.6%
Rest of the World	19.7	16.9	19.2%	0.7%	-2.8%	16.5%
GROUP	**483.7**	**430.3**	**6.5%**	**3.5%**	**2.2%**	**12.4%**

Sales for the **Advanced Materials** segment totaled €278 million, up 15.8% on first-half 2018 as reported or 13.1% like for like. This performance was led by strong growth in the electronics, aeronautics, chemicals and process industries markets, whereas sales in the renewable energies market retreated during the period.

In the **Electrical Power** segment, sales came to €206 million, up 8.1% thanks to the contribution of companies acquired in 2018. On a like-for-like basis, sales for this segment edged down 1.7%. The main growth markets during the period were transportation, and to a lesser extent, process industries. The power electronics market, however, had fewer projects than in the first six months of 2018.

In **Europe**, growth was particularly robust for Advanced Materials, fueled by the electronics and chemicals markets. Italy, Spain and the Nordic countries saw especially strong momentum during the period. The chemicals and electronics markets were also buoyant in **Asia**, but topline performance in China decreased year on year, due to lower sales in the solar market. Growth in **North America** was propelled by sales in the electronics and process industries markets.

The Group adopted IFRS 16 "Leases" as from January 1, 2019, using the modified retrospective approach. The tables below show condensed consolidated financial statements including both reported data and data before the application of IFRS 16. In order to permit meaningful year-on-year comparisons, the comments below refer to the figures before the impact of applying IFRS 16.

EBITDA and operating income before non-recurring items

In millions of euros	H1 2019	H1 2019 before IFRS 16	H1 2018
Operating income before non-recurring items	53.6	52.6	45.8
as a % of sales	*11.1%*	*10.9%*	*10.6%*
Amortization	25.4	19.9	18.6
EBITDA	**79.0**	**72.5**	**64.4**
as a % of sales	*16.4%*	*15.0%*	*15.0%*

Consolidated EBITDA for first-half 2019 totaled €72.5 million (15% of sales), up nearly 13% year on year.

Operating income before non-recurring items came to €52.6 million, yielding an operation margin of 10.9% of sales (up on the 10.6% figure reported for the first half of 2018).

The EBITDA and operating income before non-recurring item improvement was mainly driven by business volumes and increase in selling prices.

Segment analysis (excluding unallocated expenses)

	Advanced Materials (AM)			Electrical Power (EP)		
In millions of euros	H1 2019	H1 2019 before IFRS16	H1 2018	H1 2019	H1 2019 before IFRS16	H1 2018
Sales	278.1	278.1	240.1	205.6	205.6	190.2
EBITDA	**59.2**	**55.8**	**48**	**27.5**	**24.9**	**23.8**
as a % of sales	*21.3%*	*20.1%*	*20.0%*	*13.4%*	*12.1%*	*12.5%*
Operating income before non-recurring items	**41.6**	**41**	**33.9**	**20.3**	**19.9**	**19.3**
as a % of sales	*15.0%*	*14.7%*	*14.1%*	*10.0%*	*9.7%*	*10.2%*

Operating income before non-recurring items for the Advanced Materials segment was €41.0 million, resulting in an operating margin of 14.7% compared to 14.1% for the same period of 2018. This improvement stemmed mainly from a favorable volume effect and an increase in selling prices that more than offset the impacts of higher raw materials costs and customs tariffs.

In the Electrical Power segment, operating income before non-recurring items increased by 3% year on year from €19.3 million to €19.9 million, representing 9.7% of sales against 10.2% in first-half 2018. This segment's performance was hampered during the period by a 0.3-point dilutive impact from acquisitions (FTCap and Idealec) and a negative volume/mix effect. Conversely, higher selling prices had a positive effect.

In millions of euros	H1 2019	H1 2019 before IFRS 16	H1 2018
Consolidated sales	483.7	483.7	430.3
Gross income	152.7	152.1	141
as a % of sales	*31.6%*	*31.4%*	*32.8%*
Selling, marketing and other expenses	-41.0	-41.1	-41
Administrative and research expenses	-57.4	-57.7	-53.6
Total SG&A	-98.4	-98.8	-94.6
Amortization of *goodwill*	-0.7	-0.7	-0.6
Operating income before non-recurring items	**53.6**	**52.6**	**45.8**
as a % of sales	*11.1%*	*10.9%*	*10.6%*

The year-on-year decrease in gross margin was due to a negative mix effect, primarily in the Electrical Power segment.

SG&A and R&D costs amounted to €98.8 million, up by 4.4%, well below the more-than 12% sales growth figure. Taken alone, R&D costs were 14% higher than in first-half 2018.

Net income

Net income attributable to owners of the parent advanced by nearly 19% to €33.1 million from €27.9 million in first-half 2018.

In millions of euros	H1 2019	H1 2019 before IFRS 16	H1 2018
Operating income before non-recurring items	**53.6**	**52.6**	**45.8**
Non-recurring income and expenses	-3.2	-3.2	-1.5
Operating income	50.4	49.4	44.3
Net finance expense	-6.1	-4.7	-4.7
Current and deferred income tax	-10.6	-10.7	-10.3
Net income for the period	**33.7**	**34.0**	**29.3**
- Attributable to Mersen shareholders	32.8	33.1	27.9

Non-recurring income and expense represented a net expense of €3.2 million, comprising €1.6 million in restructuring costs, €0.6 million in acquisition costs, and other costs including provisions for litigation. In the six months ended June 30, 2018, other non-recurring income and expenses represented a net expense of €1.5 million and primarily corresponded to restructuring costs.

Mersen's **net financial expense** came to €4.7 million in the first half of 2019, in line with the first-half 2018 figure. The impact of the €30 million increase in the Group's average debt was offset by lowerthanexpected earnout payments to shareholders of acquired companies (recognized under debt at December 31, 2018).

Income tax expense totaled €10.7 million for the period, representing an effective tax rate of 24%, slightly lower than the 26% rate for first-half 2018.

Cash and debt

Condensed statement of cash flows

In millions of euros	H1 2019	H1 2019 before IFRS 16	H1 2018
Cash generated by operating activities before change in working capital requirement	77.5	71.0	61.5
Change in working capital requirement	-46	-46	-40.9
Income tax paid	-5.3	-5.3	-2.5
Cash generated by continuing operating activities	**26.2**	**19.7**	**18.1**
Cash used in discontinued operating activities	0	0	-0.2
Net cash generated by operating activities	**26.2**	**19.7**	**17.9**
Capital expenditure1	-19	-19	-19.6
Cash generated by operating activities after capital expenditure	**7.2**	**0.7**	**-1.7**
Changes of scope	-12	-12	-7.9
Other (capitalization of R&D costs)	-1.9	-1.9	-0.9
Cash generated by operating and investing activities	**-6.7**	**-13.2**	**-10.5**
Other cash flows (including interest and lease payments and share buybacks)	-9.7	-3.2	-11.2
Cash flows	**-16.4**	**-16.4**	**-21.7**

Operating activities generated nearly €20 million in net cash flow in the first half of 2019, i.e. representing an increase of around €2 million compared to the first-half of 2018. This figure takes into account an increase in working capital requirement of €46 million, primarily driven by strong sales growth and a seasonal effect. The working capital to sales ratio stood at 24.7%, up 2 points on first-half 2018 as a result of an increase in back-up inventories of raw materials and delays in customer payments observed towards the end of the period.

