Reference document 2011

MERSEN

Reference Document 2011

Chapters 2 to 8 include all the disclosures constituting the report of the Management Board pursuant to Article L. 225-102 of the French Commercial Code, as well as the report by the Chairman of the Supervisory Board in accordance with Article L. 225-68 of the French Commercial Code.

This document is a free translation into English for convenience purposes only of the French reference document filed with the Autorité des marchés financiers on March 14, 2012.

GENERAL OVERVIEW OF THE GROUP

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Message from the Chairman of the Supervisory Board

Mersen delivered an excellent performance in 2011, which enabled our Group to reach new heights. The growth of activity went hand in hand with a strong increase in our earnings and an improvement in our financial structure.

Behind these accomplishments lay the unstinting efforts by our teams who develop, manufacture and sell our products and services. Our success also flowed from our strategy over the past few years of resolutely extending our geographical positions around the world, with a particular emphasis on Asia, and of establishing a presence in clearly identified new technologies, such as renewable energies and power electronics.

The initiatives we implemented during 2011 will further consolidate our strategic direction. The assumption of full control of Mingrong Electrical Protection has boosted our potential in the electrical protection segment in Asia, while the partnership with Corning has opened up some very promising new areas for us in an expanding market and the Eldre acquisition has given us new opportunities in power electronics.

During the past year, the Supervisory Board made some changes to the composition of the Management Board to improve the organization of the Group's operational leadership and its interface with the Supervisory Board. This change took place very smoothly indeed and did not cause any disruption. The Management Board is now chaired by Luc Themelin and includes four other members: Thomas Baumgartner, Christophe Bommier, Didier Muller and Marc Vinet. The composition of the new Management Board reflects the desire for senior operational managers to play a greater role on the Group's executive bodies. The Management Board is supported by an Executive Committee.

The Supervisory Board is confident in the ability of the new Management Board to pursue an expansion strategy, while making the requisite adjustments to adapt to macroeconomic trends.

During 2011, our shareholders again showed their support for us, with the vast majority (71%) electing to receive payment of the dividend in stock. And our three core shareholders all increased their interest in our share capital, reflecting their confidence in our future outlook. In particular, Fonds Stratégique d'Investissement raised its shareholding in Mersen to above the 15% mark.

Unfortunately, Mersen's share price performance did not mirror the Group's business performance amid the considerable turbulence in the financial markets. And so I wish to express special gratitude to all our shareholders for their loyalty.

Last, but by no means least, I would like to thank the Management team, who should take the credit for our very strong operating performance in 2011, and all our employees, who contributed through their hard work each and every day.

Hervé Couffin

Message from the Chairman of the Management Board

Highly positive momentum maintained in 2011.

With sales totaling €830 million during the past year, we achieved organic growth of close to 11% following on from a growth rate of around 13% in 2010. This momentum was clearly evident in both our business segments, with growth of over 15% in Advanced Materials and Technologies and over 7% in Electrical Components and Technologies.

Our profitability also improved during the year, with operating income before non-recurring items moving up significantly to reach €103.5 million i.e 12.5% of sales, two points better than in 2010. At the same time, our EBITDA margin came to 17.0%. Net income attributable to Mersen's shareholders totaled €57 million, an increase of close to 50% on 2010.

Lastly, in terms of cash flow, 2011 level is lower than the previous two years which had been excellent on this point; it came to €62.5 million from operating activities before capital expenditures. Our teams are keenly aware of the importance of cash flow and are working hard to make sure our 2012 performance is back on track.

Moving on, our balance sheet also made progress, with the net debt/EBITDA ratio sinking to 1.6x. Mersen demonstrated crucial financial strength during these testing times. In early December, we completed a USD100 million private placement with an average maturity of nine years, which gave us close to €500 million in available credit lines at December 31, 2011. We also extended the average maturity of our debt to over four years.

We took further steps to shore up our positions in Asia. In addition to the very high level of our sales in the region (€214 million), we continued to build up our manufacturing base there. In particular, we bought out minority interests in Mingrong Electrical Protection and extended the graphite production capacity of our Chongqing plant. We also secured HAF 604 certification, clearing the way for us to supply equipment to the Chinese nuclear power industry and integrated Yantaï, a specialist of graphite machining for solar industry successfully. All these developments have significantly strengthened our positions in Asia, enabling us to fully capitalize on the region's growth.

In addition to these strong operational achievements, we also continued to pursue our strategy of acquisition-led growth, with two major deals. In June, we signed an exclusive long-term agreement with Corning SAS to manufacture ceramic continuous flow reactors for the specialty chemicals and pharmaceuticals sectors, as well as for the oil and gas industry. Lastly, in November, we announced the acquisition of Eldre, a company specializing in laminated bus bars that will strengthen our position as a leading partner for the power electronics industry. These two deals have boosted our positions in expanding markets.

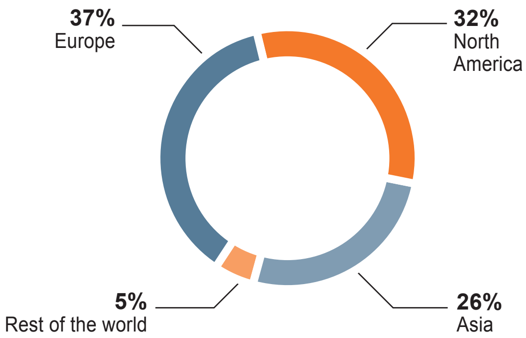
Of course, we are starting 2012 with caution, as considerable uncertainty surrounds the direction of the global economy. Even so, I know that Mersen can draw strength from its business model and ride out complicated periods, emerging all the stronger, just as it did following the 2009 crisis.

Our entire senior management team is closely monitoring market developments and we will seize any development opportunities which may arise for our Group over the coming months.

Luc Themelin

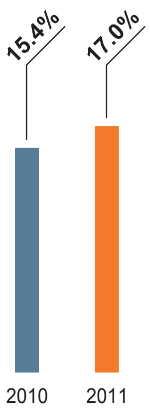
KEY FIGURES

2011 SALES
Geographic breakdown

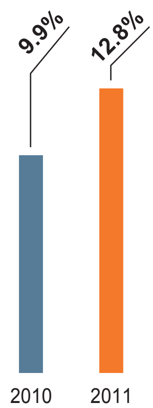


SALES
(In millions of euros)

EBITDA MARGIN
(In %)

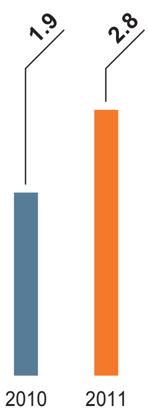


RETURN ON CAPITAL EMPLOYED* *(In %)*

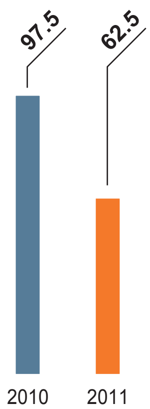


* IFRS operating income/average capital employed (net non-current assets including goodwill + working capital requirement) - including payment of the fine to the European Union in 2010

EARNING PER SHARE
(In euros)

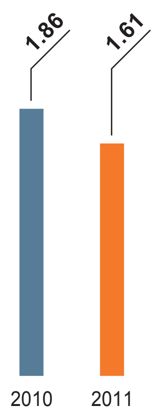


CASH FLOW*
(In millions of euros)



* After tax and working capital requirement and before capital expenditure.

DEBT-TO-EBITDA RATIO*
(In %)



* Calculated using the method specified for the USD350 million syndicated loan.

GROUP'S BUSINESS PROFILE AND STRATEGIC PRIORITIES

Mersen develops innovative solutions geared to the needs of its customers in order to optimize their industrial performance.

The Group's business activities are currently built around **two areas of expertise** in which it holds leadership positions or is the joint world leader.

The **Advanced Materials and Technologies** segment markets a range of graphite and metal equipment catering to highly exacting industrial environments, i.e. high-temperature applications and anticorrosion equipment.

The **Electrical Components and Technologies** segment markets components and innovative solutions underpinning the performance and safety of electrical installations, including brushes and brushholders for power supplies, slip-ring assemblies and signal transmission systems for wind turbines, industrial fuses, coolers for power semiconductors and current collectors for urban mass transit systems.

These two areas of expertise are geared to serving **markets** that have risen from the challenges of energy efficiency and demographic growth:

- **energies** (solar, wind, nuclear, conventional) and in particular alternative energies providing access to new energy sources, laying the foundations for a post-oil era or complementing conventional sources of energy;
- **chemicals and pharmaceuticals** helping to meet demand for food and health triggered by global demographic growth and higher living standards in emerging markets;
- **rail transportation**, helping to meet the growing mobility needs of the global population
- **electronics** delivering solutions that help to curb energy consumption.

They also help the **process industries**, facilitating their transition towards greater energy efficiency.

Mersen now boasts an efficient **manufacturing base** with plants harnessing the very latest technologies. At the same time, the Group's policy of **selective acquisitions** over recent years has strengthened its positions in each of its business segments, while expanding its product range and geographical positions, especially in Asia, which represents a major growth engine.

It can also draw on an international industrial and commercial network and on teams that have honed their culture of expertise and **innovation** in order to meet the needs of their customers more and more effectively.

Presentation of the Group's businesses in 2011

Strong performance underpinned by momentum in expanding markets

During 2011, Mersen recorded significant top-line growth, reaping the full benefit of its global positions in expanding markets linked to energy efficiency and population growth–energy, transportation, chemicals and pharmaceuticals, electronics–and its longstanding process industry markets, which it supports as they transition towards greater energy efficiency.

Energy

The global energy demand is growing steadily, while fossil fuel resources are becoming scarcer. At the same time, combating global warming has become an imperative. The rapid development of alternative energies is helping to mitigate the pressure brought to bear by energy demand and pollution, but technological solutions delivering improved competitiveness also need to be found.

Mersen is developing solutions to meet the needs of the principal energy sources and alternative energies in particular.

In **solar energy**, Mersen offers a large range of products used throughout the solar cell manufacturing process. The Group supplies complex graphite components–resistors, crucibles, electrodes–kiln linings, insulation fibers and graphite machined components to manufacture polysilicon. It provides the requisite ultra-pure graphite electrodes required to manufacture polysilicon ingots, the principal component in photovoltaic cells. The Group also offers a full range of electrical protection solutions dedicated to this type of highly specific installation, e.g. junction boxes, fuses and lightning conductors.

Solar energy continued to enjoy very brisk demand throughout 2011, particularly in Asia and North America, where it contributed to the very strong growth in production of the polysilicon and ingots from which photovoltaic cells are manufactured. According to the EPIA, around 27 GW in solar photovoltaic capacity was installed at year-end 2011[1], compared with 17 GW at year-end 2010.

During 2011, Mersen reaped the benefits of its global positioning and the strategic direction it reaffirmed during 2010. Firstly, the Group significantly increased its isostatic graphite production capacity in China. Group-wide, production capacity will shortly reach 12,000 tonnes. Furthermore, thanks to the acquisition of Yantaï during 2010, Mersen is now active in graphite finishing and has established itself as a fully integrated leader in the Chinese solar energy market, serving the needs of both the major western technical pioneers and the Asian leaders of the future in this rapidly evolving industry.

The electrical protection solutions developed by the Group also benefited from its expansion in solar energy. They help to meet highly specific risks inherent in this type of electrical equipment and require specialist expertise in current protection since the electrical installation standards in this type of equipment are constantly changing and becoming increasingly exacting. Mersen's Helio Protection range specifically developed for photovoltaic installations gives the Group a competitive advantage. To strengthen the Group's advantage, a team dedicated to the safety and reliability of photovoltaic systems was set up during 2011.

In the **wind energy** market, Mersen delivers solutions for the electrical protection of the generator and motors (fuses and coolers), for electricity generation (slip-ring assemblies, brushes and brushholders) and for yaw motors (signal transmission systems, brushes and brushholders). This extensive product range has made it a prominent supplier to the wind energy industry.

During 2011, the picture was mixed. Investment plans in Germany and France buoyed demand in Europe, while sales were once again brisk in the North American replacement segment owing to the quality of the Group's solutions and customized services.

The energy market as a whole contributed 25% of Mersen's sales in 2011, compared with 23% in 2010.

Chemicals and Pharmaceuticals

Chemicals help to deliver improvements in our health, diet and clothing, to name just a few areas. They now represent a key contributor to the global economy and a solid platform for future development. At the same time, higher living standards in emerging markets and population ageing are creating new healthcare-related needs that will drive expansion in the pharmaceutical market.

(1) European Photovoltaic Industry Association

Mersen has positioned itself to supply these markets with an extensive range of made-to-measure equipment (heat exchangers, columns, stirrers and mixers) based on graphite and noble metals used by the chemicals and pharmaceutical industries to carry, mix and store highly corrosive and high-temperature fluids. The Group also supplies this equipment in the form of pre-assembled units providing an even higher level of reliability.

Business trends picked up during 2011, with performance during 2010 still affected by the 2009 crisis. Demand was predominantly driven by mineral chemicals on the back of further expansion in the market for fertilizers, since phosphoric acid is a key component in their production. Business trends were healthy in the Middle East and North Africa, which is where the majority of phosphate mines are located. These trends were facilitated by Mersen's local workshop in Morocco, which enables it to meet the needs of the Office Chérifien des Phosphates, one of the region's largest producers of fertilizers and phosphoric acid. Performance was also healthy in India, Taiwan and the United States.

The Group's strong commercial presence was another key factor in the award of some substantial, chiefly chemical equipment orders in India, Taiwan and in the United States.

This market accounted for 13% of the Group's sales in 2011, the same level as in 2010. The order backlog augurs well for 2012.

Transportation

Faced with an increasingly strong demand for mobility, the only viable solution over the long term is the development of mass urban transit, air and rail systems requiring higher-performance and more reliable electrical systems.

Following the surge recorded after the 2008 crisis (rail equipment market expanded by 12% between 2005-2007 and 2007-2009 to €136 billion), the market seems poised for further expansion on the back of the steady stream of infrastructure-focused upgrade plans and the consistent backing given to rail as a strategic driver for the development of transportation networks and economies. What's more, rail is both a sustainable and fuel-efficient form of transportation.

Mersen's solutions are used in both rail infrastructure and rolling stock. Their applications include electrical protection (coolers, fuses and contactors) and current transmission (third-rail collector shoes, pantograph strips, brushes for rotating electrical machinery) and draw on the Group's expertise, which is widely recognized by the leading manufacturers.

Business trends in the rail infrastructure sector were underpinned in Europe by investments triggered by the European authorities' decisions in recent years to increase the interoperability of pan-European networks. In particular, metal collection strips are to be phased out gradually and replaced with carbon strips. Market share gains and some large orders flowed during 2011 from the approval of Mersen's collection strips by a major European rail operator in 2010.

Mersen's solutions were chosen by Italian operator Trenitalia to replace its collection strips, raising the prospect of replacement business to follow in the future.

Business was also very brisk in mass transit systems right around the world. In Europe, the Group won a contract to maintain train motors for the Tube network in London. In addition, some major deals were clinched for metro systems in Taiwan, Singapore, India and Morocco and for several mass transit and regional networks in the United States.

Lastly, business trends were also brisk in **aerospace transportation**, a sector in which the Group supplies highly technical components. As a global supplier of cutting-edge electrical solutions and high-performance materials, Mersen is involved in improving numerous aerospace systems. The Group supplies components to the leading aircraft manufacturers, such as Airbus, Boeing and Embraer, as well as to the principal subcontractors in the aerospace industry.

The transportation market contributed 13% of Mersen's sales in 2011 (of which around 70% came from rail transportation), the same level as in 2010.

Electronics

From microprocessors to LEDs, semiconductors are constantly being used in new applications. As their complexity increases, electronic power installations require ever more sophisticated protection equipment.

Mersen's Advanced Materials and Technologies segment principally supplies high-end and ultra-pure graphite for the manufacture of semiconductors used in power electronics and LEDs. The quality of graphite and Mersen's high-precision machining help to maximize the yield of the power semiconductor manufacturing process and are also well-suited to the latest generation of components, which feature greater miniaturization and ever higher power requirements.

The Electrical Components and Technologies segment markets solutions protecting against voltage surges, as well as current protection and cooling systems used in the power converters found, for example, in speed controllers managing electric motors in industrial and commercial installations and in grid interconnections.

Buoyed by the development of power electronics, demand for energy efficiency and energy savings, the electronics segment delivered fairly brisk growth during 2011 across all geographical regions in both electrical protection and graphite equipment.

In electrical protection, it led to the acquisition of Eldre, one of the world's principal suppliers of laminated bus bars, strengthening Mersen's position as a leading global partner to the power electronics industry.

During 2011, the electronics market generated 15% of the Group's sales, compared with 14% in 2010.

Process industries

Process industries, the Group's traditional market comprising the steel, paper and glass production sectors, which still generates 28% of its sales, need support as they seek to achieve greater energy efficiency through continuous improvement in their processes and energy savings.

Mersen supplies its entire product range to this segment, including brushes, industrial fuses and insulation products and custom-finished graphite components.

Sales growth, which was very brisk during the first half of 2011, was boosted by the Group's local presence in emerging markets, its knowledge of the sector's key challenges and its dedicated solutions. Business trends were also strong in the US sector, where the industry is performing well, in Europe thanks to the impetus provided by Germany and Eastern Europe, and in South Korea, where the Group won significant market share. Even so, a slowdown kicked in during the second half as a result of uncertainties in Europe and weaker demand in steelmaking.

→ Further selective acquisitions

During 2011, the Group continued to pursue its policy of making selective acquisitions to harness revenue enhancement and technological synergies. Acquisitions meet two criteria: they must accelerate the pace of organic growth and target a ROCE of 20% within a few years.

During 2011, the Group bought out minority interests in Mingrong Electrical Protection ("MEP"), in which it had held a 51% interest since July 2008. This acquisition will help Mersen to accelerate the pace of synergies and to consolidate its leadership in the fuse and fusegear market in Asia.

Lastly, in November, Mersen announced the signature of an agreement in principle to buy US company Eldre, the world's leading specialist in laminated bus bars. This acquisition will help the Group to broaden its range of solutions improving the efficiency, performance and safety of power electronics. Mersen, already a world leader in fuses and coolers for the protection of semiconductors, can now add these bus bars to its range of products. The Group will thus strengthen its position as the leading global partner to the power electronics industry. Power electronics components are required for applications in expanding markets targeted by Mersen, such as energy (solar, wind, etc.), transportation (motors for rail sector, etc.), data centers and electronics (speed controllers, converters, etc.). This deal closed in early January 2012.

→ Asia

For the past few years, Mersen has been building up its presence in Asia to consolidate its local relationships with the major industrial companies operating in its developing markets. This strategic move has gained pace since 2007, with sales expanding from 17% of the 2007 total to 26% in 2011. While this presence allows Mersen to manufacture cost-effectively, the primary reason for its Asian expansion drive has been to forge even closer relationships with customers in its markets. Leveraging its powerful sales network, the Group has been able to capitalize on the strong growth rates in these local markets where it holds leadership positions.

During the year, the Group continued to build up its industrial and commercial presence, particularly in China through internal developments and the continued pursuit of its acquisition-led policy. Of the Group's employees, 27% now work in Asia.

In Electrical Components and Technologies, Mersen acquired the remainder of the capital of Mingrong Electrical Protection (MEP) located in the Chinese province of Zheijiang. It had held a 51% stake in MEP since July 2008. With a range of products unique among all the Chinese participants in the fuse and fusegear market, MEP contributed to the strong growth in Mersen's sales to export markets and in China, notably by pooling its complementary ranges with the Group's existing products, as well as a stronger commercial presence in the Chinese distributor and OEM segment.

In Advanced Materials and Technologies, Mersen boosted its graphite production capacity at the Chongqing facility in China. During the year, two 2,000 tonne p.a. units were installed, with a third scheduled for installation in early 2012, lifting the facility's annual capacity to 6,000 tonnes, the same level as its North American plant. This investment enabled the Group to serve its markets more efficiently from the mid-point of the second half of the year. What's more, the 2010 acquisition of Yantai, a specialist in graphite machining for producing the monocrystalline silicon dedicated to the photovoltaic industry, enabled the Group during 2011 to build up its presence directly with China's main photovoltaic cell producers and thus to enhance its reputation in this market in China.

Lastly, the Group still holds strong positions in Japan, especially in electrical protection and anticorrosion equipment and in Korea in all of its products.

Innovation to meet customer needs

Innovation flows from our close relationship with our customers, knowledge of the challenges they face and our technology watch. Mersen's customers are its leading innovation partners. They are prominent players in their own industry, and the Group manufactures made-to-measure products for them. A large part of innovation comes from their increasingly exacting requests and leads to the formulation of new designs, which are sometimes developed jointly.

It is stimulated by highly motivating events, such as development days and the Innovation Challenges arranged each year within the Group to reward the initiatives with the greatest promise in terms of future developments.

It is closely geared to serving the markets targeted by the Group.

During 2011, innovation efforts focused on the same two areas as in previous years, which chiefly comprised:

- developing "clean tech" products and solutions for sustainable development-related markets in the form of projects that will help to drive Mersen's growth over the short and long term;
- increasing the competitiveness of the products sold by the Group's core businesses.

Of the 20 principal innovation projects pursued in 2011, 13 related to sustainable development in solar energy, wind energy, LEDs, energy efficiency and rail transportation markets, while the other seven were focused on a strategy of opening up new markets or consolidating the Group's positions through enhanced processes, targeting markets such as pharmaceuticals, electricity distribution, organic and mineral chemicals.