Capital expenditure totaled €19.0 million in the first six months of 2019. Two thirds of this total related to the Advanced Materials segment, particularly the Group's specific growth projects such as the capacity increase for the silicon carbide (SiC) semiconductor market.

The €12 million cash outflow for acquisitions mainly corresponds to the acquisition of the Columbia site in the United States as well as additional price related to the buyout of non-controlling interests in Cirportec (already recognized in debt at December 31, 2018).

Other cash flows during the period mainly correspond to interest paid and share buybacks. Share buybacks amounted to €7 million in the first half of 2018.

Consequently, net cash flow for the period represented a negative €16.4 million (versus a negative €21.7 million in first-half 2018), including €12 million of acquisition related costs.

Statement of financial position

Net debt stood at €228 million at June 30, 2019, up €13 million on the €215 million reported at December 31, 2018. The end-June 2019 figure includes the following impacts: (i) €7 million related to acquisitions, principally the purchase of the Columbia site in the United States, and (ii) €21 million in capital expenditure, including €2 million in capitalized R&D costs related to the EV project.

The Group's financial structure remains robust, with a net debt-to-EBITDA ratio[1] of 1.5 (1.6 at December 31, 2018). The net debt-to-equity ratio[1] was 41%.

	June 30, 2019	December 31, 2018
Total net debt *(in millions of euros)*	228	215
Net debt/EBITDA	1.5	1.6
Net debt/equity	41%	39%

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

Outlook for full-year 2019

The Group does not expect to see any substantial changes in its markets in the medium term compared to the information communicated at the beginning of the year.

For 2019:

- The solar market should recover in the second half of the year compared with the first half.
- Growth in the electronics market should be driven by SiC semiconductors, whereas the silicon semiconductor segment is expected to decline.
- Chemicals market growth is likely to be moderate for the year as a whole, reflecting a lower level of sales in the second half following a high level of invoicing in the first six months due to the phasing of projects.
- Process industries should follow the same trends as the world's major economies.

In view of its good first-half results, Mersen now expects like-for-like sales growth to come in between 4% and 5% (versus the previously published guidance of between 2% and 5%). The Group is standing by its forecast of operating margin before non-recurring items ranging between 10.5% and 10.7% for the year (before the impact of applying IFRS 16).

The Group's capex program should amount to between €65 million and €75 million (compared with the initial guidance of €60 million to €70 million). This reflects the announcement on July 8, 2019 that the Group intends to spend additional capital expenditure for the commissioning at the Columbia site in the United States.

GLOSSARY

Like-for-like growth: Determined by comparing sales for a period of a given year with sales for the same period of the previous year, restated using the current year's exchange rate and excluding the impact of acquisitions and/or disposals and the application of IFRS 15.

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

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

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

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

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

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

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

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

Capital Expenditure: Property, plant and equipment and fixed assets suppliers

2 CONSOLIDATED FINANCIAL STATEMENTS

CHANGES IN SCOPE OF CONSOLIDATION IN THE PAST TWO YEARS

The principal changes in the scope of consolidation that impacted the consolidated financial statements in 2018 and the first half of 2019 are as follows:

- In 2018, Mersen:
  - acquired all of the shares of Artimon SA in France and of its operating subsidiary Idéalec SAS (April),
  - acquired all of the shares of FT Fischer & Tausche Holding Gmbh & Co KG (Germany) and of its operating subsidiaries FTCAP Gmbh (Germany) and Leclanché Capacitors sarl (Switzerland) (July),
  - acquired all the service activities of Louisville Graphite Inc. (LGI) in the United States (June),
  - set up the Mersen Galaxy New Materials (Yantai) Co ltd. joint venture in China, in which it holds 60% of the shares (end of year);
- In the first half of 2019, Mersen set up Mersen USA GSTN Corp. This US-based company houses the assets acquired on June 28, 2019, making up the graphite business of the former Graftech site in Columbia (Tennessee), which is currently dormant.

Consolidated statement of income*

In millions of euros	Notes	Six months ended June 30, 2019	Six months ended June 30, 2018
CONTINUING OPERATIONS			
Consolidated sales	13	483.7	430.3
Cost of sales		(331.0)	(289.3)
Total gross income		**152.7**	**141.0**
Selling and marketing expenses		(40.5)	(38.9)
Administrative and research expenses		(57.4)	(53.6)
Amortization of revalued intangible assets		(0.7)	(0.6)
Other operating expenses		(0.5)	(2.1)
Operating income before non-recurring items	13	**53.6**	**45.8**
Non-recurring expenses	12	(3.2)	(1.5)
Non-recurring income	12	0.0	0.0
Operating income	13	**50.4**	**44.3**
Net finance expense		**(6.1)**	**(4.7)**
Income from continuing operations before tax		**44.3**	**39.6**
Current and deferred income tax	15	(10.6)	(10.3)
Net income from continuing operations		**33.7**	**29.3**
Net income/(loss) from operations held for sale and discontinued operations	4	0.0	0.0
NET INCOME		**33.7**	**29.3**
Attributable to:			
- Owners of the parent		32.8	27.9
- Non-controlling interests		0.9	1.4
NET INCOME FOR THE PERIOD		**33.7**	**29.3**
Earnings per share	16		
Basic earnings per share *(€)*		1.59	1.36
Diluted earnings per share *(€)*		1.53	1.31
Earnings per share from continuing operations			
Basic earnings per share *(€)*		1.59	1.36
Diluted earnings per share *(€)*		1.53	1.31

* The consolidated statement of income for the six months ended June 30, 2019 includes the impact of the Group's application of IFRS 16 "Leases" since January 1, 2019 based on the modified retrospective approach (see Note 2).