The major innovations finalized in 2011 or still in progress include:

- A static current collection solution for tram systems, making it possible to collect a high current during a short stop at a station;
- Optimization of power and signal transmission systems for wind turbines;
- Solutions integrating protection, circuit-breaking and detection functions in a single component or system for electrical installations, particularly in the photovoltaic sector;
- Manually activated electromechanical protection systems for firefighters tackling fires on photovoltaic installations;
- New material grades and forms (coated graphite, impregnated insulators, carbon-carbon composites) used in the manufacture of polysilicon and wafers to enhance the performance, cost and purity of products made by leading players in the photovoltaic industry;
- New high-end consumables for equipment suppliers and industrial groups in the LED production sector (producers of substrates, epitaxy machine manufacturers, etc.).

Business activities at a glance

Advanced Materials and Technologies

- €380 million in sales.
- 46% of total sales.
- World no. 1 in graphite anticorrosion equipment.
- World no. 2 in high-temperature applications of isostatic graphite.

Divisional overview

- Isostatic graphite equipment, carbon-carbon composites, carbon bonded carbon fibers and silicon carbide for high-temperature applications (solar, semiconductors, aerospace, glass-making, etc.).
- Anticorrosion equipment based on graphite, noble metals (tantalum, titanium, etc.) and fluorinated polymers (PTFE, etc.) and special metals for the chemicals and pharmaceuticals, metal-working, nuclear and water treatment industries.

Main applications

- Manufacturing equipment for solar applications, semiconductors and other refractory processes, electrodes for electrical discharge machining or kiln linings, etc.
- Processing (heat exchangers, reactors, etc.), storage and distribution (tubing, pipes, etc.) of hot corrosive fluids.
- Water treatment (filters, heat exchangers, stirrers and mixers, etc.).

Priorities

- Develop high value-added applications employing isostatic graphite and other materials, notably for the solar energy and electronics industries.
- Become a leading supplier of finished products and high-quality solutions to the solar energy and electronics sectors.
- Continue developing complete multi-material solutions for corrosive and high-temperature chemicals and pharmaceuticals.
- Develop solutions for the nuclear power market, especially in China.
- Continue developing complete seawater desalination solutions.
- Expand sales in Asia.

Main competitors:

- Toyo Tanso (Japan)
- Tokai Carbon (Japan)
- SGL Carbon (Germany)
- Schunk (Germany)

Main customers (in alphabetic order):

- Air Liquide (France)
- Alstom (France)
- Canexus (Canada)
- Cree (United States)
- Hemlock (United States)
- MEMC (United States)
- OCP (Morocco)
- Samsung Everland (South Korea)
- Wacker (Germany)
- Yingli Green Energy (China)

Some of the Advanced Materials and Technologies businesses are covered by the regulations on the control of exports of dual-use items and technology.

Electrical Components and Technologies

- €450 million in sales.
- 54% of total sales.
- World no. 1 in brushes and brushholders for industrial electric motors.
- World no. 1 in fuses for power semiconductors.
- World no. 2 in industrial fuses.

Divisional overview

- Components and systems for distributing and controlling energy, such as fuses, surge protection devices, circuit-breakers and collection devices, as well as components and systems for power electronics such as fuses, surge protection devices, coolers and laminated bus bars.
- Power and signal transmission components: sliding electrical contacts, graphite brushes for electric motors and assemblies comprising brushes, brushholders and pantograph strips.
- Diagnostics, assistance and maintenance.

Main applications

- Safety and reliability in the distribution and control of energy from industrial and commercial electrical equipment.
- Protection and improvement in the efficiency of power converters in energy, transportation and industry.
- Solutions for rotating electrical machinery and sliding contacts used in industry (steel-making, mining, power plants, etc.) and transportation (railways, mass transit, aviation, aerospace).

Priorities

- Continue development in renewable (solar and wind) energies.
- Continue the development of power electronics components.
- Expand sales in Asia.
- Capitalize on the development of urban transportation.

Main competitors:

- Bussmann (US)
- Morgan Crucible (UK)
- Schunk (Germany)
- Schleifring (Germany)

Main customers (in alphabetic order):

- AD (United States)
- Arcelor Mittal (India)
- BE Aerospace (United States)
- GE Wind (United States)
- Imark (United States)
- Lafarge (France)
- Legrand (France)
- Metronet (United Kingdom)
- Nordex (Germany)
- REpower (Germany)
- Rexel (France)
- Schneider (France)
- Siemens (Germany)
- Sonepar (France)
- TMEIC (Japan)
- Wesco (United States)

Corporate social responsibility and sustainable development

2

There are several dimensions to Mersen's commitment to sustainable development. Firstly, the Group pursues a human resources policy that is respectful of its employees and endeavors to protect their health and safety. Secondly, reflecting its commitment to sustainable development through its industrial positioning and its contribution to the development of alternative energies and energy efficiency, the Group does everything it can to minimize its impact on the environment, while playing a full role in local community initiatives.

Human resources policy

Mersen's corporate project relies first and foremost on the men and women who work for it. They possess the expertise and develop innovative solutions for our customers, while monitoring market developments and spotting the latest trends in technology. Their knowledge and know-how represent our most precious asset–our human capital.

→ HR plan

The HR plan is predicated on four pillars, which will be implemented over the period to 2015 by the entire management team, with the support of the HR teams. The plan aims to build a strong HR identity to support achievement of Mersen's strategic goals. It takes into account the needs of the divisions and its employees' expectations and needs, while giving managers the required visibility and clarity in the medium term concerning the changes that need to be made.

Secure the Group's future by nurturing and valuing its human capital

Forward human resources planning

Since the Group is constantly changing, it is crucial for it to plan ahead and prepare for the future by identifying the competencies that it will need in the future to sustain its growth. At the same time, employees must be aware of the likely changes in their jobs so that they themselves can make the necessary adjustments to their own skill set.

During 2011, the advance human resources and competency planning (GPEC) process was redefined to align it with the strategic planning process.

Building on this new approach, each division considered the competencies that it will need over the coming years based on its priorities and those of the Group.

This analysis was consolidated at Group level through the identification of around 60 reference jobs common to all the divisions in ten or so different areas (management, sales and marketing, R&D, production, etc.). This mapping of jobs covering all tiers within the Group (executives, technicians, supervisors, blue-collar staff, etc.) is used to fine-tune recruitment and training policies, deliver consistency in personnel management based on the level of employee contributions and facilitate competency development and career path management.

Senior employees and knowledge transmission

Planning ahead for departures linked to demographic trends in the Group's workforce is another key aspect of the Group's policy of human resource planning.

In France, the agreement concerning the employment of seniors (i.e. those aged 50 or over) signed in 2009 is now being rolled out. It goes beyond the Group's legal obligations and was signed with all the representative union organizations at Group level for a period of three years. It aims to introduce a bold approach backed up by concrete measures as part of an integrated human resources policy. The agreement contains an objective that employees aged 55 and over will continue to make up 15% of the workforce. Based on their aspirations and competencies and the Group's current and forecast needs, it aims to prepare for the final part of employees' careers as effectively as possible by fleshing out their career plans.

The agreement has been introduced gradually outside France since 2010. It aims to replace and pass on the knowledge gained by seniors, increase the size of the workforce and managers' competencies to help drive the Group's growth and enhance communication about its values and corporate culture.

For each employee whose skills are considered to be critical and also for all employees likely to retire within two to five years [(1)], a new type of interview (known as the "experience interview") has been created, which aims to identify the employee's knowledge and core competencies so that arrangements can be made to pass them on. This interview also reviews the employee's position ahead of his/her retirement and/or the final part of his/her career to make sure it is as interesting and useful as possible.

To this end, the employee's working arrangements can also be reviewed and adjustments to his/her job (switch to part-time, etc.) considered.

Lastly, highly motivated employees with expertise in a key area can be asked to become "mentors". The aim of mentoring is to pass on knowledge. Some initial trials have been introduced in France.

The results of experience interviews will be used to enhance succession planning.

Stimulating innovation

Innovation is used to build a distinctive range of products and to drive growth.

Mersen has two primary goals:

- Bolster the culture, resources and oversight of innovation and of Research & Development (R&D);
- Structure and promote sharing and synergies between the Group's various R&D resources.

The decisions made and initiatives implemented over the past four years have led to:

- An internal online database being modified to list experts (by materials, by physical and chemical phenomena and by industrial processes) and special equipment at all of the Group facilities;
- Research, development and technology watch priorities being documented for divisions and the Group, while ensuring that they remain consistent with its growth objectives in certain key markets, such as solar energy and electronics;
- The three ideas creating the most value being rewarded each year through the Innovation challenge.

More generally, 2011 saw the development of 20 cross-functional projects that will accelerate the process of sharing experiences and harnessing synergies at Group level. Two-thirds of these projects relate to alternative energies, energy efficiency and rail transportation.

Innovation also lies at the heart of our corporate culture and our HR policy, which promotes autonomy and creativity, by restricting the number of levels in the hierarchy and providing easy access to managers. The aim of all these steps is to encourage autonomy, initiative-taking and exchanges of ideas.

Project management and cross-divisional coordination

Since it is aware that innovation, inventions and projects often take shape at the intersection between the Group's divisions and that these can be highly valuable, Mersen strives to enhance its employees' skills so that they can coordinate this type of development. Indeed, a program of selective training in cross-divisional coordination and project management has been specially developed.

At the same time, to help them progress and to prepare them for future positions of responsibility, employees at all levels of the Group regularly attend training sessions, as well as performing training assignments or projects that deliberately focus on topics outside their usual field of expertise.

Support managers, the principal agents of change

The complexity of Mersen's organization structure has increased as the Group has expanded into new regions and as new intercultural relationships have developed. To reflect this, Mersen has added a human dimension alongside the existing technical dimension to its managerial skills guide with a view to achieving a consistent approach right across the Group.

In addition, the Group is seeking to enhance the HR tools provided to managers to help spot and nurture talented employees.

Manager recruitment, development and career planning

The **recruitment process** for managers has now been harmonized across all the Group's companies to make it as streamlined and professional as possible.

Career committees provide an opportunity each year to review the career prospects of the Group's principal managers and are used to prepare individual competency development plans. They are conducted at divisional level and help to identify key and/or high-potential employees for review by the Management Board. Like experience interviews, these Committees help to add more substance to **succession planning**.

Mersen's global dimension provides employees with genuine career development opportunities. The Group has demonstrated its ability to encourage exchanges between its various units, divisions and geographical regions by hiring internally while fostering mobility and international diversity of managers. Mersen's success is predicated on a balanced **international mobility policy** and the joint development of local talent. It reflects Mersen's values, namely a human dimension, local relationships right around the world, operational excellence, responsibility and profitable growth.

(1) In France, the agreement concerning the employment of seniors states that an experience interview is mandatory and arranged by managers with all their employees when they turn 58.

The human dimension requires respect for and the recognition of local cultures and skills, wherever they may be. It facilitates a rapid response for customers and will help to power innovation and growth.

The decision to entrust an employee with a managerial position with a high level of responsibility is in most cases preceded by an evaluation conducted by an expert firm (assessment process), which seeks to confirm the fit between the candidate's profile and the skills required in and demands associated with the post. Once they have become accustomed to the job, the new manager can be supported, where necessary, by a coach helping to deal with all the various aspects, including the human dimension, of the new position.

HR tools available to managers

The **annual review** is one of the key aspects of the competency development process implemented within the Group. Annual reviews, a key opportunity for dialog and discussions between the employee and direct management superior, help to assess individual performance over the previous year and set objectives for the year to come. They also provide a chance to assess competency development initiatives carried out during the past year and to determine what action needs to be taken or continued to make progress in the employee's current position or with a view to future promotion. An application developed on the Group's new Human Resources Information System can be used to manage online forms and facilitates annual reviews.

Training for plant managers in how to conduct these reviews was held in several countries, from Asia to the Americas including Europe.

Career reviews, a new tool currently being introduced to provide a full analysis of employees' professional accomplishments and future goals, help them to formulate their expectations and desires for the medium term. They also provide an opportunity for managers two tiers up to have direct contact with employees and to listen to their aspirations. Career reviews can also be offered during Career Committees or at the mid-point of an employee's career to see how the land lies.

All in all, the Group devoted 1.1% of its total payroll during 2011 to **training**, i.e. an average of 10 hours of training per employee.

Training	2011	2010	2009
As a % of total payroll costs			
Group total	1.1%	1.5%	1.0%
• o/w France	1.0%	2.0%	2.0%
Average number of hours per employee			
Group total	10	10	13
• o/w France	9	17	15

The training program continued during 2011, with an emphasis on three areas:

- management of health and safety in the workplace;
- leadership and management of teams (preparation for interviews, communication, etc.);
- knowledge transmission with preparations for experience interviews and mentoring.

In France, the agreement promoting the employment of seniors signed in 2009 calls for the introduction of training reviews for employees aged 50 or over who have not attended any training during the previous three years.

Put HR teams at the heart of the Group's transformation

During 2011, the Group completed a plan to overhaul the management of its human resources at the level of each plant/country/region/division/Group using a **Human Resources Information System**.

The objectives of the new system are as follows:

- Facilitate the day-to-day tasks of HR and safety teams as effectively as possible;
- Support managers with the development of their competencies and management of their team and provide them with HR indicators to help manage their actions;
- Contribute to management and deployment of the HR plan;
- Foster the development of a corporate culture and a shared identity;
- Accelerate uptake of the HR processes by existing teams and those at newly acquired companies;
- Enable employees to view and store various documents concerning their career in their file with the help of an easy-to-use tool.

This system has been operational since January 2012.

Develop a sense of well-being and cohesion in the workplace

Integration within the Group

The Group supports new hires during the crucial period of their integration by arranging a made-to-measure program for them.

A welcome booklet distributed within the Group has enriched this integration support.

An e-induction program available on Mersen's intranet provides new employees with all the information they need to make their first few weeks with the Group even smoother. This represents a practical means of learning the essentials for their activities within the Group (cash management, 5S, project management, safety, etc.).

Health & Safety

Mersen is exposed to the risks inherent in all industrial activities. Even so, the Group works tirelessly to protect its employees (1).

Safety, improved working conditions and the prevention of psycho-social risks and occupational stress represent a major focus for the Group's social policy. An occupational health and safety management system has been introduced and implemented globally, irrespective of the location and culture of individual plants. Mersen's managers strive for excellence in these areas.

In occupational health, Mersen has embarked on a program to develop well-being in the workplace, which paved the way for the signature of an agreement by all the labor partners in France during September 2011. This agreement aims to provide preventative solutions and remedial measures. In particular, it calls for all managers and employee representatives to be trained in the prevention of psycho-social risks, as well as for the creation of a country-wide committee closely monitoring a number of indicators per plant (staff turnover, absenteeism rates, percentage of new projects taking psycho-social risks into account, etc.). Consideration was also given in France to the topic of occupational stress, and an agreement was signed in November 2011 to provide a framework for future negotiations planned in 2012.

This commitment to health and safety will help to enhance management of the Group's teams and is not confined to its operations in France. Measures were implemented from 2010 at all the Group's facilities, including the introduction of a charter promoting a better balance between employees' personal and professional life through a focus on four areas: the organization of meetings, maternity and paternity leave, flexible working hours and working at home. A balance between employees' personal and professional life is also a central concern of the agreement signed in France during June 2011 covering executives' working hours. These measures, which take a resolutely long-term view, emphasize prevention.

The 5S program is another critical component of this approach. The introduction of organizational principles for workstations and offices aimed at creating an effective work environment helps to improve productivity, working conditions, safety and quality. By increasing the reliability of all corporate processes, both functional and operational, the 5S program makes a tangible contribution to the improvement in business performance.

Diversity

Innovating means breaking away from habits of the past and thinking outside the box. The diverse origins, educational and cultural backgrounds, and ways of thinking of the Group's teams represent major advantages stimulating its creativity. The Group recognizes in all individual employees their potential to develop and contribute to the performance of their business unit.

Its human resources staff strive to ensure equal opportunities, while maintaining and strengthening the multi-disciplinary capabilities of teams.

To entrench and reinforce the diversity initiative, the Group launched the Mersen Diversity program during 2010. As a signatory in 2010 of the French corporate diversity charter, the Group has committed to combat all forms of discrimination by safeguarding respect for and promoting diversity. Mersen holds discussions on best practices with other businesses within the AFMD (French association of diversity managers), of which it is a member.

While Mersen's corporate culture is strong, it is adapted in each country to fit in with the local culture and customs. The best way of achieving this integration is to give the management reins to local managers, and this is what the Group has done in over 90% of its plants. The Group's human dimension takes on its full meaning in this drive for a subtle balance between respecting its principles and values and embracing local customs and practices. Lastly, Mersen wants its management structures to reflect the diversity of its teams. To this end, the Group has continued to implement measures to **hire managers from diverse backgrounds** to help non-French employees to gain positions of responsibility.

Mixity

A **Women's Network**, called **WiN** *(Women in MerseN)* was set up. It brings together women and men working for the Group who want to work together on a joint project to promote greater diversity through cooperation and mutual assistance. The aim of the WiN network is to pool the potential capabilities of its members and to provide opportunities for meetings and analysis outside the scope of any system or hierarchy. WiN also aims to become an international network within the Group that can take part in inter-company events and share experiences.

(1) The health and safety policy is presented at the end of this section.

Mixity has been clearly identified and stated by Mersen as a priority area for improvement. Numerous initiatives have been introduced since 2009, including new hires, career tracking, communication, awareness-raising among managers, rewards, greater flexibility for parents in professional life, which have helped to achieve genuine progress in this area. The proportion of women managers went up from 13% at year-end 2008 to around 17% by year-end 2011. The Group's objective is for 20% of its managers to be women.

Employment and integration of disabled workers

From outsourcing to ESATs (French organizations that help disabled people back into work), numerous measures have already been implemented at French facilities to promote the employment of disabled workers. Going beyond its obligations, Mersen decided to step up policy of promoting disabled employment as part of its policy of fostering diversity. Accordingly, it set up a partnership in late 2009 with ARPEJEH, a not-for-profit organization supporting educational projects for disabled school pupils and students. As part of this initiative, several disabled interns spent a few months with the Group. It helps to change the attitudes of Mersen's employees to disabilities, while encouraging creativity and open-mindedness.

Labor dialog

The Group Works Committee in France and the European Works Committee provide a forum for dialog with employee representative bodies concerning the Group's position and strategic objectives in France and in Europe as a whole. They supplement relations with employee representatives through the employee consultation and discussion bodies that exist in companies. These committees both met once during 2011.

In addition, numerous study meetings and negotiations were held during 2011 on topics related to occupational health (Group agreement on the well-being of its employees, agreement on healthcare expenses), working hours (executives' working hours) and employee profit-sharing.

Enable employees to share in the Group's success

Rallying employees individually and collectively around common objectives is one of the key strengths of Mersen's human resources policy. Profit-related incentive payments based on collective performance, remuneration based on individual and collective objectives as part of a collective framework and the development of employee share ownership contribute to this type of commitment by the Group's employees.

Employee incentive and profit-sharing agreements take into account the Group's financial performance, as well as the individual contribution made by each individual to the performance of their business. The development of technical incentive payments is predicated on collective criteria, such as productivity and safety improvements, customer satisfaction linked to product and service quality, ability to meet deadlines, innovation and reductions in non-quality costs. In addition, financial incentive payments are linked to attainment of operating margin targets at business unit and/or divisional level.

Managers' bonuses are related to the margin and cash generated by their business unit and their division and their performance relative to their annual individual targets, particularly those related to safety, productivity and participation in growth projects. This policy helps to ensure that the Group's values and strategic objectives guide its day-to-day business decisions.

The PERCO (collective pension savings) and PERE (corporate pension savings) plans signed with the CFE/CGC, FO and CFDT union organizations are currently being rolled out. These new graduated pension arrangements, complementing the statutory regimes, reflect the Group's enduring commitment to help each of its employees plan ahead for retirement. They also represent a major attraction for potential employees. They cover the entire employee population while taking into account their specific characteristics. The Perco plan, which was introduced in the first quarter of 2010, covers all the Group's employees in France. It provides for matching employer contributions that are highly advantageous for the employees whose ability to save is the most limited. The PERE plan, which is for all executives and equivalent grade staff in France, was introduced at the Group's French facilities in January 2011.

Internal communications

Sharing information is a key aspect of employee motivation. Mersen endeavors to communicate internally about the performance of its businesses, including both its results and future projects. This emphasis on transparency enables each individual to gain a full sense of what it means to be part of the Group.

The **Inside Mersen** internal newsletter is available in seven languages, i.e. French, English, German, Spanish, Italian, Chinese and Portuguese. It is circulated to all Mersen's employees and made available on the intranet in an interactive electronic format. Information is also passed on using complementary theme-based publications concerning the latest news and plant magazines, which focus on local information. In addition, discussions between management and employees take place on a monthly basis at most facilities.

The Group's intranet, accessible in real time right around the world, provides an easy-to-use forum for sharing information and tools. Its contents are constantly enriched through active contributions by the numerous section managers. Discussions and information-sharing are facilitated by its functionality and ease of use.

Workforce and facilities

Mersen is a global group with around 7,000 employees at December 31, 2011 in over 40 countries, a figure virtually unchanged from 2010. During 2011, the Group included the workforce of an industrial subsidiary in Turkey and M.Schneider Beijing within the scope of consolidation (increase of 69 employees).