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In millions of euros	Notes	Six months ended June 30, 2019	Six months ended June 30, 2018
NET INCOME FOR THE PERIOD		**33.7**	**29.3**
Items that will not be subsequently reclassified to income			
Financial assets at fair value through "Other comprehensive income"	11	(0.2)	1.2
Remeasurements of the net defined benefit liability (asset)	9	(12.7)	5.3
Tax impact		3.1	(1.0)
		(9.8)	**5.5**
Items that may subsequently be reclassified to income			
Change in fair value of hedging instruments		0.3	(0.1)
Exchange differences on translation of assets and liabilities at the period-end rate		2.1	4.9
Tax impact		0.0	0.0
		2.4	**4.8**
INCOME AND EXPENSES RECOGNIZED DIRECTLY IN EQUITY		**(7.4)**	**10.3**
TOTAL COMPREHENSIVE INCOME/(LOSS)		**26.3**	**39.6**
Attributable to:			
- Owners of the parent		25.3	38.1
- Non-controlling interests		1.0	1.5
TOTAL COMPREHENSIVE INCOME/(LOSS)		**26.3**	**39.6**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*

Assets

In millions of euros	Note	June 30, 2019	Dec. 31, 2018
NON-CURRENT ASSETS			
Intangible assets	5 and 6		
- Goodwill		277.3	276.2
- Other intangible assets		35.7	35.1
Property, plant and equipment	5 and 6		
- Land		35.3	30.6
- Buildings		76.1	76.3
- Plant, equipment and other tangible assets		181.7	171.6
- Assets in progress		21.1	22.4
- Rights of use	2	44.7	
Non-current financial assets			
- Equity interests		3.9	4.1
- Non-current derivatives		0.0	0.1
- Other financial assets		4.2	3.3
Non-current tax assets			
- Deferred tax assets	15	29.8	26.9
- Long-term portion of current tax assets		6.7	5.8
TOTAL NON-CURRENT ASSETS		**716.5**	**652.4**
CURRENT ASSETS			
- Inventories		218.1	198.6
- Trade receivables		164.1	146.2
- Contract assets		9.0	10.6
- Other operating receivables		26.3	20.4
- Short-term portion of current tax assets		4.1	4.6
- Other current assets		0.0	1.9
- Current financial assets	10	12.7	13.8
- Current derivatives		0.7	1.2
- Cash and cash equivalents	10	74.0	34.8
- Assets held for sale and discontinued operations	4	0.0	0.0
TOTAL CURRENT ASSETS		**509.0**	**432.1**
TOTAL ASSETS		**1,225.5**	**1,084.5**

* The consolidated statement of financial position at June 30, 2019 includes the impact of the Group's application of IFRS 16 "Leases" since January 1, 2019 based on the modified retrospective approach (see Note 2).

Equity and liabilities

In millions of euros	Note	June 30, 2019	Dec. 31, 2018
EQUITY			
- Share capital	7	41.7	41.5
- Retained earnings and other reserves		446.4	417.6
- Net income for the period		32.8	56.5
- Cumulative translation adjustments		(7.3)	(9.3)
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		**513.6**	**506.3**
- Non-controlling interests		22.8	21.8
TOTAL EQUITY		**536.4**	**528.1**
NON-CURRENT LIABILITIES			
- Non-current provisions	8	7.0	1.5
- Employee benefit obligations	9	78.3	64.6
- Deferred tax liabilities	15	29.4	27.8
- Long and medium-term borrowings	10	237.0	109.4
- Lease liabilities	2	45.1	
- Non-current derivatives		0.1	0.1
TOTAL NON-CURRENT LIABILITIES		**396.9**	**203.4**
CURRENT LIABILITIES			
- Trade payables		72.3	71.8
- Contract liabilities		24.6	28.3
- Other operating payables		82.3	84.1
- Current provisions	8	7.0	7.8
- Short-term portion of current tax liabilities		6.4	2.4
- Miscellaneous liabilities		20.0	1.0
- Other current financial liabilities	10	60.3	125.3
- Current derivatives		1.0	2.0
- Financial current accounts	10	1.7	0.5
- Bank overdrafts	10	15.7	28.9
- Liabilities related to assets held for sale and discontinued operations	4	0.9	0.9
TOTAL CURRENT LIABILITIES		**292.2**	**353.0**
TOTAL EQUITY AND LIABILITIES		**1,225.5**	**1,084.5**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent						
In millions of euros	Share capital	Additional paid-in capital, retained earnings and other reserves	Net income for the period	Translation adjustments	Total	Non-controlling interests	Total equity
AT JANUARY 1, 2018	**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 at fair value		1.2			1.2		1.2
Remeasurements of the net defined benefit 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**
COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**0.0**	**5.4**	**27.9**	**4.8**	**38.1**	**1.5**	**39.6**
Dividends paid		(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
Impairment of receivables		(0.6)			(0.6)		(0.6)
Acquisition 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**
AT DECEMBER 31, 2018	**41.5**	**417.6**	**56.5**	**(9.3)**	**506.3**	**21.8**	**528.1**
Prior-period net income		56.5	(56.5)		0.0		0.0
Net income for the period			32.8		32.8	0.9	33.7
Change in the fair value of derivative hedging instruments, net of tax		0.3			0.3		0.3
Financial assets at fair value		(0.2)			(0.2)		(0.2)
Remeasurements of the net defined benefit liability (asset) after tax		(9.6)			(9.6)		(9.6)
Translation adjustment				2.0	2.0	0.1	2.1
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)	**0.0**	**(9.5)**	**0.0**	**2.0**	**(7.5)**	**0.1**	**(7.4)**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**0.0**	**(9.5)**	**32.8**	**2.0**	**25.3**	**1.0**	**26.3**
Dividends payable		(19.7)			(19.7)		(19.7)
Treasury shares		(0.2)			(0.2)		(0.2)
Capital increase	0.2	0.8			1.0		1.0
Stock options and free shares		1.1			1.1		1.1
Other		(0.2)			(0.2)		(0.2)
AT JUNE 30, 2019	**41.7**	**446.4**	**32.8**	**(7.3)**	**513.6**	**22.8**	**536.4**

CONSOLIDATED STATEMENT OF CASH FLOWS*

In millions of euros	Six months ended June 30, 2019	Six months ended June 30, 2018
Income before tax	44.3	39.6
Depreciation and amortization	24.8	18.2
Additions to/(reversals from) provisions	2.4	(2.0)
Net finance income	6.1	4.7
Capital gains/(losses) on asset disposals	0.0	0.1
Other	(0.1)	0.9
Cash flow generated by operating activities before change in WCR	**77.5**	**61.5**
Change in working capital requirement	(46.0)	(40.9)
Income tax paid	(5.3)	(2.5)
Net cash generated by continuing operating activities	**26.2**	**18.1**
Cash generated by/(used in) discontinued operations	**0.0**	**(0.2)**
Net cash generated by operating activities	**26.2**	**17.9**
Cash flows from investing activities		
Intangible assets	(1.8)	(1.4)
Property, plant and equipment	(20.9)	(19.2)
Decreases (increases) in amounts due to suppliers of non-current assets	1.9	(0.4)
Financial assets	0.0	(1.0)
Changes in scope of consolidation and acquisition of assets	(12.0)	(6.9)
Other cash flows from investing activities	(0.1)	0.5
Cash used in investing activities from continuing operations	**(32.9)**	**(28.4)**
Cash generated by/(used in) investing activities from discontinued operations	0.0	0.0
Net cash used in investing activities	**(32.9)**	**(28.4)**
Net cash used in operating and investing activities	**(6.7)**	**(10.5)**
Amounts received/(paid) on capital increases/reductions and other changes in equity	0.8	(7.3)
Net dividends paid to shareholders and non-controlling interests	0.0	0.0
Interest payments	(4.0)	(3.9)
Lease payments	(6.5)	
Change in debt	55.9	25.8
Net cash generated by financing activities	**46.2**	**14.6**
Net increase in cash and cash equivalents	**39.5**	**4.1**
Cash and cash equivalents at beginning of period (Note 10)	34.8	25.9
Cash and cash equivalents at period-end (Note 10)	74.0	30.6
Changes in the scope of consolidation	0.0	0.0
Impact of currency fluctuations	0.3	(0.6)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**39.5**	**4.1**

* The consolidated statement of cash flows for the six months ended June 30, 2019 includes the impact of the Group's application of IFRS 16 "Leases" since January 1, 2019 based on the modified retrospective approach (see Note 2).