Geographical analysis of the workforce (at December 31)*

Country	2011	2011	2010
Europe (including Tunisia)	2,790	40.3%	2,802
• o/w France	1,559	22.5%	1,527
North America (including Mexico)	1,988	28.7%	2,024
Asia-Pacific	1,894	27.4%	1,949
Rest of the world	253	3.7%	249
TOTAL	6,925	100%	7,024

Consolidated scope

Geographical analysis of the workforce (at December 31)*

The Group has a presence on five continents. This presence reflects part of Mersen's strategy of forging close relationships in its markets and represents a strategic advantage.

The Group's various manufacturing facilities include both large plants (>125 staff) dedicated to producing intermediate products and large runs and local workshops, which meet the highly specific needs of their local customers. They break down as follows by geographical area:

Country	2011	Plants with > 125 employees	2010
Europe (including Tunisia)	31	5	30
• o/w France	12	4	12
North America (including Mexico)	14	5	14
Asia-Pacific	13	4	13
Rest of the world	4	2	4
TOTAL	62	16	61

Consolidated scope

Outsourcing

The Group partially outsources the manufacture of its products. In 2011, outsourcing costs amounted to €63 million, with €29 million mostly for assembly, machining and welding and around €34 million for metallic component cutting operations, as well as the manufacture of plastic components.

Social information concerning the Group's companies in France

In accordance with the provisions of Decree no. 2002-221 of February 20, 2002 in application of Article L. 225-102-1 of the French Commercial Code (operations in France):

Headcount at December 31

	2011	2010	2009
Workforce	1,559	1,527	1,399
• o/w fixed-term contracts	16	14	8

Recruitment

	2011	2010	2009
Recruitment	162	105	70
• o/w fixed-term contracts	44	39	16

Temporary workers

	2011	2010	2009
Average headcount	200	193	103
% of the headcount	13%	13%	7%

Overtime

	2011	2010	2009
Overtime	42,975	46,830	27,357
% of hours worked	1.92%	1.96%	1.18%

Absenteeism

	2011	2010	2009
Absenteeism rate	5.20%	4.82%	5.16%
• o/w illness	3.83%	3.51%	3.86%

Organization of working hours

In France, an agreement on executives' working hours was signed in June 2011.

The working hours of engineers and managers are calculated based on an annual total of 216 work days, which gives them an average of 12 days of additional leave per year.

Health and safety policy

Priorities

Based on the four key drivers of **Leadership, Positive reinforcement, Risk analysis** and **Continuous improvement**, the Group continued to implement health and safety initiatives. The Group's medium-term objective remains **Excellence** in health and safety.

Organization of the function

Since 2010, the Group's health and safety function has been part of the Risk and Internal Audit department. The Group made this transfer in order to enhance the efficiency of its safety policy, firstly through the sharing of experience and expertise between the safety and industrial risk management units, and secondly by introducing internal control methods as part of the safety policy.

This function is backed up by a Group Safety Committee comprising four of the five members of the Management Board and the Group's Human Resources Department. It reports to the committee on a monthly basis. This close relationship allows it to be highly responsive and demonstrates senior management's unstinting commitment to health and safety. It also draws on a network of regional correspondents. Their role is to perform cross-audits in the region, conduct more detailed audits at underperforming units and implement the Group safety policy formulated by the Group Safety Committee.

Every month, the Risk, Internal Audit and Safety department circulates a publication dedicated to safety reviewing the latest trends in Mersen's safety indicators and highlighting best practices. It is accessible on the Group's intranet and is sent to plant managers and safety managers.

The department worked very hard during 2011 to put the Group's best practices online and on drafting a collection of key safety measures specifically intended for new business units joining Mersen.

The safety department was involved in producing an e-learning module for new hires, which included a special module on safety issues.

Lastly, inspection audits were carried out at business units in which shortcomings were identified during the 2010 audit campaign.

All the Group's senior managers, irrespective of whether they have operational or functional responsibilities, place greater emphasis on risk management. The Risk and Internal Audit department detects the principal risks incurred by Mersen, defines the prevention and mitigation policy, proposes action plans and oversees their implementation.

Risk mapping

During 2010, the Group mapped out its safety risks. The information gathered helped to facilitate the implementation during 2011 of action plans to reduce or eliminate the risks detected. The action plans implemented at all the Group's units help to improve Mersen's safety performance.

Risk prevention

During 2011, the Group signed an agreement on the prevention of psycho-social risks and another on the prevention of occupational stress at its facilities in France (see Human Resources Policy at the beginning of this section).

It also launched a study during 2011 on stress in the workplace in conjunction with the legal guidelines. This initiative will be continued during 2012.

In addition, measures were taken at the Group's largest manufacturing facilities (Chongqing, St Mary's, Holytown, Bangalore, Amiens, Pagny-sur-Moselle, Gennevilliers) to train personnel in best practices for protecting themselves against Poly-Aromatic Hydrocarbons (PAHs).

Training and Audit

The Group has continued to introduce training programs, notably at recently acquired companies. It also stepped up the program of safety audits by developing cross-audits organized by geographical region. These audits, encompassing internal control, safety and information systems, are conducted by specially trained personnel. They help to promote experience-sharing and are instrumental in fostering a Group safety culture. Working in regions also facilitates exchanges between business units with similar cultures, thereby promoting understanding and implementation of the proposed solutions. Some 20 cross-audits were carried out during 2011.

At the same time, Mersen continued to pursue its policy of making safety a top priority. During 2011, it bestowed the *Safety Excellence Awards* on two plants in Canada and China. These awards are given to facilities with first-rate safety management combined with a very high level of safety performance. In addition, the Group decided to give an award to new business units that have rapidly and efficiently introduced the Group's health and safety policy. An incentive award was thus given to two business units, one in Germany and the other in China. The Group also continues to implement targeted tools to improve the relevance of its audits and pragmatically enrich guidelines concerning the most sensitive or most frequent risks.

→ Safety indicators

Together, these measures implemented at all the Group's facilities around the world for several years now, paved the way for very encouraging safety performance in 2011. The performance improvement was particularly noticeable in terms of the number of days of lost time, with the ratio dropping from 0.16 to 0.07, as the number of lost-time days halved between 2010 and 2011. The number of accidents per million hours worked also showed a strong improvement, with the ratio dropping from 10.3 to 6.5, representing a reduction of close to 40% in just one year. The number of lost-time accidents also decreased considerably from 3.2 to 2.6 per million hours worked, representing a 20% decline. What's more, this performance was achieved during a period of high activity. The recently acquired units, which posted an average performance during 2010, contributed through their efforts to the improvement in the Group's ratios.

Number of lost-time occupational accidents per million man-hours (TF1)

2011	2010	2009
2.7	3.2	4.4

Number of occupational accidents with or without lost time per million man-hours (TF2)

2011	2010	2009
6.5	10.3	12.4

Number of working days lost to occupational accidents per thousand man-hours (TG)

2011	2010	2009
0.07	0.16	0.23

Environmental policy

Priorities

Mersen is committed to protecting the environment in two ways. Firstly, it has built an increasingly strong position in the renewable energies markets. Secondly, it has embraced a strategy of profitable growth that is respectful of the environment and socially responsible. It is part of a collective and pragmatic approach involving all the Group's employees, who are educated and receive training at every level of responsibility.

Mersen undertakes to:

1. **Comply with the regulations in force,** in the form of legal and other requirements covering its products and existing installations;
2. **Catalogue potential risks** related to its installations and products, review whether prevention is sufficient to avoid any accidents that may pose a threat to people in the neighborhood or the surrounding area (particularly to customers, the workforce and those living close to production sites);
3. **Visit installations** periodically to detect anomalies;
4. **Use incidents and best internal and external practices for a program of quality and continuous improvement based on experience-sharing;**
5. **Minimize consumption** of water, energy, raw materials and packaging and encourage recycling and waste-to-energy conversion;
6. **Foster progress through continuous improvement** by rolling out an ISO 14001 Environmental Management System at all the Group's major plants;
7. **Promote eco-design,** notably by extending use of EIME, the dedicated software system.

During 2011, the principal goal was to prepare for the introduction of the Grenelle 2 law (French law no. 2010-788 of July 12, 2010 on the national commitment to the environment). To this end, the Group drew up reporting standards that were validated by accredited auditors. These standards will be tested internally during 2012.

Minimize environmental impacts

In the field, Mersen's environmental policy translates into a quest to identify best practices and an extremely high level of vigilance. It is intended to help the Group achieve a virtuous circle.

The **Quality and Continuous Improvement** (QPC) program continues year after year, including in environmental matters. It was backed up by training initiatives to achieve operational excellence. Competitions, such as the World 5S Challenge, help to promote emulation among all the Group's various companies.

To meet European environmental constraints and plan ahead for potential regulatory changes, Mersen stepped up its preparations in several areas.

Regulatory compliance

After registering the products it uses (chiefly graphite) during 2010 to comply with the ***Reach*** regulations, the Group continued to monitor its suppliers. It has worked actively with certain key suppliers to monitor the progress of their work and the registration of certain products that it buys. Its goal is to avoid the risk of a strategically important product for the Group being banned from sale. Mersen also monitors products that may be added to the list of those subject to approval in the European market (list published by the ECHA). Mersen has not sold any of the products on this list since year-end 2011. However, it may use some of them in its manufacturing processes. To be able to guarantee an uninterrupted supply chain, it is essential for the Group to check with the supplier of a substance requiring approval that it has indeed satisfied the requirements to maintain its marketing approval in the European market.

For CMR (Carcinogenic, Mutagenic or Toxic to Reproduction) substances, Mersen continued to implement protective measures vis-à-vis its employees and the environment. Clear instructions are issued to afford those working with such substances the maximum possible protection. In this respect, the replacement of aspiration systems can achieve significant reductions in dust levels. It is also essential for the relevant employees to wear protective equipment. In addition, gaseous effluents are collected and processed prior to discharge into the atmosphere.

As part of the same approach of environmental forward planning, the Group conducted the first **carbon footprint assessment** of one of its principal manufacturing facilities in 2008. Even so, Mersen was not among the businesses covered by the first French national plan for the allocation of carbon dioxide emission quotas (PNAQ). This program was continued and the first four plants in France finalized their carbon footprint assessment in 2010. This analysis, which was used to identify sources of potential savings, was genuinely useful ahead of the general roll-out of the program to the Group's other facilities.

Following these carbon footprint assessments, **concrete measures** are now being introduced. When production machinery–especially kilns–is renewed, energy consumption and CO2 emissions will be monitored particularly closely. The logistics and material transportation chain also represents an area for improvement. Research and development is a third source of potential advances, through adjustments to manufacturing processes in particular.

Certifications

The **ISO 14001 certification** program was also continued. The Group's main production facilities (18 sites) are now all certified. Some sites took this process even further by striving to achieve OHSAS 18001 (Occupational Health and Safety Assessment Series) certification. Lastly, one of the principal facilities in France (Saint Bonnet de Mure) was awarded the new European EN 16001 accreditation concerning energy management systems in early 2011 and in so doing became the first industrial plant in France to secure this certification. The measures implemented help to raise employee awareness, enabling them to develop good habits that lead to energy savings and lower energy bills as a result.

Waste management

Special attention is always paid to **waste management**. Certain improvements have been proposed by teams themselves as part of the 5S program. They have since been introduced right across the board. This method is predicated on sorting, tidiness, cleanliness, standardization and maintenance. Irrespective of their location, all the Group's facilities are obliged to meet these stringent standards. In terms of waste processing, the Group is actively participating in efforts to recycle fuse waste by reusing large amounts of the metal content of used fuses.

Soil pollution

The Group also continued to closely monitor the risks arising from soil pollution, through in-depth audits in particular. All the products used by the Group are subject to constant monitoring, not only by the local authorities, but also by Mersen's employees, who are trained in these areas.

→ Sustainable use of resources

The Group strives to offer products with a limited impact on the environment. To this end, it endeavors to acquire the best available technologies, i.e. techniques that satisfy most effectively the sustainable development criteria, when designing its new manufacturing lines and its new products.

During 2011, Mersen continued its redesign to cost program for certain of its products. It has evolved into an eco-sustainable-redesign to cost initiative. Aside from a complete overhaul of the product's various components, it also aims to replace certain raw materials with other more environmentally-friendly materials.

At the same time, the Group has stepped up the implementation of methods and skills to develop products based on an eco-design approach. The environmental implications of new products are taken into account from the design stage through to the end of their life cycle.

Research and development teams are trained in eco-design and specifications systematically take into account the objective of reducing environmental impact.

For example, EIME (impact evaluation and eco-design management) software application is used in electrical protection to carry out an environmental impact analysis of products (water and air pollution, depletion of natural resources, etc.) throughout their life.

All the stages in the product's life cycle are taken into account, such as:

- the choice of raw materials, with easily recyclable materials being prioritized;
- the weight of packaging;
- reductions in the number of assembly stages;
- reductions in the volume of waste;
- most effective logistics;
- the product's end of life.

This type of tool can also be used to compare products from existing lines with future products under development, as well as competitors' products. Accordingly, it is possible to demonstrate the environmental improvements made to products when a "green" branding becomes a key sales and marketing argument.

→ Environmental data

In accordance with the provisions of Article L. 225-102-1 of the French Commercial Code.

In 2011, the Group scope encompasses plants in:

- France: Mersen France (Amiens, Pagny-sur-Moselle, Gennevilliers, Saint-Bonnet-de-Mure, Provins and Saint-Loup-de-Naud, La Mure);
- Europe: Mersen Italia Patrica, Mersen Deutschland (Frankfurt, Lisengericht, Suhl), Mersen UK (Portslade and Teesside); Mersen Scotland Holytown, Mersen Hittisau
- Americas: Mersen USA (Saint Mary's, Bay City, Boonton, Newburyport, Oxnard, Salem), Mersen Canada (Toronto, Dorion, Toronto Inc, Mississauga), Mersen de Mexico Juarez, Mersen do Brasil;
- Asia: Mersen India Bommasandra, Mersen Chongqing, Mersen Kunshan, Mersen Xiandia Shanghai, Mingrong Electrical Protection Yueqing, Mersen Korea Ssangam.

The following indicators reflect the new scope. The plants included in the Group scope account for around 90% of the Group's sales. In 2011 the sites of Hittisau, Dorion, Toronto Inc, Mississauga, Salem and Kunshan have been integrated in the reporting scope.

KEY INDICATORS

	Unit	2010 Group	2011 Group*	% chg. 2011*/2010 Group	2011 Group	2010 France	2011 France	% chg. France 2011/2010
Water consumption	m^3	644,283	772,905	20%	791,084	273,856	289,330	6%
Energy consumption								
Electricity	MWh	161,014	182,129	13%	188,781	42,952	45,772	6%
Gas	MWh	150,428	164,244	9%	168,511	46,591	48,252	5%
Fuel	tons	937	1,030	10%	1,055	686	426	-37%
Consumption of raw materials and metals								
Timber	tons	1,678**	2,084	24%	2,600	702**	821	17%
Cardboard	tons	1,080	835	-22%	952	474	372	-21%
Copper	tons	2,302	1,983	-16%	3,494	622	676	8%
Waste								
100% recycled timber	tons	642	674	5%	705	298	335	12%
Recycled cardboard	tons	350	330	-6%	371	171	127	26%
Non-hazardous waste	tons	7,325	7,018	-4%	7,168	912	1,104	21%
Discharges								
Wastewater	m^3	586,672	668,201	14%	687,338	273,856	289,330	5%

** 2010 scope*
*** 2010 data have been corrected*

Local initiatives

As part of the Group's environmental program, plants continued their efforts to mitigate environmental impacts. Numerous local initiatives were implemented, leading to an array of improvements during 2011.

The examples referred to below were taken from a number of major facilities.

Amiens, France

- Optimization of graphitization cycle planning to curb energy use;
- Change in covers for kilns in order to enhance insulation and energy performance;
- Replacement of lighting devices with the latest generation of more energy-efficient systems.

Gennevilliers, France

- Replacement of a set of water cooling towers operating in an open circuit system with towers operating in a closed circuit to reduce water consumption and the risk of legionella;.
- More effective planning of the vacuum purification cycles to cut energy consumption.

Saint-Bonnet de Mure, France

- Organization of a system recovering and reusing components from fuses found to be defective in testing;
- Launch of an energy pre-evaluation to identify potential sources of savings;
- Application of environmental criteria to the procurement process: prioritized use of recyclable materials, generalization of more eco-friendly packaging, collaboration, where possible, with local suppliers to cut transportation costs and greenhouse gas emissions.

Saint-Loup de Naud, France

- Construction of a new surface treatment facility complying with all the latest environmental safety standards, including closed circuit systems and vapor washing.

St Mary's, United States

- Work to insulate the plant to minimize heating requirements and harness energy savings.

Newburyport, United States

- Implementation of a new more environmentally friendly cooling technique for machining.

Chongqing, China

- Deployment of a program to reuse production waste, including the recycling of broken graphite blocks and dust.

Social policy

Ethical business practices

The Group introduced an **Ethics Charter** laying down a personal and collective code of conduct for all employees of all Group subsidiaries and to safeguard the smooth operation of Mersen's day-to-day activities.

At the same time, the **Purchasing Code of Conduct** first introduced in 2003 emphasizes the transparency of purchasing procedures and policy at every level of the Group, the fair selection of business partners and suppliers and the best practices adopted for supplier relationships. In addition, the Group has continued to implement a supplier selection process based on criteria related to environmental protection and reductions in power consumption.

The **charter governing the use of IT and telecoms systems** aims to reconcile the objectives of respecting employees' individual freedoms and protecting security and the Group's legitimate business interests.

Lastly, Group employees have the possibility of investing sums received as part of incentive and profit-sharing plans in a new vehicle abiding by Mersen's high ethical standards. This fund, which is mostly invested in equities, aims to deliver performance over the long term. It has selected shares meeting the social, environmental and governance criteria of socially responsible investing.

Local community initiatives

During 2011, the Group made a donation to help the stricken population of Fukushima, following the earthquake that struck the Pacific coastline causing a tsunami.

At the same time, Mersen's Pagny-sur-Moselle facility continued its involvement in a humanitarian program in Burkina Faso and partnership with the Lycée Louis Vincent high school in Metz. This educational partnership has three principal objectives: improving teaching conditions, facilitating access to knowledge and forging solidarity. Following the creation of an IT room connected to the broadband internet, now called the Mersen room by the high school's teachers, the program continued during 2011 with the introduction of a vocational qualification in IT maintenance and development of a method for treating batik dye effluents, in conjunction with Yako's artisans. Thanks to the equipment shipped from France to Burkina Faso by Mersen, these initiatives were successfully seen through to fruition.

Mersen also helped students from the EEIGM (European engineering and materials technology school in Nancy) by sending recovered IT equipment to a foundation that helps to educate young children and teenagers and sponsored a humanitarian rally.

The Amiens plant took part in apprenticeship initiatives and programs to help young people find work. The R&D team regularly takes on interns and awards apprenticeship contracts to young people from local engineering schools and universities. In addition, Mersen won a prize during the 2011 Picardie apprenticeship awards (for the best apprenticeship program). Two students overseen by the Amiens R&D team (one apprentice and one intern), both from the embedded systems engineering course at INSSET in Saint-Quentin, also received the first prize jointly with Groupe Nord de Société de l'Electricité, in the electronics and information technologies category for 2011, and are competing at national level in 2012. In the United States, the women's network set up in 2011 became involved in supporting a support facility for the homeless in Roanoke (VA). It supplied them with bicycles to help them get to work or to appointments.

Several US subsidiaries also raised funds to pay for presents and food for the underprivileged.

The Bay City charitable association set up in 2011 took various initiatives to help disadvantaged people living locally, such as supporting and visiting those living on their own, serving meals on public holidays and collecting gifts for charities.