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, 2019 are presented in Note 2.

The accounting options selected by the Group are described in Note 2 to the 2018 annual report.

The interim consolidated financial statements for the six months ended June 30, 2019 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, 2018, which are available on the Group’s website 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, 2018.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on July 30, 2019.

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, 2018.

The following changes in accounting methods will also concern the Group’s consolidated financial statements for the year ending December 31, 2019.

New standards applicable in 2019

The Group applied IFRS 16 “Leases” for the first time with effect from January 1, 2019. A number of other new standards were also applicable from January 1, 2019 but did not have any material impact on the Group’s consolidated financial statements.

IFRS 16, “Leases”

- The Group has adopted IFRS 16 using the modified retrospective approach. As permitted under this approach, it has not restated comparative information for 2018 and has recognized the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of equity (retained earnings) at January 1, 2019. Data for 2018 is presented as in prior periods, using the accounting methods applicable under IAS 17 and the related interpretations. The changes in accounting method arising due to applying IFRS 16 are described below.
- The Group leases numerous assets, including real estate and production and IT equipment.
- As lessee, the Group previously classified its lease contracts either as operating leases or finance leases. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the lesser; otherwise it was classified as an operating lease. Since its adoption of IFRS 16, for the majority of its lease contracts, the Group has recognized right-of-use assets, representing the right to use the underlying assets, and lease liabilities, representing the obligation to make lease payments.
- The Group used a specific IT system to identify all of the lease contracts in force in all of its consolidated entities as well as the financial characteristics of the leases. This system also generates the accounting entries required under IFRS 16. Cars and forklift trucks mainly account for the highest number of leases whereas offices, plants and warehouses constitute those with the highest value. The standard does not apply to leases valued under €5,000 (or USD 5,000) or those with a term of less than one year.
- For the purpose of measuring its lease liabilities, the Group used, in application of the standard, key assumptions such as specific discounted rates for each country, calculated according to the default risk of the country and the credit risk of the lessee entity, as well as the potential Group’s external financing conditions. The calculated average borrowing rate stands at 6%.
- The Group has applied IFRS 16 since January 1, 2019 using the modified retrospective approach, under which comparative information for prior periods is not restated. The adoption of IFRS 16 as of January 1, 2019 resulted in a €40.3 million increase in non-current assets and a corresponding €40.3 million increase in debt. In the income statement it led to a reduction in rental expenses recorded under EBITDA[1], as well as an increase in the depreciation of non-current assets and in financial expenses. The improvement in full-year EBITDA is estimated at approximately €13 million. The increase in operating income before non-recurring items is estimated at between €2 million and €3 million.

(1) The Group’s EBITDA corresponds to operating income before non-recurring items plus depreciation and amortization.

The impact on net income attributable to owners of the parent is not expected to be significant.

- The Group recognizes right-of-use assets and lease liabilities on separate lines of the statement of financial position.
- The table below sets out the carrying amount of right-of-use assets at January 1 and June 30, 2019.

In thousands of euros	Real estate	Production equipment and vehicles	Total
At January 1, 2019	34.0	6.3	40.3
At June 30, 2019	39.2	5.5	44.7

- The table below shows a reconciliation between the lease liabilities recognized in the statement of financial position under IFRS 16 and the future minimum lease payments recognized as off-balance sheet commitments prior to the application of IFRS 16.

Off-balance sheet commitments for real estate at December 31, 2018*	**32.9**
Discounting effect	(8.9)
Effect of changes in lease terms applied to take into account termination and renewal options whose exercise is reasonably certain	8.9
Other leases**	7.4
Lease liabilities at January 1, 2019	**40.3**

* *Off-balance sheet commitments related to leases reported at December 31, 2018 represented the amount of future real estate lease payments deemed certain up until the expiration of the lease and prior to any renewals. They did not include lease payment obligations relating to production equipment and vehicles.*
** *Mainly concerning forklift trucks and other vehicles.*

The Group's adoption of IFRS 16 had the following impacts on its income statement:

In millions of euros	Notes	Six months ended June 30, 2019 Reported	IFRS 16	Six months ended June 30, 2019 Before IFRS 16
CONTINUING OPERATIONS				
Consolidated sales	13	483.7		483.7
Cost of sales		(331.0)	0.6	(331.6)
Total gross income		**152.7**	**0.6**	**152.1**
Selling and marketing expenses		(40.5)	0.1	(40.6)
Administrative and research expenses		(57.4)	0.3	(57.7)
Amortization of revalued intangible assets		(0.7)		(0.7)
Other operating expenses		(0.5)		(0.5)
Operating income before non-recurring items	13	**53.6**	**1.0**	**52.6**
Non-recurring expenses	12	(3.2)		(3.2)
Non-recurring income	12	0.0		
Operating income	13	**50.4**	**1.0**	**49.4**
Net finance expense		**(6.1)**	**(1.4)**	**(4.7)**
Income from continuing operations before tax		**44.3**	**(0.4)**	**44.7**
Current and deferred taxes	15	(10.6)	0.1	(10.7)
Net income from continuing operations		**33.7**	**(0.3)**	**34.0**
Net income from operations held for sale and discontinued operations	4	0.0		0.0
NET INCOME		**33.7**	**(0.3)**	**34.0**
Attributable to:				
- Owners of the parent		32.8	(0.3)	33.1
- Non-controlling interests		0.9		0.9
NET INCOME FOR THE PERIOD		**33.7**	**(0.3)**	**34.0**

- The Group's adoption of IFRS 16 had the following impacts on its statement of cash flows:

In millions of euros	Six months ended June 30, 2019 Reported	IFRS 16	Six months ended June 30, 2019 Before IFRS 16
Income before tax	44.3	(0.4)	44.7
Depreciation and amortization	24.8	5.5	19.3
Additions to/(reversals from) provisions	2.4		2.4
Net finance expense	6.1	1.4	4.7
Capital gains/(losses) on asset disposals	0.0		
Other	(0.1)		(0.1)
Cash flow generated by operating activities before change in WCR	**77.5**	**6.5**	**71.0**
Change in working capital requirement	(46.0)		(46.0)
Income tax paid	(5.3)		(5.3)
Net cash generated by continuing operating activities	**26.2**	**6.5**	**19.7**
Cash generated by/(used in) discontinued operations	**0.0**		
Net cash generated by operating activities	**26.2**	**6.5**	**19.7**
Cash flows from investing activities			
Intangible assets	(1.8)		(1.8)
Property, plant and equipment	(20.9)		(20.9)
Decreases in amounts due to suppliers of non-current assets	1.9		1.9
Financial assets	0.0		
Change in scope of consolidation	(12.0)		(12.0)
Other cash flows from investing activities	(0.1)		(0.1)
Cash generated by/(used in) investing activities from continuing operations	**(32.9)**	**0.0**	**(32.9)**
Cash generated/(used) by investing activities from discontinued operations	0.0		
Net cash generated by/(used in) investing activities	**(32.9)**	**0.0**	**(32.9)**
Net cash generated by/(used in) operating and investing activities	**(6.7)**	**6.5**	**(13.2)**
Amounts received/(paid) on capital increases/reductions and other changes in equity	0.8		0.8
Net dividends paid to shareholders and non-controlling interests	0.0		
Interest payments	(4.0)		(4.0)
Lease payments	(6.5)	(6.5)	
Change in debt	55.9		55.9
Net cash generated by/(used in) financing activities	**46.2**	**(6.5)**	**52.7**
Net increase in cash and cash equivalents	**39.5**	**0.0**	**39.5**
Cash and cash equivalents at beginning of period (Note 10)	34.8		34.8
Cash and cash equivalents at period-end (Note 10)	74.0		74.0
Changes in scope of consolidation	0.0		
Impact of currency fluctuations	0.3		0.3
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**39.5**	**0.0**	**39.5**

Use of judgments and estimates

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

The critical judgments exercised by Management in applying the Group's accounting policies in the interim consolidated financial statements as well as the main sources of uncertainty are the same as those described in the annual consolidated financial statements for the year ended December 31, 2018.

Note 3 Business combinations

The Group did not carry out any business combinations in the first half of 2019.

There was no pending allocation of goodwill at June 30, 2019.

Note 4 Operations held for sale and discontinued operations

Operations held for sale and discontinued operations recognized in prior periods had no material impact on the consolidated financial statements at June 30, 2019.

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

Goodwill totaled €277.3 million at June 30, 2019, up €1.1 million compared with December 31, 2018 due to changes in foreign exchange rates.

The €13 million net increase in property, plant and equipment includes €20.9 million in capital expenditure on production capacity, as well as a €10.7 million impact from the acquisition of the graphite business assets of the Columbia (Tennessee) site in the United States.

The assets of this site – which is currently dormant – comprise land, buildings and equipment and were acquired with a view to increasing the Group's production capacity for specialty graphite. A USD 5 million provision for soil decontamination at this site has been recognized, which was included in the purchase cost of the land.

Intangible assets related to new products development for electric vehicle grew by €1.7 million in the first-half of 2019 and amount now to €4.9 million.

Note 6 Asset impairment tests

1. Goodwill

No impairment losses were recognized following the impairment tests carried out at December 31, 2018.

In accordance with IAS 36, as there were no indications that goodwill had been impaired during the six months ended June 30, 2019, no impairment tests were carried out at that date.

Goodwill will be tested for impairment again at the 2019 year-end.

2. Specific assets

The Group reviewed the recoverable amount of its other non-current assets at June 30, 2019. No material changes were identified at that date.

Note 7 Equity

At June 30, 2019, the Company's share capital stood at €41,667,888, divided into 20,833,944 shares, comprising (i) 20,831,283 category A shares, which are ordinary shares, and (ii) 317 category B shares, 1,172 category C shares and 1,172 category D shares, which are preference shares. Each share has a par value of €2.

The theoretical number of voting rights at June 30, 2019 - i.e. excluding treasury shares which do not carry voting rights - was 25,511,790. 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, 2019	20,768,118
Capital increase/reduction *(in millions of euros)*	1
Number of shares at June 30, 2019	20,833,944
Number of shares in issue and fully paid-up during the period	65,826
Number of treasury shares canceled	0
Number of shares in issue and not fully paid-up	0
Par value of shares *(€)*	2
Mersen shares held by the Company or by its subsidiaries and associates	167,249

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

- French institutional investors: 51%
- International institutional investors: 35%
- Private shareholders: 12%
- Employee shareholders: 2%
- Treasury shares: 1%

The following disclosure thresholds (provided for by law and/or the Company's bylaws) have been crossed since January 1, 2019, as reported by the shareholders concerned.

- On January 17, 2019, Jousse Morillon Investissement 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 190,000 shares, representing 0.92% of the capital and 0.75% of the voting rights.
- On January 22, 2019, Sycomore Asset Management 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 255,267 shares, representing 1.24% of the capital and 1.01% of the voting rights.
- On February 14, 2019, Covéa Finance disclosed that it had reduced its interest to below the threshold of 2% of the Company's capital and that at that date it held 409,276 shares, representing 1.98% of the capital.
- On February 26, 2019, Covéa Finance 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 422,037 shares, representing 2.03% of the capital.
- On April 5, 2019, Covéa Finance disclosed that it had reduced its interest to below the threshold of 2% of the Company's capital and that at that date it held 404,297 shares, representing 1.95% of the capital.
- On April 5, 2019, Sofina disclosed that it had reduced its interest to below the threshold of 2% of the Company's voting rights and that at that date it held 440,145 shares, representing 2.12% of the capital and 1.73% of the voting rights.
- On April 26, 2019, Sofina 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 149,836 shares, representing 0.72% of the capital and 0.59% of the voting rights.
- On June 12, 2019, BlackRock 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 376,219 shares, representing 1.81% of the capital and 1.49% of the voting rights.

Treasury shares

At June 30, 2019, 167,249 shares were held in treasury, representing 0.8% of the Company's capital, including 28,301 shares held pursuant to the liquidity agreement entered into with Exane BNP Paribas.

Stock options, free shares and preference shares

At June 30, 2019, the Group's employees held 313,389 shares, corresponding to 1.5% of the Company's share capital, plus 85,531 stock options which, if exercised in full, would represent 0.4% of the share capital at that date. The stock option plans set up by the Group are based on an exercise price determined without any discount as the options may only be exercised if certain conditions related to the Group's future performance are met. This enables the Group to ensure that the interests of its managers are closely aligned with those of its shareholders.

At June 30, 2019, the Chief Executive Officer, Luc Themelin, held 30,000 exercisable stock options (taking into account canceled options).