Corporate governance

3

Administrative, management and supervisory bodies

SUPERVISORY BOARD

Names	Date of first appointment to the Supervisory Board	Most recent renewal date	End of term in office	Number of shares or stock warrants (BSAR) held conferring rights to Mersen's share capital*	Other positions held
Jocelyne Canetti DoB: Dec. 5, 1949 Member of the Supervisory Board Member of the Audit and Accounts Committee and the Appointments and Remuneration Committee	May 20, 2010		Annual General Meeting called to vote on the financial statements for the year ending December 31, 2013	423(1) 0(2)	
Yann Chareton DoB: Jan. 8, 1978 Member of the Supervisory Board Member of the Audit and Accounts Committee	May 19, 2009		Annual General Meeting called to vote on the financial statements for the year ending December 31, 2012	920(1) 0(2)	**Supervisory Committee of:** Alves, Novacap International **Director of:** Kos SpA., Novaluxco 1 SA, Novaluxco 2 SA, PhotoTechLuxco 1 SA, PhotoTechLuxco 2 SA **Manager of:** ACF Investment 1 **Manager of:** ACF Investment
Hervé Couffin DoB: Oct. 26, 1951 Member and Chairman of the Supervisory Board Member of the Audit and Accounts Committee, the Appointments and Remuneration Committee and the Strategy Committee Independent member**	May 19, 2009		Annual General Meeting called to vote on the financial statements for the year ending December 31, 2012	24,711(1) 13,000(2)	**Chairman and Chief Executive Officer of:** Callisto **Managing Partner of:** HC Conseil **Director of:** Antargaz, Ipsen and Compagnie Franco-Tunisienne des Pétroles (Tunisia)
Bertrand Finet DoB: Sept. 6, 1965 Member of the Supervisory Board Member of the Strategy Committee	May 19, 2011		Annual General Meeting called to vote on the financial statements for the year ending December 31, 2014	120(1) 0(2)	**Member of the Supervisory Board of:** Fonds de consolidation des Entreprises (FCDE), Chairman of the Investment Committee, Assystem **Director of:** TDF **Member of the:** Investment Consultative Committee of Qualium, Audit Committee of Assystem **Special advisor:** Constellium

* *In accordance with Article 20 of the Articles of Association, each Supervisory Board member must hold at least 120 shares for the entire duration of his or her term in office. These shares must be held in registered form.*
** *According to the requirements of the AFEP-MEDEF code*
(1) *Number of shares held.*
(2) *Number of stock warrants (BSAR) held.*

Names	Date of first appointment to the Supervisory Board	Most recent renewal date	End of term in office	Number of shares or stock warrants (BSAR) held conferring rights to Mersen's share capital*	Other positions held
Dominique Gaillard DoB: Feb. 17, 1960 Member of the Supervisory Board Member of the Appointments and Remuneration Committee and the Strategy Committee	May 19, 2009		Annual General Meeting called to vote on the financial statements for the year ending December 31, 2012	790(1) 0(2)	**Chief Executive Officer of:** AXA Investment Managers Private Equity Europe SA **Member of the Management Board of:** AXA Investment Managers Private Equity Europe SA and AXA Investment Managers Private Equity SA **Member of the Supervisory Board of:** AXA Private Equity Germany GmbH **Member of the Board of Directors of:** AXA Private Equity UK Ltd, AXA Private Equity Italy Srl **Member of the Executive Committee of:** AXA Private Equity Italy Srl **Managing Director of:** AXA Private Equity Eastern Europe GmbH, AXA Private Equity Participations GmbH **Chairman of:** AXA Alexandrie SAS **Member of the Supervisory Committee of:** Alvest SAS, Groupe Keolis SAS (formerly Kuvera Developpement), Kebexa Participations SAS, Mersen **Member of the Board of Managers of:** ACF Investment I Sàrl **Director of** AXA Co-Investment II Ltd Director of: Spie, Clayax Acquisition 4 SAS, RPAX One SA **Special advisor to the Board of:** Club Méditerranée **Member of the Board of Directors of:** AXA Private Equity Switzerland Finance AG **Manager of:** Penfret
Jean-Paul Jacamon DoB: Aug. 5, 1947 Member of the Supervisory Board Chairman of the Appointments and Remuneration Committee Member of the Strategy Committee Independent member**	May 19, 2009	May 19, 2011	Annual General Meeting called to vote on the financial statements for the year ending December 31, 2014	195(1) 3,200(2)	**Director of:** Tokheim **Former Director of:** Alcan, AMEC
Jean-Claude Karpeles DoB: June 5, 1940 Member of the Supervisory Board Member of the Audit and Accounts Committee and the Strategy Committee Independent member**	May 19, 2009	May 19, 2011	Annual General Meeting called to vote on the financial statements for the year ending December 31, 2014	3,200(1) 5,000(2)	**Honorary General Delegate:** Gimelec **Manager and Chief Executive Officer of:** ELEC Promotion SARL, Gimelec Promotion SARL **Director of:** CPI Media, Paris region development and urban planning institute, Streamcore **Chairman of:** ELEN (Électricité Environnement) **Elected member of:** Paris Chamber of Commerce and Industry - Hauts de Seine department

* *In accordance with Article 20 of the Articles of Association, each Supervisory Board member must hold at least 120 shares for the entire duration of his or her term in office. These shares must be held in registered form.*
** *According to the requirements of the AFEP-MEDEF code*
(1) *Number of shares held.*
(2) *Number of stock warrants (BSAR) held.*

Names	Date of first appointment to the Supervisory Board	Most recent renewal date	End of term in office	Number of shares or stock warrants (BSAR) held conferring rights to Mersen's share capital*	Other positions held
Agnès Lemarchand DoB: Dec. 29, 1954 Member of the Supervisory Board Member of the Appointments and Remuneration Committee and the Strategy Committee Independent member**	May 19, 2009		Annual General Meeting called to vote on the financial statements for the year ending December 31, 2012	600(1) 1,600(2)	**Executive Chairman and Director of:** Steetley Dolomite Ltd **Member of the Supervisory Board of:** Siclae (proposed by FSI), Areva
Henri-Dominique Petit DoB: July 3, 1948 Member and Vice-Chairman of the Supervisory Board Chairman of the Audit and Accounts Committee Member of the Appointments and Remuneration Committee Independent member**	May 19, 2009	May 19, 2011	Annual General Meeting called to vote on the financial statements for the year ending December 31, 2014	158(1) 800(2)	**Senior Advisor** of the consultative committee of European investment bank DC Advisory.
Walter Pizzaferri DoB: Aug. 20, 1957 Member of the Supervisory Board Chairman of the Strategy Committee Independent member**	May 19, 2009		Annual General Meeting called to vote on the financial statements for the year ending December 31, 2012	240(1)	**Managing Partner of:** Ecosys Group **Manager of:** Tercara, Les Verrières de Montagnac, L'Observatoire de l'Innovation dans l'Energie
Philippe Rollier DoB: Feb. 19, 1943 Member of the Supervisory Board Member of the Audit and Accounts Committee and the Strategy Committee Independent member**	May 19, 2009	May 19, 2011	Annual General Meeting called to vote on the financial statements for the year ending December 31, 2014	800(1) 5,000(2)	**Director of:** Sonoco Products (US), Comité de la Charte du don en confiance **Member of the Supervisory Committee of:** Groupe Grégoire **Manager of:** Cybèle
Marc Speeckaert DoB: May 23, 1951 Member of the Supervisory Board	May 19, 2009	May 19, 2011	Annual General Meeting called to vote on the financial statements for the year ending December 31, 2014	1,020(1) 0(2)	**Managing Director of:** Sofina **Director of:** SES (Luxembourg), Rapala (Finland), Petit-Forestier (France)

* *In accordance with Article 20 of the Articles of Association, each Supervisory Board member must hold at least 120 shares for the entire duration of his or her term in office. These shares must be held in registered form.*
** *According to the requirements of the AFEP-MEDEF code*
(1) *Number of shares held.*
(2) *Number of stock warrants (BSAR) held.*

MANAGEMENT BOARD*

Names	Date of first appointment	Most recent renewal date	End of term in office	Number of shares or stock warrants (BSAR) held conferring rights to Mersen's share capital	Other positions held
Luc Themelin DoB: Feb. 23, 1961 Member of the Management Board Chairman of the Management Board* (since August 24, 2011)	May 19, 2009		May 19, 2013	2,380[(1)] 4,000[(2)]	Chairman and/or director of several Mersen group subsidiaries
Thomas Baumgartner DoB: Feb. 26, 1971 Member of the Management Board (since August 24, 2011)	August 24, 2011		May 19, 2013	874[(1)] 600[(2)]	Chairman and/or director of several Mersen group subsidiaries
Christophe Bommier DoB: Sept. 24, 1960 Member of the Management Board (since August 24, 2011)	August 24, 2011		May 19, 2013	6,740[(1)] 3,500[(2)]	Director of several Mersen group subsidiaries
Didier Muller DoB: June 26, 1958 Member of the Management Board (since August 24, 2011)	August 24, 2011		May 19, 2013	752[(1)] 0[(2)]	Chairman and director of several Mersen group subsidiaries
Marc Vinet DoB: May 7, 1968 Member of the Management Board (since August 24, 2011)	August 24, 2011		May 19, 2013	469[(1)] 3,000[(2)]	Chairman and/or director of several Mersen group subsidiaries.

* *The composition of the Management Board changed on August 24, 2011. Previously, it consisted of Ernest Totino (Chairman of the Management Board) and Luc Themelin (Member of the Management Board)*

(1) *Number of shares held.*

(2) *Number of stock warrants (BSAR) held.*

Summary biographies of the Supervisory Board members

Jocelyne Canetti

A graduate of the Ecole Normale Supérieure and holder of the "agregation" senior teaching qualification in mathematics, Jocelyne Canetti joined EDF in 1980 where she held various operational duties from 1980 to 1995. She was successively director of the EDF Entreprises Industries centre (1997-1999), director of the European sales network in the corporate sales department (2000-2002), director of the corporate division (2002-2007) and EDF Commerce's director of the eco-energy efficiency services department (2007-2009). Since January 1, 2009, Jocelyne Canetti has been the EDF mediator.

Yann Chareton

After graduating from the IEP in Paris in 2000 and from the ESSEC business school in 2002, Yann Chareton also studied at the London School of Economics and the Università Commerciale Luigi Bocconi in Milan. In October 2005, he joined AXA Private Equity's Mid Cap LBO team where he is Senior Investment Manager at the Milan office. He notably participated in deals involving Camaïeu and the TLD group in France and the Kos group in Italy.

Hervé Couffin

A graduate of the Ecole Polytechnique and a qualified Corps des Mines engineer, Hervé Couffin started his career working for the French industry ministry. He joined the Paribas group in 1983 as director responsible for principal investments. He became a member of Paribas Principal Investments' executive committee in 1993, before being named senior partner and member of PAI Partners' executive committee until 2004. In 2005, he founded Callisto, a company providing financial advice to senior management teams in relation to LBO transactions, and is its chairman and chief executive officer. In addition, he is an independent director of several companies.

Bertrand Finet

Bertrand Finet, a graduate from the ESSEC business school, has spent his entire career in the investment industry, initially with 3i (in London and then Paris), CVC Capital Partners (Managing Director of the Paris office) and then as Managing Director of Candover's Paris office. He was named Director and a member of Fonds Stratégique d'Investissement's (FSI) Executive Committee in September 2009.

Dominique Gaillard

A graduate of the Ecole Polytechnique, Ecole Nationale des Ponts et Chaussées, the IAE in Paris and the University of Berkeley, California (MSc), Dominique Gaillard began his career working for a Pechiney subsidiary as a R&D director, then sales and marketing director (1988-1990). From 1990 to 1997, he worked in private equity at Charterhouse, during which time he arranged numerous development capital and LBO transactions. He joined AXA Private Equity in 1997 as head of LBOs. He is now managing director in charge of Direct Funds (development capital, Small & Mid Cap LBOs, Co-Investment, Infrastructure).

Jean-Paul Jacamon

A graduate of the prestigious Ecole Polytechnique and Ecole des Mines, Jean-Paul Jacamon joined Schneider Electric in 1981, having begun his career with the French industry ministry and Datar. He became chairman and chief executive officer of Spie-Trindel and Spie Enertrans, before being named senior executive vice president of Spie Batignolles in 1993. In 1995, he was appointed CEO of the European division, then CEO in 1996. From 1999 to 2002, he was vice-chairman and chief operating officer of Schneider Electric. He has since been a company director.

Jean-Claude Karpeles

A graduate of the Ecole Supérieure d'Ingénieur en Électricité et Électronique, with an MBA from EDHEC and a postgraduate degree in economics, Jean-Claude Karpeles began his career as an administrator with the European Commission in 1963. He was then responsible for international affairs for the electrical and electronics industries and, in this role, he created and managed several export consortiums. In 1981, he was appointed as the general delegate, then honorary general delegate from 2008 at Gimelec. From 1991 until 2007, he was general delegate of the French electrical and electronics industry. At the same time, he was named by the French finance ministry as chairman of Actim in 1986 then of CFME Actim and UbiFrance, organizations promoting French foreign trade, until 2004. He is also chairman of ELEN (electricity and the environment) and director of the CPI Media press group, Streamcore, and manager and CEO of Elec Promotion.

Agnès Lemarchand

Since graduating from the Ecole Nationale Supérieure de Chimie in Paris and MIT in Boston, with an MBA from INSEAD, Agnès Lemarchand has spent her entire career in industry. In the past, she managed Industrie Biologique Française, a Rhône Poulenc subsidiary, followed by Ciments Français' industrial minerals division, before being appointed CEO of Lafarge's lime business, a position she held from 1998 to 2004. During 2005, she set up Steetley Dolomite Limited in the UK, a former Lafarge subsidiary that she bought out with management and is currently its Executive Chairman.

Henri-Dominique Petit

Chairman of Sperian Protection (formerly Bacou-Dalloz), a company listed in Paris until 2010, Henri-Dominique Petit has spent his entire career in industry. After high-level scientific training (Ecole Supérieure de Physique et de Chimie in Paris, followed by a postgraduate degree in nuclear physics and a PhD in particle electronics at Orsay university) and three years of research, Henri-Dominique Petit joined Kodak in Paris, a group with which he has spent the bulk of his career. He has held a wide variety of positions in France. He took over at the helm of Bacou-Dalloz in 2004 and consolidated on the group's merger and international development. He was Chief Executive Officer of the group until 2009. In April 2011, Henri-Dominique Petit was named Senior Advisor of the consultative committee of European investment bank.

Walter Pizzaferri

Walter Pizzaferri is the founder and manager of Tercara, a company that invests in advisory firms and innovative SMEs. He is also Associate Director at Ecosys Group, a newly formed and innovative company specialized in supporting major groups and SMEs with their cleantech expansion strategy. After spending over 25 years working in strategy and organization consulting for the leading firms (Orga Consultants, KPMG Peat Marwick, Bain & Co.) and as the founder and chief executive officer of the European arms of US and UK-based firms (PRTM, JSA), Walter Pizzaferri was a partner for seven years at Stratorg, where he was responsible for the automobile sector and international development. A lecturer at HEC Entrepreneurs, he also set up and directed the Observatoire de l'Innovation Automobile and the Observatoire de l'Innovation dans l'Energie, observatories monitoring innovation in the automobile and energy sectors, with the support of leaders in these two industries.

Philippe Rollier

A graduate of the Paris-Grignon Institut National Agronomique and of Sciences-Po in Paris, Philippe Rollier has spent his entire career with the Lafarge group, including 15 years abroad.

From 1980 to 1995, he directed two of Lafarge's diversification subsidiaries, namely Allia (sanitary ceramics) and Orsan (biotechnologies). He then became executive vice president for Central and Eastern Europe. In 1999, he was appointed as chief operating officer of the Lafarge group. From 2001 to 2006, he served as chairman and CEO of Lafarge North America, which is based in Washington.

Philippe Rollier is a director of Sonoco Products (US) and Comité de la Charte du don en confiance. He is also a member of the Grégoire group's supervisory board.

Marc Speeckaert

After graduating in applied economics and taking an MBA at the Catholic University of Louvain (Belgium), Marc Speeckaert also attended an Advanced Management Program at Wharton (University of Pennsylvania, US). He began his career with Touche Ross & Cie, before spending ten years with ITT Corporation where he held several financial positions. During 1986, he joined the Glaverbel group in Belgium where he went on to become chief financial officer, after taking responsibility for management control. From 1991 to 1994, he held the same position with the Lhoist group. From 1994 to 2004, he was Chief Financial Officer, then Chief Strategy Officer of Belgacom in Belgium. Since 2004, he has been Chief Executive Officer of Sofina.

→ Summary biographies of the Management Board members

Luc Themelin

Luc Themelin, who holds a PhD in materials science, has spent the bulk of his career with the Mersen group, having originally been hired as a Research and Development engineer. He was appointed as the Director of the Braking division in 1998 and then of the High temperatures division in 2004. He joined the Executive Committee in 2005, while continuing to manage the Braking division and to oversee the High temperatures division. On July 1, 2008, Luc Themelin was appointed as Supervisor of the Capital goods and EMC divisions. He became a member of the Management Board in May 2009. He was appointed as Chairman of the Management Board on August 24, 2011. Luc Themelin does not hold any office outside the Group.

Thomas Baumgartner

Thomas Baumgartner began his career in 1996 with Crédit Lyonnais as a credit analyst, before taking over as relationship manager for industrial large accounts. In 1999, he joined Mersen as Head of Financing and Treasury, before moving on to become Director of Planning and Management Control. In March 2010, Thomas Baumgartner was appointed CFO. Thomas Baumgartner is a graduate of the Institut d'Etudes Politiques in Paris. Thomas Baumgartner does not hold any office outside the Group.

Christophe Bommier

Christophe Bommier began his career with Pechiney as an R&D engineer, before joining the Mersen group in 1989 where he rapidly rose through the ranks to become Vice President, Braking. In 1998, he moved to the United States where he took charge of the North American operations of the High Temperatures division, before being appointed Vice President, High Temperatures Asia in 2006. During 2010, he was appointed as Global Vice President, High Temperatures. Christophe Bommier is a graduate of the Paris School of Physics and Chemistry. Christophe Bommier does not hold any office outside the Group.

Didier Muller

Didier Muller began his career in 1981 and held several sales and marketing positions before moving to Pechiney in 1987 as sales and marketing director. He joined the Mersen group in 1989, being given responsibility for various subsidiaries and divisions, predominantly in international markets, before being appointed Group Vice President, Electrical Applications in 2006. Didier Muller is a graduate of the Rouen ESC business school and holds a master's degree in economic science. Didier Muller does not hold any office outside the Group.

Marc Vinet

Marc Vinet began his career as an engineer with Ferraz in the United States. During 1994, he took over responsibility for the international development of the power electrotechnical division. During 1998, he jointly ran a German subsidiary of Ferraz. After returning to France in 2002, he was appointed as manager of the coolers and power electronics product line. During 2005, he joined the executive committee of the Electrical Protection division as sales and marketing director. Since 2008, he has run the Electrical Protection division. Marc Vinet holds a master's degree in economic science and a Supelec engineering diploma. Marc Vinet does not hold any office outside the Group.

→ Board practices

Operation of the Supervisory Board

The composition, operation, duties and remit of the Supervisory Board and of its Committees, as well as their tasks, are described in the "Report of the Chairman of the Supervisory Board on the preparation and organization of the Board's work and on internal control procedures" at the end of this section.

Operation of the Management Board

The Company is administered by a Management Board comprising between two and seven individual natural persons, who perform their duties subject to the control exercised by the Supervisory Board. They are appointed for a term of four years by the Supervisory Board, which confers the role of Chairman on one of them. All members of the Management Board are eligible for re-election. Management Board members must not be aged over 65 years. When a Management Board member reaches the age limit, s/he is deemed to have resigned as a matter of course. Management Board members may be dismissed by the General Meeting and by the Supervisory Board.

The Management Board has the broadest powers to act in all circumstances in the name of the Company, within the restrictions of the corporate purpose and subject to the powers granted by law to the Supervisory Board and to shareholder meetings.

In dealings with third parties, the Company is bound even by acts of the Management Board not falling within the corporate purpose, unless it can prove that the third party knew that the act fell outside the scope of the corporate purpose or that it could not fail to know this in view of the circumstances, with mere publication of the Articles of Association not counting as evidence thereof.

The Chairman of the Management Board represents the Company in its dealings with third parties. The Supervisory Board may grant the same powers to represent the Company to one or more other members of the Management Board, who then carry the title of Chief Executive Officer.

Members of the Management Board meet each time that corporate interests so require and at least four times per annum, when convened by the Chairman or half its members, at the location indicated by the person convening the meeting. Meetings may be convened by any means, including verbal arrangement.

The Management Board may deliberate validly only if at least two members, including the Chairman, are present. The Management Board's decisions are made based on a majority vote of the members present. No one within the Management Board may vote by proxy. Where votes are split, the Chairman of the Management Board holds a casting vote. Minutes signed by the Chairman and one of the Management Board members are drafted after every meeting.

Until August 24, 2011, the Management Board had two members, namely Ernest Totino, its Chairman, and Luc Themelin, who were appointed by the Supervisory Board at its meeting on May 19, 2009 for a term of office expiring on May 19, 2013. Between January 1 and August 24, 2011, the Management Board met 11 times, with an attendance rate of 100%. At its meeting on August 24, 2011, Mersen's Supervisory Board noted divergences of opinion with Ernest Totino, Chairman of the Management Board, concerning how the Group's management should be organized. Accordingly, the Supervisory Board decided unanimously to terminate his appointment as Chairman and member of the Management Board.

The Supervisory Board named a new Chairman of the Management Board and appointed new members with immediate effect. Since August 24, 2011, the Management Board has had five members: Luc Themelin (Chairman), Thomas Baumgartner, Christophe Bommier, Didier Muller and Marc Vinet, who were named at the meeting of the Supervisory Board on August 24, 2011 for a term in office expiring on May 19, 2013. Between August 24 and December 31, 2011, the Management Board met 7 times, with an attendance rate of 100%.

Executive Committee

An Executive Committee was set up by the Management Board on October 14, 2011 to expand Mersen's senior management team and make sure that all the Group's major functions are represented. In addition to the **five Management Board members,** it comprises:

Thomas Farkas
Director of Strategy and Development

Estelle Legrand
Director of Human Resources

Jérôme Sarragozi
Director of Legal Affairs

Charles-Henri Vollet
Director of Procurement and Information Systems

The Executive Committee is responsible for managing the Mersen group's operational affairs and it meets every month to review the Group's financial performance and decide on action plans in its various areas (human resources, IT, procurement, legal affairs, development, etc.) in line with its strategic priorities. The Executive Committee ensures that the Group's organization functions properly and in this capacity it is heavily involved in forecasting the human resources required for the continued development of its business activities.

Conflicts of interest affecting directors and senior management

As far as the Company is aware, there are no family ties between members of the Supervisory Board or Management Board, nor are there any between them.

No members of the Supervisory Board, Management Board or Executive Committee have been convicted of fraud for the past five years at least.

No members of the Supervisory Board or Management Board have been involved in any bankruptcy, sequestration or liquidation for the past five years at least.

No members of the Supervisory Board or Management Board have been charged with any other offence or had any official public disciplinary action taken against for at least the past five years.

There are no conflicts of interest between the private interests and/or other duties of any of the members of the Supervisory Board or Management Board with respect to Mersen.

The members of the Supervisory Board, Management Board and the Group's principal managers have undertaken to refrain from using or disclosing the privileged information that they hold for the purpose of buying or selling the Company's shares and not to carry out any transaction of this type during the black-out periods. For fiscal 2012, the black-out periods are:

- **Janu**ary 9 to January 25, 2012: owing to the announcement of fourth-quarter 2011 sales on January 24, 2012;
- from February 14 to March 16, 2012: owing to the announcement of full-year 2011 results on March 15, 2012;
- from April 10 to April 26, 2012: owing to the announcement of first-quarter 2012 sales on April 25, 2012;
- from July 10 to July 26, 2012: owing to the announcement of second-quarter 2012 sales on July 25, 2012;
- July 31 to August 31, 2012: owing to the announcement of interim results on August 30, 2012;
- from Oc**tober 9 to October 25, 2012:** owing to the announcement of third-quarter 2012 sales on October 24, 2012.

The black-out periods specified above are set notably in accordance with the AMF recommendations of November 3, 2010 (AMF recommendations no. 2010-07), which calls for two black-out periods:

- a period of at least **30 calendar days** prior to the publication of the annual, interim and, where appropriate, full quarterly financial statements; and
- a period of at least **15 calendar days** prior to publication of quarterly reports.

There is no service contract between members of the Management or Supervisory Boards and Mersen or any of its subsidiaries.

Service agreements providing for the grant of future benefits

Mersen has not entered into any service agreements providing for the grant of future benefits.

Compensation and benefits in kind

In October 2008, Mersen confirmed that the AFEP-MEDEF recommendations concerning the compensation of officers and directors of listed companies were adopted from October 17, 2008 by the Board as part of the decisions made on that day because they are in line with the Company's approach to corporate governance. The Board stated that in accordance with the law of July 3, 2008 transposing into French law EU directive 2006/46/EC of June 14, 2006, the amended AFEP-MEDEF code is the document to which the Company refers when drafting the report provided for in Article L. 225-37 of the French Commercial Code with effect from the current fiscal year.

→ Disclosure of corporate officers' remuneration in accordance with Article L. 225-102-1 of the French Commercial Code

The aggregate amount of total compensation and benefits of any kind paid during fiscal 2011 to Mersen's corporate officers, namely the members of the Supervisory Board, plus the Chairman, Vice-Chairman and members of the Management Board, came to €2,551,829, breaking down into:

- compensation payable to Management Board members as presented in the summary tables on the following pages;
- compensation paid to Supervisory Board members.

These attendance fees of €264,00 for fiscal 2011, are paid at the beginning of 2012. They are split between Supervisory Board members in proportion to their attendance at Board meetings and at the various meetings of the Committees held under the Board's responsibility. They were allocated between the 12 Supervisory Board members as follows:

Compensation payable for the exercise *(€)*	2011	2010
Jocelyne Canetti*	22,345	10,733
Yann Chareton	19,760	18,784
Hervé Couffin	25,454	24,427
Bertrand Finet**	12,703	-
Dominique Gaillard	21,559	19,747
Jean-Paul Jacamon	26,057	23,724
Jean-Claude Karpeles	23,825	22,752
Agnès Lemarchand	23,787	20,038
Henri-Dominique Petit	28,250	28,384
Walter Pizzaferri	20,097	17,169
Philippe Rollier	24,840	22,752
Marc Speeckaert	15,321	11,490
TOTAL	**264,000**	**220,000**

**Member of the Supervisory Board since May 20, 2010.*
***Member of the Supervisory Board since May 19, 2011.*

At its meeting on May 19, 2009, the Company's Supervisory Board decided to allocate to its Chairman Hervé Couffin and its Vice-Chairman Henri-Dominique Petit fixed annual compensation of respectively €80,000 for Hervé Couffin and €20,000 for Henri-Dominique Petit. These compensation and benefits remained unchanged in 2011.

In a decision made on March 18, 2010, the Supervisory Board laid down the following arrangements for the compensation and benefits in kind payable to Ernest Totino and Luc Themelin for 2011:

Compensation and benefits payable to Ernest Totino: The Board set the annual compensation and benefits payable to Ernest Totino with effect from January 1, 2011 at €440,000, plus incentives. The decision was also taken to keep his annual bonus structure unchanged and to confirm the variable portion at a maximum of 100% of his basic salary.

Compensation and benefits payable to Luc Themelin: The Board set the annual compensation and benefits payable to Luc Themelin with effect from January 1, 2011 at €290,000, plus incentives and profit-sharing. The decision was also taken to keep his annual bonus structure unchanged and to confirm the variable portion at a maximum of 80% of his basic salary. On October 6, 2011, the Board set the annual compensation and benefits payable to Luc Themelin as Chairman of the Management Board at €400,000 with effect from September 1, 2011. The decision was taken to set the variable portion of his compensation at between 0% and 100% at most of his basic salary. The variable portion will be determined based on the following three criteria: cash 50%, ROCE 35% and individual targets 15%. The level of attainment of each of these three criteria is set each year by the Supervisory Board on the recommendation of the Appointments and Remuneration Committee.

SUMMARY OF THE COMPENSATION AND BENEFITS, OPTIONS AND SHARES GRANTED TO EACH MANAGEMENT BOARD MEMBER

Ernest Totino, Chairman of the Management Board (until August 24, 2011)

(€)	2011	2010
Compensation and benefits payable in respect of the fiscal year (broken down below) (1)	512,233(3)	663,170(2)
Valuation of options granted during the fiscal year	0	0
Valuation of free share allotments during the fiscal year1*	0(4)	0
TOTAL	**512,233**	**663,170**

(1) Compensation and benefits excluding payments made as a result of the termination of an appointment as corporate officer described on page 46.
(2) The compensation and benefits include the €17,676 in incentive and profit-sharing paid out in 2011.
(3) Compensation and benefits excluding incentive and profit sharing due in respect of 2011 and paid in 2012, not yet determined.
(4) Allotment canceled following the termination of an appointment as corporate officer.

Luc Themelin, Member of the Management Board (since May 19, 2011) – Chairman of the Management Board (from August 24, 2011)

(€)	2011	2010
Compensation and benefits payable in respect of the fiscal year (broken down below)	488,023(2)	391,919(1)
Valuation of options granted during the fiscal year	0	0
Valuation of free share allotments during the fiscal year*	494,760	0
TOTAL	**982,783**	**391,919**

(1) The compensation and benefits include the €20,157 in incentive and profit-sharing paid out in 2011.
(2) Compensation and benefits excluding incentive and profit sharing due in respect of 2011 and paid in 2012, not yet determined.

Thomas Baumgartner, Member of the Management Board (from August 24, 2011)

(€)	2011	2010
Compensation and benefits payable in respect of the fiscal year (broken down below)	222,652(1)	199,098
Valuation of options granted during the fiscal year	0	0
Valuation of free share allotments during the fiscal year*	212,040	0
TOTAL	**434,692**	**199,098**

(1) Compensation and benefits excluding incentive and profit sharing due in respect of 2011 and paid in 2012, not yet determined.

Christophe Bommier, Member of the Management Board (from August 24, 2011)

(€)	2011(1)	2010(1)
Compensation and benefits payable in respect of the fiscal year (broken down below)	239,355	222,434
Valuation of options granted during the fiscal year	0	0
Valuation of free share allotments during the fiscal year	212,040	0
TOTAL	**451,395**	**222,434**

(1) Compensation in US dollars converted into euros at an average annual rate (2010 = 1.3257 - 2011 = 1.392)

* *Subject to performance conditions and a four-year holding period. Valued at a share price of €35.34 (for the record, the closing share price at December 30, 2011 was €23.35).*

Didier Muller, Member of the Management Board (from August 24, 2011)

(€)	2011[(1)]	2010[(1)]
Compensation and benefits payable in respect of the fiscal year (broken down below)	215,806	236,224
Valuation of options granted during the fiscal year	0	0
Valuation of free share allotments during the fiscal year*	212,040	0
TOTAL	**427,846**	**236,224**

(1) Compensation in US dollars converted into euros at an average annual rate (2010 = 1.3257 - 2011 = 1.392)

Marc Vinet, Member of the Management Board (from August 24, 2011)

(€)	2011	2010
Compensation and benefits payable in respect of the fiscal year (broken down below)	243,749[(1)]	236,609
Valuation of options granted during the fiscal year	0	0
Valuation of free share allotments during the fiscal year*	212,040	0
TOTAL	**455,789**	**236,609**

(1) Compensation and benefits excluding incentive and profit sharing due in respect of 2011 and paid in 2012, not yet determined.

SUMMARY OF THE COMPENSATION AND BENEFITS PAYABLE TO EACH CORPORATE OFFICER

Ernest Totino, Chairman of the Management Board (until August 24, 2011)

	2011		2010	
(€)	Amounts due in respect of 2011 [(1)]	Amounts paid in 2011	Amounts due in respect of 2010	Amounts paid in 2010
Fixed salary	303,333	303,333	350,000	350,000
Variable salary	198,000	466,625[(2)]	268,625	210,864
Incentives/Profit-sharing	NC**	16,736	17,676	17,326[(a)]
Exceptional compensation [(b)]	0	0	13,960	13,960
Benefits in kind	10,900	10,900	12,909	12,909

(1) Compensation and benefits excluding payments made as a result of the termination of an appointment as corporate officer described on page 46.
(2) Amount including the amount due in respect of 2011 and paid in 2011.
(a) The benefit of this agreement is based on Art. L.3312-3 of the French Labor Code.
(b) Professional mobility bonus.
N.B. The bonus, which varies between 0% and 100% of the basic salary, is paid in year n+1.
Benefits in kind include contributions towards the corporate executives' social guarantee, as well as a company car.

Luc Themelin, Member of the Management Board (since May 19, 2009) – Chairman of the Management Board (from August 24, 2011)

	2011		2010	
(€)	Amounts due in respect of 2011	Amounts paid in 2011	Amounts due in respect of 2010	Amounts paid in 2010
Fixed salary	326,666	326,666	230,000	230,000
Variable salary	155,420	138,460	138,460	119,048
Incentives/Profit-sharing	NC**	19,217[(a)]	20,157[(b)]	19,353[(c)]
Benefits in kind	5,937	5,937	3,302	3,302

(a) including €16,736 under the incentive agreement and €2,481 from the special profit sharing reserve. The benefit of these agreements is predicated on his employment agreement.
(b) including €17,676 under the incentive agreement and €2,481 from the special profit sharing reserve.
(c) including €16,971 under the incentive agreement and €2,382 from the special profit sharing reserve.
N.B. The bonus, which varies between 0% and 100% of the basic salary, is paid in year n+1.
Benefits in kind include contributions towards the corporate executives' social guarantee, as well as a company car.

* *Subject to performance conditions and a four-year holding period. Valued at a share price of €35.34 (for the record, the closing share price at December 30, 2011 was €23.35).*
** *2011 Incentive / profit-sharing agreements not yet determined.*

Thomas Baumgartner, Member of the Management Board (from August 24, 2011)

(€)	2011 Amounts due in respect of 2011	2011 Amounts paid in 2011	2010 Amounts due in respect of 2010	2010 Amounts paid in 2010
Fixed salary	170,000	170,000	130,000	130,000
Variable salary	49,300	52,000	52,000	29,436
Incentives/Profit-sharing	NC**	14,091	13,669	9,450
Benefits in kind	3,352	3,352	3,429	3,429

Christophe Bommier, Member of the Management Board (from August 24, 2011)

(€)	2011 Amounts due in respect of 2011[1]	2011 Amounts paid in 2011[1]	2010 Amounts due in respect of 2010[1]	2010 Amounts paid in 2010[1]
Fixed salary	161,638	161,638	162,178	162,178
Variable salary	75,162	54,831	57,573	20,290
Incentives/Profit-sharing	0	0	0	0
Benefits in kind	2,555	2,555	2,683	2,683

(1) Compensation in US dollars converted into euros at an average annual rate (2010 = 1.3257 - 2011 = 1.392)

Didier Muller, Member of the Management Board (from August 24, 2011)

(€)	2011 Amounts due in respect of 2011[1]	2011 Amounts paid in 2011[1]	2010 Amounts due in respect of 2010[1]	2010 Amounts paid in 2010[1]
Fixed salary	170,259	170,259	173,493	173,493
Variable salary	42,565	57,170	60,029	28,371
Incentives/Profit-sharing	0	0	0	0
Benefits in kind	2,982	2,982	2,702	2,702

(1) Compensation in US dollars converted into euros at an average annual rate (2010 = 1.3257 - 2011 = 1.392)

Marc Vinet, Member of the Management Board (from August 24, 2011)

(€)	2011 Amounts due in respect of 2011	2011 Amounts paid in 2011	2010 Amounts due in respect of 2010	2010 Amounts paid in 2010
Fixed salary	175,000	175,000	157,000	157,000
Variable salary	65,625	62,800	62,800	52,752
Incentives/Profit-sharing	NC**	14,153	14,399	780
Benefits in kind	3,124	3,124	2,410	2,410

Hervé Couffin, Chairman of the Supervisory Board

(€)	2011 Amounts due in respect of 2011	2011 Amounts paid in 2011	2010 Amounts due in respect of 2010	2010 Amounts paid in 2010
Fixed salary	80,000	80,000	80,000	40,000
Attendance fees	25,454	24,427	24,427	32,670
Benefits in kind	0	0	0	0

*** 2011 Incentive / profit-sharing agreements not yet determined.*

Henri-Dominique Petit, Vice-Chairman of the Supervisory Board

(€)	2011 Amounts due in respect of 2011	2011 Amounts paid in 2011	2010 Amounts due in respect of 2010	2010 Amounts paid in 2010
Fixed salary	20,000	20,000	20,000	10,000
Attendance fees	28,250	28,384	28,384	29,049
Benefits in kind	0	0	0	0

The amounts stated above include all the compensation and benefits of any kind received by the corporate officers of companies controlled by Mersen within the meaning of Article L. 233-16.

Stock subscription or purchase options granted in 2011 to each Management Board member

Name of the Management Board member	No. and date of plan	Type of options	Valuation of options based on the method used for the consolidated financial statements	Number of options granted during the fiscal year	Exercise price	Exercise period
Luc Themelin				0		
Thomas Baumgartner				0		
Christophe Bommier				0		
Didier Muller				0		
Marc Vinet				0		

During 2011, no stock subscription options were granted to the Chairman of the Management Board or to members of the Management Board.

Performance shares that became available in 2011 for each Management Board member

Performance shares that became available for each Management Board member in 2011	No. and date of plan	Number of shares that became available during the fiscal year	Vesting conditions
Luc Themelin	-	0	-
Thomas Baumgartner	-	0	-
Christophe Bommier	-	0	-
Didier Muller	-	0	-
Marc Vinet	-	0	-

Summary of commitments given to Management Board members

	Employment contract	Graduated pension scheme	Compensation and benefits due or likely to be payable owing to the cessation or change in duties (2)	Payment under a no-compete clause
Luc Themelin Chairman of the Management Board Appointment of May 19, 2009, which expires at the end of the 2013 General Meeting called to approve the financial statements for fiscal 2012	NO	YES(1)	YES	YES
Thomas Baumgartner Member of the Management Board Appointment of August 24, 2011, which expires at the end of the 2013 General Meeting called to approve the financial statements for fiscal 2012	YES	NO	NO	NO
Christophe Bommier Member of the Management Board Appointment of August 24, 2011, which expires at the end of the 2013 General Meeting called to approve the financial statements for fiscal 2012	YES	NO	NO	NO
Didier Muller Member of the Management Board Appointment of August 24, 2011, which expires at the end of the 2013 General Meeting called to approve the financial statements for fiscal 2012	YES	NO	NO	NO
Marc Vinet Member of the Management Board Appointment of August 24, 2011, which expires at the end of the 2013 General Meeting called to approve the financial statements for fiscal 2012	YES	NO	NO	NO

(1) Luc Themelin benefits from a graduated pension plan pursuant to his contract, the terms of which are described on page 48.
(2) The compensation and benefits due or likely to be paid on grounds of termination or change in duties are described on pages 46 and 47.

Agreements regulated by Article L. 225-86 of the French Commercial Code

Severance payment to Ernest Totino:

In accordance with the provisions of Articles L. 225-86 and L. 225-90 of the French Commercial Code, the Supervisory Board decided at its meeting on May 19, 2009, to grant Ernest Totino a severance payment in the event that his term in office as Chairman of the Management Board were terminated. The authorization granted by the Supervisory Board was published on the Company's web site pursuant to the provisions of Article R. 225-34-1 of the French Commercial Code. The decision was made following the appointment of Ernest Totino as Chairman of the Management Board.

Payment of the aforementioned severance indemnity is contingent upon attainment of the performance targets under the following conditions:

- Performance measure (P):

P = average of Ernest Totino's performance in the three years preceding his departure.

$$P = \frac{\text{performance (n-1)} + \text{performance (n-2)} + \text{performance (n-3)}}{3}$$

Performance in year N is equal to the percentage achievement of objectives for the target bonus. Given the limits set in Article 2, P may vary between 0 and 200%. The average performance rate P will be observed by the Supervisory Board.

- Performance conditions:

If P >= 100%, 100% of the payment will be made.

If P >= 90% and < 100%, 80% of the payment will be made.

If P >= 70% and < 90%, 60% of the payment will be made.

If P >= 50% and < 70%, 40% of the payment will be made.

If P < 50%, no payment will be made.

The performance targets are set based on several criteria: firstly, the trend in economic value added (EVA, operating income less cost of capital employed), secondly the trend in the Group's return on capital employed by comparison with a sample of SBF 120 companies and, lastly, personal objectives.

In a decision made on November 22, 2011, the Supervisory Board approved the following severance payments, compensation and benefits due on the grounds of Ernest Totino's dismissal:

Non-compete and non-solicitation clause: in return for signing a no-compete and non-solicitation undertaking, the Company agreed to make a monthly gross payment of €18,333 for a period of 12 months with effect from August 24, 2011, the date on which Ernest Totino's term in office was terminated. This represents a total gross payment of €220,000.

The non-compete agreement referred to above covers all of the Group's business activities and is applicable in all of the countries in which Mersen is active (whether it has a physical presence there or whether it operates from a base in another country).

Termination of his term in office: the Company made a gross payment of €918,522.50. This indemnity was calculated in line with the calculation arrangements and performance conditions laid down in the Supervisory Board's decision of May 19, 2009. The Supervisory Board calculated an average performance rate (P) of 100%.

Inventions under contract: in respect of remuneration pursuant to Article L.611-7 of the French Intellectual Property Code, the Company paid Ernest Totino the gross sum of €10,000.

Stock subscription options – Performance shares: the Company exempted Ernest Totino from the condition of continued presence stipulated in the stock option plan dated February 11, 2009 and agreed that he would retain the possibility of exercising all the stock options granted to him under the stock subscription plan of February 11, 2009, i.e. 53,908 options, after his dismissal, provided that the other conditions contained in the plan are satisfied. Ernest Totino has lost the benefit of the award of 20,000 performance shares granted to him on May 27, 2011.

Incentive payments: the Company paid the incentive attributable to Ernest Totino during the period from January 1 to August 24, 2011, in line with the arrangements provided for in the incentive plan.

Graduated pension plan: Ernest Totino cannot claim the benefit of any rights under the defined-benefit pension plan pursuant to Article 39 of the French General Tax Code covering certain Mersen group senior managers.

Severance payment for Luc Themelin:

At its meeting on October 6, 2011, the Supervisory Board decided, pursuant to the provisions of Article L. 225-86 and L. 225-90 of the French Commercial Code, to make the following payments to Luc Themelin in the event that his term in office as Chairman and Member of the Management Board is terminated, in line with the conditions stipulated below:

Non-compete and non-solicitation clause

Should his term in office as Chairman and Member of the Management Board end, and in return for signing a non-compete and non-solicitation undertaking, for a one-year period from the date on which his duties cease, Luc Themelin will receive a monthly payment equivalent to 50% of the fixed gross monthly compensation and benefits that he received immediately prior to termination of his term in office. The Company may decide to forgo this non-compete and non-solicitation clause and thus free itself from its obligation of making this monthly payment, by informing Luc Themelin of its decision within a notice period of two months with effect from termination of the term in office.

The non-compete agreement referred to above will cover all of the Group's business activities and will be applicable in all of the countries in which Mersen is active (whether it has a physical presence there or whether it operates from a base in another country). At the Company's discretion, the non-compete and non-solicitation undertaking will be laid down and structured as a non-compete agreement, if necessary.

Termination of his term in office:

Should the Mersen group terminate, in any manner and for any reason whatsoever (barring gross or willful misconduct, retirement, enforced retirement or resignation), Luc Themelin's term in office as Chairman and Member of the Management Board (notably by dismissal, non-renewal of the term in office for any reason whatsoever or the elimination of the duties following the conversion or merger of the company, except for a change in corporate governance leading to the appointment of a Chief Executive Officer of a société anonyme with a Board of Directors), a flat-rate payment will be made to Luc Themelin, calculated as stated in the performance conditions applicable (the "Severance Payment"). The Severance Payment will exclude payment of any other indemnity (of any type whatsoever, including compensation and interest).