In addition, for several years now the Group has implemented a policy of granting free shares. The final allocation of these shares is contingent on the beneficiaries still forming part of the Group at the end of the vesting period. Free shares granted to members of Management and employees who Management considers have contributed significantly to the Company's performance only vest if certain pre-defined performance conditions are met. Management has, however, decided that for certain free share plans set up more than three years ago, no performance conditions should apply to the beneficiaries of those plans who, by the nature of their jobs, contribute less directly to the Company's results. At June 30, 2019, the number of free shares that could potentially vest under the Group's free share plans corresponded to 209,150 new shares, representing 1% of the Company's capital at that date. This includes 143,000 performance shares granted under plans set up using the authorization given at the Annual General Meeting of May 17, 2019 (including a Senior Executives program). Out of this total, 8,850 performance shares were granted to Luc Themelin in his capacity as 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, 2019 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 (including 70,070 for Luc Themelin).

A €1.1 million net share-based payment expense was recognized in the first half of 2019 for plans currently in effect, versus €0.8 million in first-half 2018.

Note 8 Provisions, contingent liabilities and other liabilities

Provisions amounted to €14 million at June 30, 2019, €4.7 million higher than the end-December 2018 figure of €9.3 million. This increase mainly stemmed from the recognition of a provision for soil decontamination at the Columbia site in the United States, acquired by the Group in June 2019.

Legal proceedings

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 major developments since 2007. 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 proceedings in France

In 2013, SNCF launched two procedures against Morgan, SGL Carbon, Schunk and Mersen, in the Paris Administrative Court and the Paris Commercial Court respectively. SNCF is attempting to secure redress for losses that it allegedly suffered following practices that were sanctioned in December 2003 by the European Commission in connection with brushes for electric motors and products for mechanical applications. In 2014, the Paris Administrative Court rejected all of the claims lodged by SNCF, which appealed the decision. On June 13, 2019, the Versailles Court of Appeal canceled the 2014 Administrative Court decision. It also decided that it will rule on the case and has ordered a valuation to be carried out in order to determine the amount of the loss allegedly incurred by SNCF. Mersen is contesting this decision and has further appealed the case to the French Supreme Court (Conseil d'Etat). The Paris Commercial Court has not yet issued its ruling. The Group has recognized a provision for the risk it considers these two procedures represent.

Legal proceedings in France

Criminal proceedings that were initiated after the tragic accident on April 7, 2010 at Mersen's Gennevilliers site in France are still in progress. The judicial investigation process has ended and the Company – which has made an application for the case to be dismissed – is awaiting the court's decision.

In May 2019, a judicial criminal investigation was launched into alleged breaches of employment regulations. This case – which is being brought against Mersen's subsidiary in Gennevilliers and the subsidiary's managing director – relates to events that occurred in 2017. Proceedings are ongoing and the Group has recognized a provision for the risk it considers the case represents.

Civil proceedings in India

The Competition Commission of India (CCI) has launched an investigation into the Group's Indian subsidiary and Assam Carbon Products over allegations that the two companies colluded on prices of equipment supplied to Indian railways. As part of this investigation, the CCI conducted raids at the offices of Mersen's subsidiary in early July and officially notified it of the investigation at that time. The procedure is still under way. No related provision has been recognized as the Group is not currently in a position to reliably measure the financial risk involved.

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

Tax and customs proceedings

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

The most significant risk concerns Mersen do Brasil, which received notice in June 2013 of a customs audit covering the period from January 2008 through December 2012. The customs authorities issued a reassessment notice for an initial amount (principal and interest) of BRL 7.5 million, plus annual interest based on the interest rate issued by the Central Bank of Brazil. At June 30, 2019, the amount of the reassessment including interest was BRL 11.9 million (i.e. approximately €2.7 million at the June 30, 2019 exchange rate). This amount is not covered by a provision in Mersen do Brasil's accounts, as the risk of losing the case is deemed to be very low. A first instance ruling was handed down in favor of the Group on February 8, 2018. However, it was the subject of an ex officio appeal to a second instance court by the Brazilian authorities. It is not possible to estimate when the second instance ruling will be delivered.

Other proceedings

Other liabilities (€20 million at June 30, 2019) include the €19.7 million dividend payable pursuant to the Annual General Meeting of May 17, 2019, as well as payables related to property, plant and equipment.

No other material contingent liabilities were identified by the Group at June 30, 2019.

Note 9 Employee benefit obligations

The Mersen group's principal pension plans are defined benefit plans that have been set up in the United States (47% of the overall defined benefit obligation), the United Kingdom (18% of the overall obligation), France (13% of the overall obligation) and Germany (8% of the overall obligation).

The Group's obligations were measured at December 31, 2018 with the assistance of independent actuaries and in accordance with IAS 19. The rates used for the main countries are summarized below:

2018	Inflation rate	Average rate of salary increases	Discount rate
France	1.60%	Between 2.0% and 6.25% depending on the beneficiary's age	1.8%
Germany	1.60%	2.50%	1.8%
United States	4.25%	Not applicable	Not applicable
United Kingdom	2.75%	2.9%	3.40%

Reconciliation between recognized assets and liabilities

	June 30, 2019	Dec. 31, 2018
Present value of defined benefit obligation	194.8	173.5
Fair value of plan assets	(116.5)	(109.0)
PROVISION BEFORE IMPACT OF MINIMUM FUNDING REQUIREMENT/ASSET CEILING	**78.3**	**64.5**
Impact of minimum funding requirement/asset ceiling		0.1
PROVISION AFTER IMPACT OF MINIMUM FUNDING REQUIREMENT/ASSET CEILING	**78.3**	**64.6**

The expense recognized in relation to the Group's defined benefit plans amounted to €2.8 million in the six months ended June 30, 2019 compared with €2.4 million in the first half of 2018.

In view of the lower discount rates used for the euro zone, United States and United Kingdom at June 30, 2019, the Group remeasured its defined benefit obligations, resulting in the recognition of an additional €17.9 million provision for said obligations. Conversely, a €5.2 million remeasurement gain was recognized on plan assets, following an increase in the value of funds in the United States and United Kingdom.

Note 10 Net debt

At June 30, 2019, Mersen had available confirmed credit lines and borrowings totaling approximately €491 million, of which 56% had been used.

Mersen's principal confirmed financing facilities are as follows:

- A €200 million multi-currency syndicated bank loan, set up in July 2012 and amended in 2014 and 2017. This loan has a five-year maturity and is repayable in full in 2024 following the exercise of extension options in 2018 and 2019. Interest is payable at a variable rate plus a lending 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 29 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 37.3 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 lending margin.
- A €130 million German private placement ("Schuldschein") arranged in April 2019 with a pool of European and Asian investors, repayable in full at maturity after seven years. Investors receive interest at (i) a fixed rate on a nominal amount of €68 million, and (ii) a variable rate based on the Euribor plus a lending margin on a nominal amount of €62 million.