In the event that Luc Themelin's responsibilities and/or compensation and benefits are altered substantially following a takeover of the Company and that he thus decides to leave the Company, he would receive the same severance payment.

The Severance Payment is calculated as follows:

I = 0.5 x R x P where

- I is the amount of the Severance Payment
- R is the total gross compensation and benefits (basic salary and bonus, excluding benefits in kind and incentives) paid to Luc Themelin during the thirty-six months prior to termination (including the portion of variable pay due in respect of the year in progress at termination) whether these compensation and benefits have been paid to him in respect of his duties as Chairman of the Management Board or as an employee
- and P is Luc Themelin's performance as measured in line with the criteria defined below.

Performance:

Payment of the aforementioned severance indemnity will be contingent upon attainment of the performance targets under the following conditions:

- Performance measure (P):

P = the average performance of L. Themelin in the three calendar years preceding his departure (as Chairman of the Management Board or an employee).

$$P = \frac{\text{performance (n-1)} + \text{performance (n-2)} + \text{performance (n-3)}}{3}$$

Performance in year N is equal to the percentage achievement of objectives for the target bonus. Given the limits set in Article 2, P may vary between 0 and 200 %.

The average performance rate P will be observed by the Supervisory Board.

- Performance conditions:

If P >= 100%, 100% of the payment will be made

If P >= 90% and < 100%, 80% of the payment will be made

If P >= 70% and < 90%, 60% of the payment will be made

If P >= 50% and < 70%, 40% of the payment will be made

If P < 50%, no payment will be made.

Stock subscription options – Performance shares

Should Luc Themelin's term in office as Chairman and Member of the Management Board be terminated in any manner and for any reason whatsoever (barring termination following the acquisition of control of the Company, retirement or enforced retirement), he will automatically lose his entitlement to all the stock options granted to him prior to the end date of his term in office where the conditions of grant (condition related to continued presence and performance conditions) have not been satisfied by the end date of his term in office. He will also automatically lose his entitlement to all the shares, irrespective of whether they are subject to a performance condition, granted to him, in accordance with the provisions of Article L. 225-197-1 to L. 225-197-5 of the French Commercial Code, prior to the end date of his term in office, where the grant of these shares had not been made definitive by the end date of his term in office.

Even so, it is stipulated that the Supervisory Board reserves the right to decide, where appropriate, to leave in place some or all of the stock options and free shares, subject to satisfaction of the corresponding performance conditions.

The benefit of the stock options and free shares referred to above will be maintained should Luc Themelin's responsibilities and/or compensation and benefits be modified substantially following the acquisition of control of the Company causing him to decide to the leave the Company.

Compensation paid to senior managers (Executive Committee members) who are not corporate officers

(Gross amounts in euros)	2011
Basic salaries	576,000
Performance-related bonuses	170,520
Benefits in kind	13,408
TOTAL	759,928

N.B. The Executive Committee was set up on October 14, 2011 (excl. the Management Board), but compensations are consistent with full year.
The bonus, varying between 0% and 40% of basic salary.
Benefits in kind correspond to a company car.

Compensation and benefits paid to senior managers, including corporate officers

Recommendations concerning basic salaries are made to the Board by the Appointments and Remuneration Committee after seeking the opinion of specialized consultants on current market rates.

The bonus system for the Chairman of the Management Board, members of the Management Board and the members of the Executive Committee is based on performance in relation to:

For the Chairman of the Management Board:

- the Group's ROCE objectives
- objectives for the generation of operating cash flow Group-wide or for a specific division;
- certain individual objectives set at the beginning of the year.

For members of the Management Board:

- objectives for their division's operating margin before non-recurring items;
- cash objectives for their division;
- certain individual objectives set at the beginning of the year.

For members of the Executive Committee:

- Group-wide operating margin before non-recurring items;
- cash objectives for the Group as a whole;
- certain individual objectives set at the beginning of the year.

Note that the 2011 objectives for members of the Management Board (excl. the Chairman) and Executive Committee were not reviewed when they first joined the Management Board or the Executive Committee towards the end of the year. They are likely to be reviewed by the Board in 2012.

Under his contract, Luc Themelin benefits from a graduated pension plan.

At the Board of Directors' meeting on July 25, 2007, this regime was altered as follows: provided that the relevant person is still employed by the Group upon his/her retirement, this regime guarantees graduated pension income of 10-20%, depending on length of service, of the basic reference salary during the final three years prior to retirement plus a flat-rate of 50% of the maximum bonus.

In addition, to qualify for the benefit of this plan, individuals must have at least ten years' service with the Mersen group.

Loans and guarantees granted to senior managers

None.

Employee incentive agreements

Employee incentive agreements related to the Group's earnings are in place at most of its French subsidiaries, as well as in certain subsidiaries in the US, Canada and Australia. The methods used to calculate employee incentives vary from company to company and from country to country. They include both financial (operating income, EBIT and EVA) and, in some cases, technical criteria, such as safety improvements, customer service and scrap rates.

(€ 000s)	2011	2010	2009	2008	2007
Amounts allocated to employees	3,048	3,699	1,620	3,953	2,492
Number of beneficiaries	1,597	1,458	1,433	1,545	1,600

Employee profit-sharing

Profit-sharing agreements are in place at all the Group's subsidiaries in France with more than 50 employees, in accordance with Articles L. 442-2 and R. 442-2 of the French Labor Code and at the majority of the North American subsidiaries.

(€ 000s)	2011	2010	2009	2008	2007
Amounts allocated to employees	1,901	1,867	762	2,265	2,249
Number of beneficiaries	891	1,420	1,110	1,496	1,423

Group Investment Plan - options and free shares

Since 1995, financial authorizations to develop stock ownership among employees through a Group Investment Plan, stock subscription option plans and free share allotment plans have been granted on a regular basis by shareholders at the Extraordinary General Meeting.

Stock subscription options

At the Extraordinary General Meetings since 1995, shareholders have authorized the Company to grant, on one or more occasions, stock subscription options to some or all of the Company's senior managers or those of affiliated companies. The employee categories benefiting from these options are to be determined by the Supervisory Board each time that it makes use of the authorization.

All the stock subscription plans are subject to performance conditions.

In 2011, 3,939 options were exercised.

The total number of stock subscription options still outstanding stands at 507,857, i.e. 2.5% of the share capital. Members of the Management Board have no options to purchase or to subscribe shares in subsidiaries of the Group.

Group Investment Plan

At the Annual General Meeting on May 19, 2011, shareholders authorized the Management Board to increase the share capital, subject to the Supervisory Board's prior approval, on one or more occasions at its sole discretion, through the issue of shares in cash reserved for employees participating in the Group Investment Plan. These increases in capital entail the waiver of shareholders' preferential subscription rights. The nominal amount of the capital increases that may be carried out pursuant to this authorization may not exceed €780,000, i.e. approximately 1.6% of the Company's share capital. This authorization is valid for a period of 26 months. It replaces and supersedes the previous authorization granted by the General Meeting of May 20, 2010.

At its meeting on July 22, 2011, the Management Board decided, with the approval of the Supervisory Board, to make use of this authorization and to offer employees of its subsidiaries in Europe, North America and China the chance to acquire 159,703 new shares at a price of €30.79, representing the average share price during the 20 stock market sessions preceding July 22, 2011 less a 20% discount on the price of Mersen shares.

Owing to the financial and stock market environment and the performance of the Company's share price, the Management Board decided at its meeting on August 30, 2011, after securing the Supervisory Board's approval, to set the subscription price at €26.81. This represented Mersen's average share price during the 20 stock market sessions preceding August 30, 2011 less a 20% discount.

At its meetings on November 24 and December 2, 2011, the Management Board noted that 26,580 new shares had been issued by the end of the subscription period.

Stock subscription options: Previous grants

	2001 plan Tranche 8	2003 plan Tranche 10	2007 plan Tranche 11	2009 plan Tranche 12	Total
Date of Board of Directors' meeting	Jan. 18, 2001	May 14, 2003	July 25, 2007	Jan. 22, 2009	
Total number of shares available for subscription	5,051	140,293	177,876	366,582	689,802
- o/w corporate officers	*0*	*10,099*	*26,950*	*86,253*	*123,302*
- o/w top 10 allottees	*5,051*	*48,310*	*77,885*	*140,163*	*271,409*
Subscription price	44.99	19.68	53.10	17.53	
Start of exercise period	Jan. 2006	May 2007	July 2011	Feb. 2013	
Expiration date	Jan. 2011	May 2013	July 2017	Feb. 2019	
Total number of shares subscribed at Dec. 31, 2011	0	51,822	0	0	51,822
Options canceled by Dec. 31, 2011	5,051	51,812	73,260	0	130,123
- o/w canceled in 2011	*1,684*	*0*	*69,756**	*0*	*71,440*
OPTIONS THAT MAY STILL BE EXERCISED	**0**	**36,659**	**104,616**	**366,582**	**507,857**

** 2007 plan: 2/5 of the options were canceled in July 2011 because the plan's performance criteria were not achieved*

Stock subscription options: corporate officers

	Number of options granted/exercised	Price	Expiration date
Options granted since January 1, 2011 to each corporate officer:			
- Chairman of the Management Board (until August 24, 2011): Ernest Totino	0	-	-
- Chairman of the Management Board (from August 24, 2011): Luc Themelin	0	-	-
- Member of the Management Board: Thomas Baumgartner	0	-	-
- Member of the Management Board: Christophe Bommier	0	-	-
- Member of the Management Board: Didier Muller	0	-	-
- Member of the Management Board: Marc Vinet	0	-	
Options exercised since January 1, 2011 by each corporate officer:			
- Chairman of the Management Board (until August 24, 2011): Ernest Totino	0	-	-
- Chairman of the Management Board (from August 24, 2011): Luc Themelin	0	-	-
- Member of the Management Board: Thomas Baumgartner	0	-	-
- Member of the Management Board: Christophe Bommier	0	-	-
- Member of the Management Board: Didier Muller	0	-	-
- Member of the Management Board: Marc Vinet	0	-	-

Stock subscription options: Shares allotted to the 10 first employees (not corporate officers)

	Number of options granted/exercised	Weighted average exercise price	1999 plan Tranche 5	2000 plan Tranche 6	2003 plan Tranche 10
Options granted since January 1, 2011 to the 10 employees who received the largest number	0	-			
Options exercised since January 1, 2011 by the 10 employees who received the largest number	3,939	39.34	0	0	3,939

Free share allotments

At the Annual General Meeting on May 19, 2011, shareholders authorized the Management Board, on one or more occasions, to allot 200,000 existing or new shares, representing around 1% of the share capital, at no cost to corporate officers and employees of the Company and those of affiliated companies. The number of shares that may be allotted to all the Company's officers will have to be less than 20% of the total number of shares allotted. The vesting period at the end of which the grant of shares will become definitive has been set at four years. No holding obligations and periods are imposed at the end of the vesting period. This authorization is valid for a period of 38 months from the date of the General Meeting.

At its meeting on May 27, 2011, the Management Board decided, with the approval of the Supervisory Board, to make use of this authorization by allotting 200,000 of the Company's shares under two free share allotment plans:

- Award of 60,000 of the Company's shares, without any performance conditions, to 103 Group executives;
- Award of 140,000 of the Company's shares, subject to performance conditions, to members of the Management Board and 36 Group directors.

The performance conditions were set by the Management Board as follows: the percentage of free shares allotted to each of the beneficiaries will be determined based on the most favorable of the following criteria. These criteria will be calculated based on fiscal 2012. Another measurement may be made based on 2013 results, albeit after application of a factor of 0.9x to the percentage attainment calculated. The grantees will benefit from the measurement most favorable for them. The calculations for 2012 and where appropriate 2013 will be audited by the Statutory Auditors. The published financial statements will be the basis for the calculations. Even so, in the event of a significant change in scope (acquisitions and disposals) occurring after the Supervisory Board meeting on May 19, 2011, the Appointments and Remuneration Committee may, if it deems such to be necessary, restate the financial statements for the effects of changes in scope for calculating the allotment percentages. The sample of comparable companies used to calculate criterion 2 will be proposed by the Management Board and approved by the Appointments and Remuneration Committee when the free share allotment plan is set up. For the purpose of calculating the allotment percentage, the Appointments and Remuneration Committee may withdraw from the sample companies that have recorded manifestly wild fluctuations over the period in their EBITDA to sales ratio[1].

Criterion 1

- 100% if the EBITDA[1] to sales ratio is equal to or higher than 18%
- 35% if the EBITDA[1] to sales ratio is equal to that posted in 2010, i.e. 15.4%
- Between these two limits, the allotment percentage will be calculated on a straight-line basis
- 0% if the EBITDA[1] to sales ratio is less than that posted in 2010, i.e. 15.4%

Criterion 2

- 100% if the change in the EBITDA[1] to sales ratio between 2010 and 2012 (and where appropriate 2013) is at least 10% higher than the change in the average EBITDA[1] to sales ratio of a sample of comparable companies over the same period.
- 35% if the change in the EBITDA[1] to sales ratio between 2010 and 2012 (and where appropriate 2013) is equal to the change in the average EBITDA[1] to sales ratio of a sample of comparable companies over the same period.
- Between these two limits, the allotment percentage will be calculated on a straight-line basis
- 0% if the change in the EBITDA[1] to sales ratio between 2010 and 2012 (and where appropriate 2013) is less than the change in the average EBITDA[1] to sales ratio of a sample of comparable companies over the same period.

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

FREE SHARE ALLOTMENTS: PREVIOUS GRANTS

	2006 plan Tranche 2	2008 plan Tranche 3	2009 plan Tranche 4	2011 plan Tranche 5	2011 plan Tranche 6 (with performance conditions)	Total
Date of allotment decision	June 28, 2006	February 26, 2008	January 22, 2009	May 27, 2011	May 27, 2011	
Total number of shares allotted	17,975	21,567	53,900	60,000	140,000	293,442
o/w corporate officers	*0*	*0*	*0*	*0*	[(a)]*34,000*	*34,000*
o/w top 10 allottees	*5,001*	*3,230*	*10,780*	*8,000*	*48,800*	*75,811*
Share price at allotment date	40.07	29.63	18.65	35.34	35.34	
Definitive allotment date (end of the vesting period)	July 1, 2008	March 1, 2011	Jan. 22, 2013	May 27, 2015	May 27, 2015	
End of lock-up period	July 1, 2011	March 1, 2013	Jan. 22, 2013	May 28, 2015	May 28, 2015	
Allotments canceled at Dec. 31, 2011	1,497	1,403	4,312	1,200	20,000	28,412
o/w canceled in 2011		*755*	*2,156*	*1,200*	*20,000*	*23,356*
Number of shares allotted definitively	16,478	20,164				36,642
Outstanding at December 31, 2011	0	0	49,588	58,800	120,000	228,388

(a) Corporate officers at allotment date: E. Totino and L. Themelin

FREE SHARE ALLOTMENTS: CORPORATE OFFICERS

	Number of shares allotted/subscribed
Shares granted since January 1, 2011 to each corporate officer:	
- Chairman of the Management Board (until August 24, 2011): Ernest Totino	20,000
- Chairman of the Management Board (from August 24, 2011): Luc Themelin	14,000
- Member of the Management Board: Thomas Baumgartner [(1)]	6,000
- Member of the Management Board: Christophe Bommier [(1)]	6,000
- Member of the Management Board: Didier Muller [(1)]	6,000
- Member of the Management Board: Marc Vinet [(1)]	6,000
Options exercised since January 1, 2011 by each corporate officer:	
- Chairman of the Management Board: Luc Themelin	0
- Member of the Management Board: Thomas Baumgartner	0
- Member of the Management Board: Christophe Bommier	0
- Member of the Management Board: Didier Muller	0
- Member of the Management Board: Marc Vinet	0

(1) Allotment prior to appointment to the Management Board

FREE SHARE ALLOTMENTS: SHARES ALLOTTED TO THE 10 EMPLOYEES (NOT CORPORATE OFFICERS) WHO RECEIVED THE LARGEST NUMBER

	Number of shares allotted/subscribed
Shares allotted since January 1, 2011, to the 10 employees who received the largest number of shares	33,600

→ Shares in the Company's capital held by senior managers

Number of shares held directly by members of the Supervisory Board and Management Board: 44,392

Number of shares held via the Mersen FCPE (corporate mutual fund) by Management Board members: 1,507

Supervisory and Management Board members hold 39,300 warrants (BSARs), entitling them to subscribe an equivalent number of shares at a price of €40.50 per share by July 2017.

In accordance with Article 20 of the Articles of Association, each Supervisory and Management Board member must hold at least 120 shares for the entire duration of his or her term in office. These shares must be held in registered form.

The Chairman of the Supervisory Board's Report

on the preparation and organization of the work performed by the Board and on internal control procedures

1. Legislative and regulatory environment

1.1 Legal provisions

In accordance with Article L. 225-68 sub-paragraph 7 of the French Commercial Code, the Chairman of the Supervisory Board reports on the composition, preparation and organization of the work performed by the Board and on the internal control and risk management procedures implemented by the Company. This report was prepared by the Chairman of the Supervisory Board in accordance with the provisions of Article L. 225-68 sub-paragraph 7 of the French Commercial Code for the fiscal year ending December 31st 2011.

Article L. 225-68 of the French Commercial Code notably states: *"When a company refers voluntarily to specific corporate governance guidelines by trade associations, the report [of the Chairman] should also indicate the provisions that were excluded and the reasons for their exclusion. In addition, the Chairman should also indicate where the code may be consulted. The [Chairman's] report is approved by the Supervisory Board and is made public."*

At the request of the Supervisory Board's Chairman, this report was submitted for the opinion of the Audit and Accounts Committee and for the Supervisory Board's approval on March 14th 2012, in accordance with the aforementioned arrangements.

1.2 AFEP-MEDEF corporate governance guidelines: the reference code for the Mersen group

The AFEP-MEDEF recommendations of October 6th 2008 on the compensation of the officers and directors of listed companies have been applied by the Mersen group since October 17th 2008. The AFEP-MEDEF recommendations fit perfectly with the Company's corporate governance rules. More generally, pursuant to the law of July 3rd 2008 transposing European directive 2006/46/EC of June 14th 2006 into French law, the Mersen group refers to the corporate governance guidelines for listed companies drawn up by the AFEP-MEDEF.

Pursuant to Article L. 225-37 sub-paragraph 6, the Chairman summarizes and describes below several recommendations of said corporate governance guidelines that are currently applied partially by the Company:

Fixed portion of the Management Board's members' compensation and benefits

The Company intends to retain the possibility of making changes to the Management Board's compensation and benefits on an annual basis. These changes are made by comparison with trends in salaries paid to officers and directors of companies of a similar size. It is to be noted that changes to the compensation and benefits package would be made only if significant discrepancies with the current market rates were observed.

Frequency of stock option and free share allotments

Since the year 2000, the Company has sought to introduce an authorization policy for stock subscription options at most every two years in order to reduce the dilution of shareholders. The last stock subscription option allotment was authorized by the Combined General Meeting held December 12th 2008. This policy also applies to the authorizations for free share allotments granted since 2005. The most recent grants were authorized by the Combined General Meeting held May 19th 2011.

2. Procedures conducted in the preparation of this report

This report is prepared based on the information provided by the Management Board and the Company's support services in connection with the annual review of the internal control procedures and the various meetings of the Supervisory Board and its Committees.

In accordance with the law, the purpose of this report is to present the preparation conditions and organization of the work performed by the Supervisory Board and any restrictions that the Supervisory Board has placed on the Chairman of the Management Board's powers, as well as the internal control procedures implemented by the Mersen group under the Management Board's authority. Note that the procedures described in this report apply to the parent company and all the companies included in the Group's consolidated financial statements.

3. Preparation and organization of the work performed by the Supervisory Board

3.1 Operation of the Supervisory Board:

Assignments and duties of the Supervisory Board: The Supervisory Board exercises permanent control over the Company's management performed by the Management Board. Hence, at any point during the year, it conducts the verifications and checks that it deems appropriate and may request the documents it deems necessary to perform its duties. As part of its permanent control activities, the Supervisory Board approves the full-year and interim financial statements, the annual budget and the medium-term Strategic Plan, as presented by the Chairman of the Management Board.

In addition to the operations referred to in Article L. 225-68 sub-paragraph 2 of the French Commercial Code for which prior authorization by the Supervisory Board is required, the Management Board may not make the following decisions, unless previously authorized to do so by the Supervisory board:

- issuance of shares conferring direct or indirect rights to the Company's share capital;
- funding operations likely to substantially alter the Company's financial structure;
- capital expenditures or asset disposals (excluding shareholdings) for amounts above 10 million euros;
- acquisitions, in whatever form, the price of which, including any liabilities assumed, exceeds 3 million euros;
- Strategic partnership agreements;
- proposed amendments to the Articles of Association to be submitted to the vote of the Shareholders' Extraordinary General Meeting;
- proposed stock repurchase programs to be submitted to the vote of the Shareholders' Ordinary General Meeting;
- implementation of stock subscription or purchase plans and free share allotment plans for the Company's employees and directors of affiliate companies, as well as grants of stock subscription or purchase plans and free share allotment plans for members of the Company's Management Board;
- proposed interim or annual financial statements, appropriation of earnings, dividend payments and interim dividend payments;
- proposed appointment or renewal of the appointment of Statutory Auditors to be submitted to the vote of the Shareholders' Ordinary General Meeting.

The Supervisory Board's Internal Rules: The Supervisory Board adopted its Internal Rules on July 23rd 2009. The Internal Rules were amended three times in 2011. The first amendment was made on January 28th 2011 following the publication of the AMF report on Audit Committees, a second, on March 15th 2011 regarding the rules for the calculation of the distribution of attendance fees and a third June 22nd 2011 in order to revise the Strategy Committee's missions. The Internal Rules represent the governance charter for the Supervisory Board and also governs the relationships between the latter's members and the members of Mersen's Management Board in the spirit of cooperation notably intended to ensure proper communication between the corporate bodies in the shareholders' interest. It is intended to give the Supervisory Board the means to implement the best corporate governance.

It is established in accordance with the AFEP-MEDEF's code of corporate governance recommendations.

The Internal Rules have five articles:

- Article 1 defines the role and duties of the Supervisory Board and specifies the lists of decisions made by the Management Board subject to the Supervisory Board's prior notice or authorization;
- Article 2 relates to the Supervisory Board meetings (convocations, participation, majority rules, minutes, Board secretary);
- Article 3 covers the Supervisory Board members' compensation and benefits (attendance fees, compensation and benefits paid to the Chairman and Vice-Chairman, exceptional compensation and benefits);
- Article 4 covers the ethical rules applicable to the Supervisory Board's members and the concept of "independent" members;
- Article 5 governs the operating rules for the Committees set up by the Supervisory Board.

The Supervisory Board's Internal Rules are available for download from the Company's web site at www.mersen.com.

The Supervisory Board carries out an annual self-assessment which includes an assessment of it's three committees.

3.2 Composition of the Supervisory Board

According to the Articles of Association, the Supervisory Board comprises at least three members and at most 18 members, who are appointed by the shareholders' general meeting upon the recommendation of the Supervisory Board.

Supervisory Board members are appointed for a renewable term in office of four years.

The age limit applicable for the duties performed by any individual Supervisory Board member and by any permanent representative of a legal entity is set to seventy-two (72) years.

The Supervisory Board presently counts twelve members.

Board

Chairman of the Supervisory Board: Hervé Couffin.

Vice-Chairman of the Supervisory Board: Henri-Dominique Petit.

Members of the Supervisory Board:

- Jocelyne Canetti.
- Yann Chareton;
- Bertrand Finet;
- Dominique Gaillard;
- Jean-Paul Jacamon;
- Jean-Claude Karpéles;
- Agnès Lemarchand;
- Walter Pizzaferri;
- Philippe Rollier;
- Marc Speeckaert;

3.3 Work performed by the Supervisory Board

The Supervisory Board met eleven times in 2011, with an average attendance rate of 92%.

During these meetings, the Supervisory Board made decisions concerning the following issues:

- **January 7th 2011:** The Supervisory Board has reviewed and approved an acquisition project. The Board was informed by the Management Board of the announcement of a new class action on behalf of Deutsche Bahn and other European rail companies in the UK before the Competition Appeal Tribunal (CAT). The Board was also briefed by the Management Board's Chairman of the circumstances of the departure of a Division Manager.
- **January 28th 2011:** The Board reviewed the 2011 budget as well as a first approach of the sales and operating profit in 2010. It approved the 2011 budget. The Supervisory Board approved the purchase of 49% of the Mingrong Electrical Protection (MEP) company's capital held by Chinese minority shareholders. The Board amended its Rules in order to incorporate certain aspects of the 2010 AMF report on the missions of the Audit Committee. The Board gave its approval to the Management Board concerning the issuance of endorsements and guarantees within an overall limit of 10 million euros annually.
- **March 15th 2011:** The Board reviewed and approved the draft financial statements of December 31st 2010. It approved the Chairman of the Supervisory Board's report on the work performed by the Board and internal control. The draft resolutions of the AGM were approved by the Board. It took note of the Group's activity at the end of February 2011 and the acquisition projects in progress. The Board authorized the Management Board to start discussions and file a non-binding offer for the possible acquisition of Eldre. The Board set Ernest Totino's and Luc Themelin's 2010 bonus, their 2011 compensation as well as their 2011 bonus targets. Finally, the Board decided to change the rules for calculating the allocation of attendance fees in its Internal Rules.
- **April 6th 2011:** The Board approved the draft resolution to appoint Bertrand Finet as a member of the Supervisory Board. It also decided to propose a new resolution to increase the annual attendance fees.
- **May 19th 2011:** The Board received a presentation and discussed the conclusions of the Supervisory Board's self-assessment conducted by one of its members. It also took note of the Group's activity for April 2011. The Board, also gave an update on the progress of pending acquisition projects. It approved the proposed acquisition of Eldre. The Board authorized the Management Board to issue the 200,000 free shares to Executive officers and the Group's employees. An overview of the Group's safety policy was presented to the Board. Finally, the Board decided to reduce to 24 hours the period during which members of the Supervisory Board and Mersen's officers cannot perform transactions on Mersen's securities after each sales/results report.
- **June 22nd 2011:** The Board has amended its Internal Rules to review the Strategy Committee's missions . The Board discussed and approved the 2011 - 2015 strategic plan for each activity and the Group's strategic plan. The Management Board also presented the Group's activity for the end of May 2011.
- **July 22nd 2011:** The Board discussed governance issues related to the Chairman of the Management Board's management style. It considered the Group's (2011-2015) business plan. It was informed of the evolution conditions of several recent acquisitions (Yantai, Boostec, Lumpp, 2C) and the Group's activity for June 2011. The Board discussed a proposed acquisition. It finally authorized the Management Board to conduct a capital increase reserved for the Mersen Group employees.
- **August 24th 2011:** The Board took into account discrepancies with Ernest Totino on the organization of the Group's management and decided to terminate his office as Chairman and member of the Management Board with immediate effect. The Board appointed Luc Themelin as Chairman of the Management Board and appointed Thomas Baumgartner, Christophe Bommier, Didier Muller and Marc Vinet as members of the Management Board.
- **August 30th 2011:** The Board examined the draft of the mid-year accounts closed June 30th 2011. It approved the draft financial statements and the forecasted management accounts. The Management Board's Chairman presented the Group's activity for the end of July 2011. The Board took note of the actions that the new Management Board intends to implement in the short term. The Board was also informed of arrangements for extending the syndicated facilities established by the Group in China. It authorized the Management Board to amend the subscription price relating to the capital increase reserved for the Group's employees.
- **October 6th 2011:** The Board approved the issuance of a private placement of USD100 million with an institutional investor. The Board approved the acquisition of Eldre. It noted the progress of a proposed acquisition. The Board has appointed Bertrand Finet as member of the Strategy Committee and Jocelyne Canetti as member of the Appointments and Compensation Committee. The Board set the terms and conditions of

Luc Themelin's compensation. It also decided to approve Luc Themelin's compensation in the case of the termination of his office as Chairman and member of the Management Board. The Board gave an update on the progress of the discussions on the conditions of Ernest Totino's revocation and approved the financial terms proposed by the Appointments and Compensation Committee. The Board was informed, by the Management Board, of a project to extend a new plant. The Board was briefed on the activity for the end of September 2011.

- **November 22nd 2011:** The Board was briefed by the Management Board's Chairman on the organization of the Group's management team. It reviewed the major investment projects being evaluated in the High Temperature field. It heard a point of the Group's activities for the end of October 2011. Il was also informed of the progress of proposed acquisitions. The Board approved the average performance expected for the calculation of Ernest Totino's severance pay and concluded that this allowance had been determined pursuant to the calculation procedures and performance conditions decided by the Supervisory Board on May 19th 2009. Upon proposal of the Appointments and Compensation committee, the Supervisory Board decided to recommend to its members to hold a minimum of 800 of the Company's shares during the term of their mandate.

3.4 Work performed by the Supervisory Board's three committees

The Supervisory Board defined in its Internal Rules the functions, duties and resources of its three committees: the Audit and Accounts Committee, the Appointments and Compensation Committee and the Strategy Committee. As much as possible and depending on the applicable circumstances, all decisions by the Supervisory Board concerning an area of a committee's jurisdiction will have to be preceded by the relevant committee's consultation and may be made only after the relevant committee has issued its recommendations and proposals.

When performing its duties, each of the Committees may:

(i) request any document which it deems useful for the performance of its duties from the Company;

(ii) interview some or all members of the Management Board or any other person that the committee deems appropriate to audition;

(iii) be assisted in meetings by any third party of their choice (expert or councilor or auditor).

This consultation of the committees, however, cannot be to delegate the powers conferred to the Supervisory Board by law or the articles of association, nor reduce or limit the powers of the Management Board.

Audit and Accounts Committee:

The Internal Rules of the Supervisory Board state that the Audit and Accounts Committee comprises at least three and at most six members, with a majority of independent members. The Internal Rules also stipulate that members of the Audit and Accounts Committee are selected based on their expertise in accounting and financial matters. Given their training and professional experience, the Committee members satisfy this competency criterion. The Audit and Accounts Committee meets at least three times per year and whenever it deems necessary, and before Supervisory Board meetings for which the agenda includes an issue related to its area of expertise.

The Audit and Accounts Committee has six members designated from among the members of the Supervisory Board which includes 4 independent members: Jocelyne Canetti, Yann Chareton, Hervé Couffin, Jean-Claude Karpeles, Philippe Rollier and Henri-Dominique Petit. Henri-Dominique Petit chairs the Committee.

In 2011, the Committee met five times with an attendance rate of 93%.

- **January 26th 2011:** The Committee considered a first approach to the 2010 results. It also reviewed the measures to secure payments and security measures for cash transactions. The Committee has made proposals for amendments in the Supervisory Board's Internal Rules in order to incorporate certain aspects of the 2010 AMF report on the Audit Committee's missions.
- **March 10th 2011:** The Committee considered the 2010 provisional results before presentation to the Supervisory Board and considered the Auditors' report on the 2010 accounts as well as the 2010 draft annual report. Finally It was informed of the IFRS standards' evolution projects which may have an impact on the Group. It also met with the auditors, without the presence of the Management Board.
- **June 9th 2011:** The Committee considered the 2011 draft risk mapping. The Committee also made progress on the Cash Initiative project. A presentation was made to the Committee on the impacts that the Grenelle II law would represent for Mersen and on the AMF recommendations on the communication of financial indicators.
- **August 29th 2011:** The Committee considered, in the presence of auditors, the interim draft financial statements for June 30th 2011, the interim draft brochure and the Group's draft newsletter. The Committee also gave an update on the group's tax rate as well as group pension schemes for the UK an US. It has also been informed of the arrangements for extending the Group's bank financing in China. Finally, It was briefed on the finance department's organization. The Committee also met with the auditors, without the presence of the Management Board.
- **December 9th 2011:** The Committee considered the action plan on the risk mapping proposed by the Management Board. It also reviewed the internal audit results and validated the program for the year 2012.

Appointments and Compensation Committee:

The Internal Rules of the Supervisory Board state that the Appointments and Compensation Committee comprises at least three and at most six members, with a majority of independent members. The Appointments and Compensation Committee meets at least twice per year and, in any case, before the Supervisory Board or Management Board's meetings, for which the agenda includes an issue related to its area of expertise.

The Committee has six members designated from among the members of the Supervisory Board, namely Jocelyne Canetti *(since October 6th 2011)*, Hervé Couffin, Dominique Gaillard, Jean-Paul Jacamon, Agnès Lemarchand and Henri-Dominique Petit. Jean-Paul Jacamon chairs the Committee.

During this period, the Appointments and Compensation Committee met on seven occasions with an attendance rate of 92%.

- **February 8th and March 10th 2011:** The Committee reviewed the succession plan for Management Board members and proposed initiatives to help with the development of Mersen's principal executive officers. The Committee considered the terms of the plan for the allocation of free shares that the Management Board intended to submit for the AGM's approval. The Committee also gave a favorable opinion on the rules for calculating the 2011 bonus for Mersen's executives. The Committee endorsed the proposed 2010 bonus for Ernest Totino and Luc Themelin and proposed a method for determining the 2011 bonus. The Committee adopted a proposal for the 2011 personal objectives of the Management Board's members. It also discussed the Management Board's proposals on salary increases and bonuses for the Group's executive managers. The committee discussed changes in the compensation of the Management Board's members on the basis of a benchmark analysis done by an external consultant.
- **April 6th 2011:** The Committee considered the proposed appointment of Bertrand Finet. The committee gave a favorable opinion on the increase of the number of the Supervisory Board's members and the proposed appointment of Bertrand Finet. As a result of the increase of the number of the Supervisory Board's members, the Committee also discussed the possibility of revising the annual attendance fees and recommended to set them to 264,000 euros to maintain the same average amount of attendance fees for 12 members.
- **August 24th 2011:** The Committee issued a recommendation for the termination of Ernest Totino's office as Chairman, and member of the Management Board. The committee also proposed the nomination of Luc Themelin as President of the Management Board as well as the appointment of 4 new members.
- **August 30th and October 5th 2011:** The Committee considered the method of calculating Ernest Totino's severance pay in order to present the financial and legal proposals to the Supervisory Board. The Committee also made recommendations on the terms and conditions of Luc Themelin's compensation and on the subject of his severance pay in the case of the termination of his office as Chairman and member of the Management Board. Finally, the Committee issued a favorable opinion regarding the appointment of Bertrand Finet within the Strategy Committee and that of Jocelyne Canetti within the Appointments and Compensation Committee.
- **November 17th 2011:** The Committee has begun discussions on the changes to the existing pension scheme for the group's executive officers. It also addressed the competitiveness of the compensation of Mersen's Executives. The Committee considered the company cars policy for the Management Board and Executive Committee's members. The Committee discussed whether to recommend that members of the Supervisory Board have a number of shares exceeding the threshold of 120 shares required by the articles of association. The Committee recommended that Council members have a minimum of 800 of the Company's shares during the term of their mandate.

Strategy Committee:

The Internal Rules of the Supervisory Board stipulate that the Strategy Committee should have at least three and no more than eight members, with a majority of independent members. The Strategy Committee meets at least twice per year and whenever it deems necessary, and before the Supervisory Board meetings for which the agenda includes an issue in its area of expertise.

The Committee has eight members designated from among the members of the Supervisory Board, namely Hervé Couffin, Bertrand Finet *(since October 6th 2011)* Dominique Gaillard, Jean-Paul Jacamon, Jean-Claude Karpeles, Agnès Lemarchand, Walter Pizzaferri and Philippe Rollier. Walter Pizzaferri chairs the Committee.

During 2011, the Strategy Committee met twice with an attendance rate of 92%.

- **March 10th 2010:** The Strategy Committee gave an update on current acquisition projects. It took note of a presentation on the market for LEDs and "compound semiconductors". It reviewed the strategy and acquisition opportunities in the Electrical Protection Division.
- **November 21st 2011:** The Strategy Committee has examined the growth markets in the High Temperature Division and the associated investment needs. It also reviewed the development plan for nuclear activities in the Chemical Equipments Division.

→ 4. Accounting principles and rules defined for the compensation and benefits granted to Supervisory and Management Board's members

The attendance fees paid to members of the Supervisory Board are partly allocated in proportion to their participation in meetings of the Supervisory Board and its various Committees.

At its first meeting on May 19th 2009, the Supervisory Board decided to allocate a fixed annual compensation package to the

Chairman and Vice-Chairman of the Supervisory Board. These compensation and benefits have remained unchanged since.

The compensation and benefits paid to the Chairman and the members of the Management Board are approved by the Supervisory Board on the recommendation of the Appointments and Compensation Committee. When considering the compensation and benefits paid to the Chairman and the members of the Management Board, the Appointments and Compensation Committee meets without their attendance. The bonus system for the Chairman and the members of the Management Board is based on achievements in relation to:

- the objectives for net cash generated by operating activities during the fiscal year;
- the Group's ROCE targets based on the fiscal year;
- certain individual objectives set by the Supervisory Board for the year.

The Management Board's Chairman benefits from a graduated pension plan. Provided that he is still employed by the Group upon his retirement, this regime guarantees graduated pension income of 10-20%, depending on length of service, of the basic reference salary during the final three years prior to retirement plus a flat-rate of 50% of the maximum bonus. Additional information concerning the compensation and benefits paid to the Management Board's members is disclosed in the "Compensation and benefits" section of the reference document.

→ 5. Principal internal control procedures for the Mersen group

5.1 - Definition of internal control

Internal control is defined by Mersen as a process implemented by all the employees under the leadership of the Management Board and Executive Team to run the Group rigorously and effectively.

Mersen's internal control aims to achieve the following objectives:

- comply with the policies defined by the Group, as well as with the current laws and regulations;
- implement the internal processes properly especially those helping to protect its assets;
- prevent fraud and errors;
- produce accurate and complete financial information.

Mersen's definition of internal control is comparable to the international standard laid down by the COSO (Committee of Sponsoring Organizations of the Treadway Commission), whose conclusions were published in 1992 in the United States and are available from the www.coso.org web site. Like all control systems, it does not provide absolute assurance that risks have been completely eliminated. In addition, the Group has taken into account aspects of the reference process disseminated in January 2007 by the AMF concerning the general principles of internal control. Following the evaluation of the AMF's recommendations, conducted in 2009, action plans were implemented. This evaluation did not bring to light any significant disparities.

5.2 - General principles of internal control

Being industrially implemented in 40 countries on five continents, the Mersen group monitors the effectiveness of its internal control process by the following means:

5.2.1 Internal control organization

From a corporate governance perspective, Mersen opted for an organization guaranteeing separation and balance between activities. The executive and management activities exercised by the Management Board are kept clearly distinct from the permanent control activities exercised by the Supervisory Board.

Mersen's Management Board and its Chief Financial Officer design and supervise the internal control arrangements. The composition, operation, powers and duties of the Management Board are described in the Corporate governance section of this document.

Within the Group's subsidiaries, each business unit manager is responsible for implementing the internal control policy defined by the Management Board and by the Supervisory Board's Audit and Accounts Committee.

Mersen's Risk and Internal Audit department follows up on internal control and risk management initiatives. It reports to the Finance department and informs the Supervisory Board's Audit and Accounts Committee of its work.

As part of its control duties, Mersen's Supervisory Board has set up an Audit and Accounts Committee, it's composition, number of meetings and main duties are described in the Corporate Governance section. It supervises the internal control since it is notably responsible for:

- following the development process of financial information by evaluating the financial documents issued by the company and ensuring the existence of a sufficiently structured and organized process for the preparation of such information;
- ensuring the effectiveness of internal control systems and risk management through:
  - the validation of the annual internal audit as well as monitoring the effectiveness of the internal control systems and the implementation of the recommendations;
  - Monitoring the progress of work performed in the risk management field;
- monitoring the audit of the annual and consolidated accounts by the statutory auditors;
- ensuring the independence of the statutory auditors.

5.2.2 Risk management

The Group introduced a program of annual updates to its risk mapping. It also reviews this mapping in detail every 3 years. In 2011 a detailed review took place since the previous one had been done in 2008.

Risks were classified in the following four categories:

- strategic risks;
- operational risks;
- information-related risks;
- financial risks.

For each category, the potential risks have been ranked not only according to their impact and likelihood of occurrence, but also by the degree of control associated with control devices already in place. No major risk factors came to light that are not under satisfactory control. Following this analysis, action plans were implemented. The aim of these plans is to reduce the impact and/or frequency of each risk. It also aims to ensure that the measures currently in place are effective in reducing potential risk. As with the previous mapping carried, a progress report on the action plans is provided on a regular basis and at least once a year to the Group's Audit and Accounts Committee and the Management Board. The risk management policy is described in the Risk management section of the reference document.

5.2.3 Control activities

Mersen has formally defined and broadcasted an internal control handbook to all its subsidiaries. This handbook encompasses all the basic internal control procedures which apply to every business unit within the Group. In order to provide optimum access for all the Group's business units, this document was made available on Mersen's intranet. This manual has been completely revised in 2011 in order to reflect the Group's evolution and the increased level of required internal control. The shape of the manual was also revised to make it more interactive, including the establishment of links with the Group's good practices. It covers the following points:

- a description of the background of, objectives and resources used in internal control;
  - a description of the internal control organization with reference to the internal control process adopted by the Group (COSO);
- a section on Risks addresses the definition of Risk, the measurement of the weight of a risk as described in the risk mapping tool;
- a list of all the fundamental internal controls to be implemented to ensure the efficient operation of the main business processes:
  - sales/customers,
  - purchases/suppliers,
  - logistics,
  - human resources management,
  - investments/fixed assets,
  - information system;
- all the fundamental internal controls to be implemented to ensure the reliability of the accounting and reporting systems and financial statements with regard to the following objectives:
  - safeguarding assets,
  - compiling an exhaustive record of accounting transactions,
  - making sure transactions correspond to reality,
  - complying with the dates on which transactions are recorded,
  - correctly valuing assets and liabilities,
  - confidentiality.

The deployment of cross-audits also helps to strengthen the control system. After they are given appropriate training, the audits are conducted by the Group's operational and functional staff within each main geographical area (Aisia, Europe, America). The audit program is drawn up by the Group's Risk Management and Audit department. These audits help not only to check on internal control fundamentals every year, but also to ensure that action plans drawn up in the previous year have actually been implemented.

5.2.4 Internal control oversight

Internal audit department

The Group's internal audit department is responsible for overseeing the proper implementation of the internal control handbook and for leading the Group's internal control program. It also coordinates the networks and organization of corporate and cross-audits right across the Group. It submits its conclusions to the Audit and Accounts Committee on a regular basis, as well as to the Statutory Auditors. This department conducted 14 assignments in 2011. The aim of these assignments was:

- to analyze the effectiveness of internal control and to verify proper application of the action plans implemented following audits conducted in previous years in 13 production plants;
- to control the proper implementation of action plans in the units audited during the previous year and who's internal control results were unsatisfactory.