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 €20 million had been used at June 30, 2019. 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 lines and borrowings

				Maturity		
In millions of euros	Amount	Drawdown at June 30, 2019	Utilization rate at June 30, 2019	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 lines – China	19.1	3.7	19%	1.7	17.4	0.0
2016 German private placement	60.0	60.0	100%	0.0	60.0	0.0
2019 German private placement	130.0	130.0	100%	0.0	0.0	130.0
2011 US private placement	81.2	81.2	100%	37.3	43.9	0.0
Other	1.1	1.1	100%	0.3	0.8	0.0
TOTAL	**491.4**	**276.0**	**56%**	**39.3**	**122.1**	**330.0**

Analysis of total net debt

In millions of euros	June 30, 2019	Dec. 31, 2018
Long- and medium-term borrowings	237.0	109.4
Current financial liabilities	60,3	125.3
Financial current accounts	1.7	0.5
Bank overdrafts	15,7	28.9
TOTAL GROSS DEBT	**314.7**	**264.1**
Current financial assets	**(12.7)**	**(13.8)**
Cash and cash equivalents	(74.0)	(34.8)
Total cash and cash equivalents	**(74.0)**	**(34.8)**
TOTAL NET DEBT	**228.0**	**215.5**

(a) Including €20 million at June 30, 2019 utilized under the commercial paper program, which may be substituted at maturity by drawdowns under the Group syndicated loan (€62 million at December 31, 2018).

Total consolidated net debt amounted to €228 million at June 30, 2019, €12.5 million higher than the December 31, 2018 figure.

While gross debt stood at €314.7 million, up by around €50 million on December 31, 2018, the effect of this increase on net debt was partly offset by an increase of around €40 million in cash and cash equivalents during the period. During the first half of 2019 Mersen (i) carried out another German private placement, representing €130 million and aimed at refinancing the €37.3 million tranche of the USPP redeemable in November 2019, and (ii) utilized its commercial paper program.

The medium-term portion of the Group's gross debt increased by around €128 million, whereas there was a sharp decrease in current financial liabilities. These changes reflect the fact that the German private placement was used to refinance commercial paper.

Out of the €314.7 million in total gross debt at June 30, 2019, €276 million came from the use of confirmed credit lines and borrowings and €20 million from use of the commercial paper program. The remainder mainly derived from the use of non-confirmed facilities (bank overdrafts and other facilities).

Financial covenants at June 30, 2019

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 loans and borrowings immediately.

Mersen respected all of the following financial covenants at June 30, 2019 and December 31, 2018:

Financial covenants[a] (consolidated financial statements)

In millions of euros	Net debt/ EBITDA	Net debt/ equity	EBITDA/ net interest
Covenant ratios			
Confirmed credit lines, Group	< 3.50	< 1.3	-
2011 US private placement	< 3.50	< 1.3	> 3
2016 German private placement	< 3.50		
2019 German private placement	< 3.50		
Confirmed credit lines – China	< 3.50	< 1.3	
Actual ratios at June 30, 2019			
Confirmed credit lines, Group	1.54	0.41	-
2011 US private placement	1.54	0.41	15.07
2016 German private placement	1.54		
2019 German private placement	1.54		
Confirmed credit lines – China	1.54	0.41	-
Actual ratios at December 31, 2018			
Confirmed credit lines, Group	1.59	0.39	-
2011 US private placement	1.59	0.39	13.80
2016 German private placement	1.59		
Confirmed credit lines – China	1.59	0.39	-

(a) Method for calculating the covenants: in line with the applicable accounting rules, when calculating 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. To calculate the covenants at June 30, by convention EBITDA or gross operating income is deemed to be EBITDA reported for the first six months of the year multiplied by two.
The covenant ratios were calculated excluding the impact of the application of IFRS 16.

At June 30, 2019, there were no material borrowings or liabilities secured by assets or guaranteed by third parties.

Note 11 Financial instruments

The following tables show the fair value of the Group's financial assets and liabilities and their carrying amount in the statement of financial position, as well as their ranking in the fair value hierarchy for instruments measured at fair value. They do not provide information about the impairment of financial assets and liabilities that are not measured at fair value, insofar as their carrying amount corresponds to a reasonable approximation of the impairment loss.

Classification of financial instruments measured at fair value

June 30, 2019		Carrying amount					Fair value			
Statement of financial position and category of instrument	Note	Fair value of hedging instruments	Fair value through "Other items of comprehensive income"	**Financial assets at amortized cost**	**Other financial liabilities**	**Total carrying amount**	**Level 1**	**Level 2**	**Level 3**	**TOTAL**
Financial assets measured at fair value										
Unlisted investment securities			3.9			3.9			3.9	3.9
Derivatives held as current and non-current assets		0.7				0.7		0.7		0.7
		0.7	**3.9**	**0.0**	**0.0**	**4.6**	**0.0**	**0.7**	**3.9**	**4.6**
Financial assets not measured at fair value										
Current and non-current financial assets	10			16.9		16.9				
Trade receivables				164.1		164.1				
Cash and cash equivalents	10			74.0		74.0				
		0.0	**0.0**	**255.0**	**0.0**	**255.0**				
Financial liabilities measured at fair value										
Derivatives held as current and non-current liabilities		(1.1)				(1.1)		(1.1)		(1.1)
		(1.1)	**0.0**	**0.0**	**0.0**	**(1.1)**	**0.0**	**(1.1)**	**0.0**	**(1.1)**
Financial liabilities not measured at fair value										
Bank borrowings	10				(237.0)	(237.0)		(237.1)		
Financial current accounts	10				(1.7)	(1.7)				
Bank overdrafts	10				(15.7)	(15.7)				
Current financial liabilities	10				(60.3)	(60.3)				
Trade payables					(72.3)	(72.3)				
		0.0	**0.0**	**0.0**	**(387.0)**	**(387.0)**				
Carrying amount by category		**(0.4)**	**3.9**	**255.0**	**(387.0)**	**(128.5)**				

December 31, 2018		Carrying amount					Fair value			
Statement of financial position and category of instrument	Note	Fair value of hedging instruments	Fair value through "Other items of comprehensive income"	**Financial assets at amortized cost**	**Other financial liabilities**	**Total carrying amount**	**Level 1**	**Level 2**	**Level 3**	**TOTAL**
Financial assets measured at fair value										
Unlisted investment securities	9		4.1			4.1			4.1	4.1
Derivatives held as current and non-current assets	3	1.3				1.3		1.3		1.3
		1.3	**4.1**	**0.0**	**0.0**	**5.4**	**0.0**	**1.3**	**4.1**	**5.4**
Financial assets not measured at fair value										
Current and non-current financial assets	15			17.1		17.1				
Trade receivables	11			146.2		146.2				
Cash and cash equivalents	15			34.8		34.8				
		0.0	**0.0**	**198.1**	**0.0**	**198.1**				
Financial liabilities measured at fair value										
Derivatives held as current and non-current liabilities	3	(2.1)				(2.1)		(2.1)		(2.1)
		(2.1)	**0.0**	**0.0**	**0.0**	**(2.1)**	**0.0**	**(2.1)**	**0.0**	**(2.1)**
Financial liabilities not measured at fair value										
Bank borrowings	15				(109.4)	(109.4)		(109.5)		
Financial current accounts	15				(0.5)	(0.5)				
Bank overdrafts	15				(28.9)	(28.9)				
Current financial liabilities	15				(125.3)	(125.3)				
Trade payables					(71.8)	(71.8)				
		0.0	**0.0**	**0.0**	**(335.9)**	**(335.9)**				
Carrying amount by category		**(0.8)**	**4.1**	**198.1**	**(335.9)**	**(134.5)**				

Financial risk management

Credit risk

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

Interest rate, currency and commodity risks

There have been no material changes in currency or commodity risks since the close of the annual financial statements at December 31, 2018.

The Group's interest rate risk has changed as a result of the new €130 million German private placement carried out during first-half 2019 as €68 million worth of this financing corresponds to fixed-rate debt.

Total net debt at June 30, 2019 breaks down as follows by type of interest rate:

Type of rate	%
Fixed	77.0
Floating	33.0

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, 2019	Six months ended June 30, 2018
Competitiveness plan/restructurings	(1.6)	(0.9)
Acquisition costs	(0.6)	(0.6)
Other	(1.0)	
TOTAL	**(3.2)**	**(1.5)**

At end-June 2019, other non-recurring income and expenses represented a net expense of €3.2 million, primarily including:

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

At end-June 2018, other non-recurring income and expenses represented a net expense of €1.5 million, primarily including:

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

Note 13 Segment reporting

In millions of euros	Advanced Materials (AM)			Electrical Power (EP)			Total for continuing operations		
	Six months ended June 30, 2019 After IFRS 16	Six months ended June 30, 2019 Before IFRS 16	Six months ended June 30, 2018	Six months ended June 30, 2019 After IFRS 16	Six months ended June 30, 2019 Before IFRS 16	Six months ended June 30, 2018	Six months ended June 30, 2019 After IFRS 16	Six months ended June 30, 2019 Before IFRS 16	Six months ended June 30, 2018
Sales to third parties	278.1	278.1	240.1	205.6	205.6	190.2	483.7	483.7	430.3
Proportion of total	57.5%	57.5%	55.8%	42.5%	42.5%	44.2%	100.0%	100.0%	100.0%
Segment operating income before non-recurring items	**41.6**	**41.0**	**33.9**	**20.3**	**19.9**	**19.3**	**61.9**	**60.9**	**53.2**
Recurring unallocated costs							(8.3)	(8.3)	(7.4)
Segment operating margin before non-recurring items*	15.0%	14.7%	14.1%	10.0%	9.7%	10.2%			
Operating income from continuing operations before non-recurring items							53.6	52.6	45.8
Operating margin from continuing operations before non-recurring items							11.1%	10.9%	10.6%
Segment non-recurring income and expenses	(2.1)	(2.1)	0.5	(0.1)	(0.1)	(2.0)	(2.2)	(2.2)	(1.5)
Segment operating income	**39.5**	**38.9**	**34.4**	**20.2**	**19.8**	**17.3**	**59.7**	**58.7**	**51.7**
Segment operating margin*	14.2%	14.0%	14.3%	9.8%	9.6%	9.1%			
EBITDA margin(1)	21.3%	20.1%	20.0%	13.4%	12.1%	12.5%	16.4%	15.0%	15.0%
Non-recurring unallocated costs							(1.0)	(1.0)	0.0
Operating income from continuing operations							**50.4**	**49.4**	**44.3**
Operating margin from continuing operations							10.4%	10.2%	10.3%
Net finance expense							(6.1)	(4.7)	(4.7)
Current and deferred taxes							(10.6)	(10.7)	(10.3)
Net income from continuing operations							**33.7**	**34.0**	**29.3**

** 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 variation.

Note 14 Payroll costs and headcount

Group payroll costs (including social security contributions, provisions for pension obligations and retirement indemnities) came to €146 million in the first half of 2019 compared with €133.3 million in the same period of 2018.

Based on a constant scope of consolidation and constant exchange rates, payroll costs (including for temporary staff) were 3.7% higher than in first-half 2018.

Headcount of consolidated companies at end of period by geographical area

Geographical area	Six months ended June 30, 2019	%	Six months ended June 30, 2018	%
France	1,351	20%	1,323	20%
Rest of Europe	1,009	15%	778	12%
North America (+ Mexico)	2,033	30%	2,033	31%
Asia	1,797	26%	1,736	27%
Rest of the world	637	9%	638	10%
TOTAL	**6,827**	**100%**	**6,508**	**100%**

The Group's headcount at end-June 2019 included 219 additional employees in Europe due to the acquisition of FT Cap, 40 employees in Asia following the formation of the Chinese company, Galaxy, and 6 in North America resulting from the acquisition of LGI.

Based on a constant scope of consolidation, headcount increased by 54 employees.

Note 15 Income tax

In millions of euros	Six months ended June 30, 2019	Six months ended June 30, 2018
Current income tax	(8.1)	(9.0)
Deferred income tax	(1.5)	(1.0)
Withholding tax	(1.0)	(0.3)
TOTAL TAX EXPENSE	**(10.6)**	**(10.3)**

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 2019 was 24% (26% in the first six months of 2018).

Note 16 Earnings per share

Basic and diluted earnings per share are presented below:

Continuing and discontinued operations	Six months ended June 30, 2019	Six months ended June 30, 2018
Numerator: net income used to compute basic earnings per share (net income for the period in millions of euros)	32.8	27.9
Denominator: weighted average number of ordinary shares used to compute basic earnings per share	20,666,695	20,510,235
Maximum effect of dilutive potential ordinary shares: unexercised options	769,991	832,611
Weighted average number of ordinary shares used to calculate diluted earnings per share	21,436,686	21,342,846
Basic earnings per share *(€)*	1.59	1.36
Diluted earnings per share *(€)*	1.53	1.31

Note 17 Dividends

At the Annual General Meeting held on May 17, 2019, the Company's shareholders approved the payment of a dividend of €0.95 per share for 2018 (compared with a €0.75 per-share dividend for 2017). This dividend was paid in cash in July 2019 and represented a total payout of €19.7 million.

Note 18 Off balance sheet commitments

At June 30, 2019, off balance sheet commitments were approximately €12 million lower than at December 31, 2018 due to a reorganization of the guarantee system relating to the Group's European cash pooling.

Note 19 Subsequent events

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

4 Statutory Auditors' review report on the 2019 interim financial information

For the six months ended June 30, 2019

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

To the Shareholders,

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

- the review of the accompanying condensed interim consolidated financial statements of Mersen SA for the six months ended June 30, 2019;
- 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 16 "Leases" as from January 1, 2019.

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, 2019
KPMG Audit
Département de KPMG S.A.

Philippe Cherqui
Partner

Paris La Défense, July 30, 2019
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 presets 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, 2019

Luc Themelin

Chief Executive Officer

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