The internal audit department uses the services of a specialized external firm to ensure the quality of the audit program and to facilitate continuous improvement.

Since 2007, the units audited have sent in a self-assessment of their internal control system in advance of the internal audit department's review. These evaluations reviewed by the internal audit function help to correct certain differences in assessments and to enhance the culture of internal control within the units.

Information systems security

The Risk and Internal Audit department is responsible for safeguarding the security of information systems and notably:

- secure the IT system and protect data confidentiality;
- tighten up the security of IT infrastructure and applications to ensure the continuity of operations.

An information systems security committee was set up in 2009. It is chaired by the Risk and Internal Audit department. The role of this Committee is to:

- define the Group's information systems security policy, as well as the priorities and an annual audit plan in accordance with the legislative and regulatory changes;
- validate the technical solutions to be implemented;
- ensure the effective implementation of the remedial measures where compliance breaches are detected.

5.2.5 Other factors contributing to the Group's internal control process

Although there is no direct link with the accounting and financial aspects, the Group's management control and strategic planning, human resources management, sustainable development policy and quality-related procedures also contribute to ensuring compliance with the policies defined by the Group.

Management control and strategic planning

A Strategic Plan determining the priorities for the coming years, a quantified business plan and a production plan are prepared every year. These plans are presented to the Strategy Committee, then the Supervisory Board.

At the start of each year, the Group's Management Board decides on the key initiatives that need to be launched by each division to achieve the goals set. Each month It receives a status report and an analysis of these action plans.

The budgeting process is carried out once per year. The budget is submitted for the Group's Management Board's approval and then ratified by the Supervisory Board.

Forecasts are made each quarter on a rolling basis for the following four quarters. This process allows adjustments to be made for trend reversals and thus helps to speed up the decision-making process for any remedial measures required.

Human resources procedures

From an internal control standpoint, the Group's human resources policy is structured around:

- management reviews providing a regular update on all the Group's managers to enhance their career opportunities and to identify the Group's key men and women;
- annual individual reviews that enable business unit managers to assess the performance of their employees and to set targets for the following year with them.
- forward planning of human resources, notably succession planning for senior managers.

Lastly, performance-related bonuses are calculated using clearly defined rules.

Sustainable development

Mersen has long pursued a responsible approach towards environmental, economic and social affairs. Aside from the economic aspects, which remain a constant priority for the development of all companies, the Group also puts particular emphasis on promoting new social and environmental initiatives. This commitment is described in greater detail in the Sustainable development section of the reference document.

Quality procedures

The Mersen group pursues a Group-wide quality policy through the Quality and Continuous Improvement (QPC) plan launched in 2000. This Group-wide plan is underpinned by ten priorities ranging from technical organization to employee involvement and including customer satisfaction, a quality assurance system, internal communications, production and purchasing. Work in each of these priority areas focuses on proven methods. For instance, the production department employs tools such as 5S, SMED, Kanban, Hoshin, SPC, etc.

The 5S method, which introduces rules concerning the order, tidiness and cleanliness of workstations laid down in the QPC plan, does not only apply to the Group's workshops, but also to offices. Each year, a World 5S challenge rewards the Group's top-performing workshops and offices.

Several Group-wide quality indicators are monitored by each plant:

the customer satisfaction and service level:

1. average response time to offers,
2. customer satisfaction surveys,
3. non-quality costs;
4. productivity indicators.

6. Accounting and financial internal control

6.1 General organization

Mersen's Finance and Administration department is responsible for accounting and financial internal control. Its role is to produce and ensure the quality of the financial statements and management accounts. To this end, it depends on support from the finance department of each division. In turn, these departments are in contact with each business unit's finance department. This organization allows targets to be set and accounting and financial information to be collected and analyzed at different levels of the organization.

6.2 Preparation of accounting and financial information

The finance and accounting department has prepared and distributed a handbook of accounting and consolidation principles to all subsidiaries. This handbook contains the accounting principles applicable to every Group unit, as well as a description of the accounts closing process. It also contains the timetable for the various accounting closings, as well as a list of the information to be reported as part of the consolidation procedure. It lays down the rules that need to be followed by the consolidated sub-groups. To provide optimum access for all the Group's business units, this document was made available through Mersen's intranet.

The handbook is updated notably based on external changes in accounting standards in close collaboration with the Statutory Auditors, who validate the changes made with the Group's finance department.

Each Group business unit produces monthly accounts and a standardized consolidation package by the deadline set by the Group. When this data is reported using a Group-wide consolidation software, consistency checks are applied at each stage of the data gathering and processing process. The purpose of these checks is to:

- apply the Group's standards properly;
- validate and eliminate intra-Group transactions correctly;
- make consolidation adjustments.

6.3 Treasury and financing

The treasury and financing department manages the Mersen group's treasury on a centralized manner. To control risks, Group procedures are in place, notably concerning foreign exchange hedge management, cash pooling, netting, the issuance of guarantees, customer risk management and the hedging of raw materials prices.

The Group has pursued a major drive to develop its culture of cash-focused management over the past few years, mainly at manager level. Managers are now involved in overseeing their unit's cash flow on a day-to-day basis. The goal is to raise decision-makers' awareness of the importance of cash, to give them the tools they need to adapt their management to their unit's finances and to make their cash forecasts more reliable.

In 2011 the Treasury and Financing department reinforced the control process for payments. A group "safe payment" procedure has been adopted in order to avoid paper bank transfer requests as much as possible.

7. Program adopted in 2011 and 2012 action plan for internal control

Beyond the action principles and tools described in this report, for which the application is intended to be permanent, the Group requests annually that all site Directors commit to the proper application of the main internal control points in their unit through a letter. Since January 1st 2011, the Group Health and Safety department has been linked to the Risk Management and Audit department, with a mission to deploy and implement the health and safety policy defined by the Group Management Board.

The specific actions taken in 2011 to strengthen internal control were the following:

- The main project was the complete redesigning of the internal control manual from 2007. The manual was reviewed on its content and on its form.

  On the content many controls were added to meet the growing demand in terms of internal control. These changes are intended to provide changes on the level of internal control concluded during the audits.

  On the form, this manual is more interactive and many links have been created to visualize the guidelines and best practices for the Group.

  Tools derived from this manual have also been reviewed, including the self-assessment tool and the task separation matrixes.

- The system of cross-audits by geographic area is now in place across all geographical areas of the China, Europe and North America groups. Nearly 80% of group sites are covered by this organization. These audits can detect points of improvement in some elements of internal control and are part of a continuous improvement process. They have focused particularly on compliance with the basic rules of the different processes (Purchasing, Sales, Logistics, Human Resources, etc.). The purpose of this organization is to promote the culture of internal control within the Group and to quickly and easily disseminate the best practices.

  In 2011, the Internal Audit conducted audits approved by the Audit and Accounts Committee, fourteen site audits including an audit control. It implement action plans to correct the shortcomings observed. It should be noted that the tools for data retrieval from information systems were used during some audits to improve preparedness and the relevance of the tests.

  It presented the conclusions of the detailed update of risk mapping to the Management Board and the Audit and Accounts Committee. Take note that this revision, at the request of the Audit and Accounts Committee, is now annual. However, an in depth review is conducted every three years with the help of an outside firm. This detailed review was held in 2011 the latest revision was done in 2008. It presented the action plan to reduce the probability of occurrence and/or severity of risk and to verify the measures currently in place to ensure the control of certain risks. It also informed the Audit and Accounts Committee, in detail, of the organization of internal controls in accordance with the recommendations of the 8th European Directive.

  The different works performed in 2011 revealed no failures or deficiencies in internal control. It should be noted, however, that an audit conducted in Asia has not given satisfactory results. An control audit will be performed in 2012.

- Following the work carried out in 2009 from the reference system of internal accounting and financial control by the AMF, certain actions have been finalized and implemented, notably the deployment, in France, of risk and fraud awareness training (fraud, forgery , etc..) for Group managers.

  As expected the internal audit department has implemented a self-assessment tool for central services notably the Treasury and Financing services.

  For the information systems security part, cross-audits were developed for the North America region.

For 2012, the following projects will be undertaken by the Risk, Audit and Internal Security department:

- review of the adequacy of risk management arrangements, internal control and internal audit, under the eighth European Directive;
- ensure the progress of the action plan following the detailed review of risk mapping;
- develop the central services' self-assessment tool for other functions (HR, legal);
- establish a process for cross-audits for information systems security in Europe in addition to the North America area which began in 2011.

Statutory Auditors' report

on the report by the Chairman of Mersen SA's Supervisory Board, prepared in accordance with Article L. 225-235 of the French Commercial Code Fiscal year ended December 31, 2011

To the Shareholders,

In our capacity as Statutory Auditors of Mersen SA, and in accordance with Article L. 225-235 of the French Commercial Code, we hereby report to you on the report prepared by the Chairman of your Company in accordance with Article L. 225-68 of the French Commercial Code for the year ended December 31, 2011.

It is the Chairman's responsibility to prepare and submit for the approval of the Supervisory Board a report on the internal control and risk management procedures implemented within the Company and containing the disclosures required by Article L. 225-68 of the French Commercial Code related to the corporate governance system.

It is our responsibility to:

- report to you our observations on the disclosures contained in the Chairman's report on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information, and
- certify that this report contains other disclosures required by the Article L. 225 of the French Commercial Code, it being stipulated that it is not our responsibility to verify the fair presentation of this other information.

We performed our procedures in accordance with the professional standards applicable in France.

Disclosures concerning the internal control and risk management procedures related to the preparation and processing of accounting and financial information

The professional standards require that we plan and perform procedures to assess the fair presentation of the information concerning the internal control and risk management procedures related to the preparation and processing of accounting and financial information in the Chairman's report. These procedures notably consisted of:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of accounting and financial information underpinning the disclosures provided in the Chairman's report and in existing documentation;
- obtaining an understanding of the work performed to prepare the disclosures and existing documentation;
- determining whether the major deficiencies in internal control relating to the preparation and processing of accounting and financial information that we identified as part of our assignment are disclosed appropriately in the Chairman's report.

On the basis of these procedures, we have no matters to report concerning the disclosures provided regarding the Company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information contained in the report by the Chairman of the Supervisory Board, prepared in accordance with Article L. 225-68 of the French Commercial Code.

Other disclosures

We certify that the Chairman of the Supervisory Board's report includes the other disclosures required by Article L. 225-68 of the French Commercial Code.

The Statutory Auditors

Paris La Défense, March 14, 2012	Neuilly-sur-Seine, March 14, 2012
KPMG Audit ID	Deloitte & Associés
Catherine Porta	Joël Assayah
Partner	*Partner*

Statutory Auditors' report on related-party transactions

Annual General Meeting convened to approve the financial statements for the fiscal year ended December 31, 2011

To the Shareholders,

In our capacity as Statutory Auditors of the Company, we hereby report to you on related-party transactions.

It is our responsibility to report to you, based on the information provided to us, on the key terms and conditions of the related-party transactions of which we were informed or which we discovered during our assignment, without commenting as to whether they are beneficial or appropriate or seeking to establish whether other such related-party transactions exist. It is your responsibility under the terms of Article R. 225-58 of the French Commercial Code, to evaluate the benefits resulting from these agreements prior to their approval.

Furthermore, it is our responsibility to communicate to you the information required pursuant to Article R. 225-58 of the French Commercial Code on the execution during the fiscal year of the related-party transactions already approved by the Annual General Meeting.

We implemented the procedures that we deemed necessary with respect to the professional standards of the Compagnie nationale des commissaires aux comptes related to this assignment. These procedures consisted in verifying the consistency of the information provided to us with the documents it was taken from.

Related-party transactions subject to approval at the Annual General Meeting

Pursuant to Article L. 225-88 of the French Commercial Code, we were advised of the following related-party transactions that were subject to prior authorization by the Supervisory Board.

With Luc Themelin, member of the Management Board and Chairman of the Management Board from August 24, 2011

In a decision made on October 6, 2011, the Supervisory Board authorized the following agreements:

No-compete and non-solicitation clause

- Type and motive: in the event of the termination of his term in office as Chairman and Member of the Management Board and, in return for his no-compete and non-solicitation undertaking, Luc Themelin will receive a monthly flat-rate payment for a one-year period from the cessation date of his duties. The Company may decide to forgo this no-compete and non-solicitation clause and thus free itself from its obligation of making this monthly payment, by informing Luc Themelin of its decision within a notice period of two months with effect from termination of the term in office.
- Specific arrangements: the amount of the flat-rate payment to be paid to Luc Themelin in return for the no-compete and non-solicitation undertaking will be equal to 50% of the final monthly gross fixed compensation and benefits that he received immediately prior to termination of his term in office.

Severance package for a corporate officer

- Type and motive: should the Mersen group terminate, in any manner and for any reason whatsoever (barring gross or willful misconduct, retirement or enforced retirement), Luc Themelin's term in office as Chairman of the Management Board (notably by dismissal, non-renewal of the term in office for any reason whatsoever or the elimination of the duties following the conversion or merger of the company, except for a change in corporate governance leading to the appointment of a Chief Executive Officer of a société anonyme with a Board of Directors), a flat-rate payment will be made to Luc Themelin.

- Specific arrangements: the flat-rate payment consists of at most 0.5 times the total gross compensation paid to Luc Themelin during the thirty-six month period preceding termination (including the variable payments made in respect of the fiscal year in progress at the termination date) irrespective of whether these compensation and benefits were paid to him in his capacity Chairman of the Management Board or as an employee and subject to the attainment of performance criteria, defined as objectives for his target bonuses.

Stock subscription options – Performance shares

- Type and motive: should Luc Themelin's term in office as Chairman and Member of the Management Board be terminated in any manner and for any reason whatsoever (barring termination following the acquisition of control of the Company, retirement or enforced retirement), he will automatically lose his entitlement to all the stock options granted to him prior to the end date of his term in office where the conditions of grant (condition related to continued presence and performance conditions) have not been satisfied by the end date of his term in office. He will also automatically lose his entitlement to all the shares, irrespective of whether they are subject to a performance condition, granted to him in accordance with the provisions of Article L. 225-197-1 to L. 225-197-5 of the French Commercial Code, prior to the end date of his term in office, where the grant of these shares had not been made definitive by the end date of his term in office.

  Even so, it is stipulated that the Supervisory Board reserves the right to decide, where appropriate, to leave in place some or all of the stock options and free shares, subject to satisfaction of the corresponding performance conditions. The benefit of the stock options and free shares referred to above will be maintained should Luc Themelin's responsibilities and/or compensation and benefits be modified substantially following the acquisition of control of the Company causing him to decide to the leave the Company.

Ernest Totino, Chairman of the Management Board until August 24, 2011

In a decision made on November 22, 2011, the Supervisory Board authorized the following severance payments, compensation and benefits due on the grounds of Ernest Totino's dismissal:

No-compete and non-solicitation clause

- Type, motive and arrangements: in return for signing a no-compete and non-solicitation undertaking, the Company agreed to make a monthly payment of €18,333 gross for a period of 12 months with effect from August 24, 2011, the date on which Ernest Totino's term in office was terminated. This represents a gross total payment of €220,000. The no-compete agreement referred to above covers all of the Group's business activities and is applicable in all of the countries in which Mersen is active (whether it has a physical presence there or whether it operates from a base in another country).

Variable salary

- Type, motive and arrangements: the Company agreed to pay, in line with the rules for calculating Ernest Totino's compensation and benefits, a variable bonus of €198,000 gross in respect of the period from January 1, 2011 to August 24, 2011.

Inventions under contract

- Type, motive and arrangements: in respect of remuneration pursuant to Article L. 611-7 of the French Intellectual Property Code, the Company paid Ernest Totino the gross sum of €10,000.

Stock subscription options – Performance shares

- Type, motive and arrangements: the Company exempted Ernest Totino from the condition of continued presence stipulated in the stock option plan dated February 11, 2009 and agreed that he would retain the possibility of exercising all the stock options granted to him under the stock subscription plan of February 11, 2009, i.e. 53,908 options, after his dismissal provided that the other conditions contained in the plan are satisfied. Ernest Totino has lost the benefit of the award of 20,000 performance shares granted to him on May 27, 2011.

Incentive payments

- Type, motive and arrangements: the Company will pay the incentive attributable to Ernest Totino during the period from January 1 to August 24, 2011, in line with the arrangements provided for in the incentive plan.

Graduated pension plan

- Type, motive and arrangements: Ernest Totino cannot claim the benefit of any rights under the defined-benefit pension plan pursuant to Article 39 of the French General Tax Code covering certain Mersen group senior managers.

Related-party transactions already approved by the Annual General Meeting

Pursuant to Article R. 225-57 of the French Commercial Code, we were informed that the following related-party transactions, already approved by the Annual General Meeting in previous fiscal years, continued to be executed during the past fiscal year.

Severance package for a corporate officer

- Person concerned: Ernest Totino, Chairman of the Management Board until August 24, 2011
- Type and motive: at its meeting on May 19, 2009, the Supervisory Board decided to grant Ernest Totino a severance payment should he be dismissed as Chairman of the Management Board.
- Specific arrangements: following Ernest Totino's dismissal from his duties as Chairman of the Management Board, the Company made him a gross flat-rate payment of €918,522.50, which was authorized by the Supervisory Board on November 22, 2011 and determined in accordance with the calculation arrangements and performance conditions laid down by the Supervisory Board on May 19, 2009.

The Statutory Auditors

Paris La Défense, March 14, 2012	Neuilly-sur-Seine, March 14, 2012
KPMG Audit ID	Deloitte & Associés
Catherine Porta	Joël Assayah
Partner	*Partner*

LEGAL AND FINANCIAL INFORMATION

4

General Information about the Company

Corporate name and registered office

Mersen

Immeuble La Fayette

2 place des Vosges

F- 92400 Courbevoie La Défense 5

Legal form, nationality and applicable law

The Company is a "Société Anonyme" duly registered under the laws of France and governed by the law of July 24, 1966.

Date of incorporation and term

The Company was incorporated on January 1, 1937 and shall be liquidated on December 31, 2035 unless the term is extended or the Company is liquidated before the term by shareholders resolution.

Corporate Purpose (Article 3 of the Articles of Association)

The Company's purpose in France and in any other countries is to perform all operations concerning studies, manufacturing, processing, use and sale of:

- products, objects or devices based on carbon with or without other materials;
- metal powders, objects made from these powders, special alloys and objects made from these alloys;
- electromechanical and electronic products;
- all industrial products namely metallurgical, mechanical in plastic materials and elastomer;
- all other products, objects or devices which may have connections with the previous products:
  - either by using them in their constitution,
  - either by research development,
  - or by manufacturing processes, industrial applications or marketing networks.

The company, within the field of activity described hereabove, may namely carry out operations of any kind pertaining to:

- Raw materials, prepared materials, components and parts, spare parts and semi-finished products, finished products and appliances, equipment combinations, sets of all kinds and sizes, bringing together equipment combinations;
- All works;
- All techniques;

The Company may also indirectly perform operations related to its technical, industrial or commercial activities. It may, for this purpose, set up all companies and all groups, take all interests in any corporations or partnerships, make all contributions and all subscriptions, make any purchase or sale of securities, shares or corporate rights.

And generally it may carry out any industrial, commercial, financial, securities, or property operations which may be related mainly or ancillary to those activities.

The Company may also take an interest in any form whatsoever, in all French or foreign companies or organizations.

Registration number

RCS NANTERRE B 572 060 333 - CODE APE : 6420Z .

Access to the Company's corporate documents

Corporate documents, such as Articles of association, financial statements, reports from the Management board, the Supervisory board or the statutory auditors to shareholders general meetings can be reviewed at the registered office of the Company by contacting:

Thomas Baumgartner
Vice-President Finance
Mersen
Immeuble La Fayette
2 place des Vosges
F - 92400 Courbevoie La Défense 5
Tél. : + 33 (0) 1 46 91 54 19

Fiscal Year

The fiscal year begins on January 1 and ends on December 31 of each year.

Distribution of dividend (Article 26 of the Articles of association)

At the end of each fiscal year, the Management Board prepares an inventory and the annual financial statements in accordance with Title II, Book 1 of the Commercial Code.

The benefits for the fiscal year, as reflected in the income statement, is constituted by the difference between revenues and expense for the year, after deducting amortization and reserves.

At least one twentieth of the benefits for the fiscal year, less any prior losses, if any, is allocated to a reserve account called "legal reserve".

When the amount in this reserve account reaches one tenth of the share capital, this deduction ceases to be mandatory but if, for any reason, the reserve account were to fall below one tenth of the share capital, the legal reserve allocation would resume.

The benefits available for distribution consists of the benefits for the current fiscal year less any prior losses and the amounts to be allocated to reserve accounts in accordance with the law, plus any retained earnings.

A first dividend of 5% of the paid-up and unredeemed nominal value of the shares is distributed from the benefits. The shareholders may not demand payment of the dividend out of subsequent years' benefits, should the benefits from one year, after the aforementioned deduction, render it impossible to make such a payment. In addition, the general meeting of the shareholders, on the recommendation of the Management Board, has the right to decide to deduct such amounts as it deems suitable, either for retained earnings or for reserves to be used as directed by the Management Board.

The balance is then divided among the shareholders without distinction.

The general meeting called to approve the financial statements for the fiscal year has the option of granting each shareholder the choice between receiving all or part of the dividend or interim dividend in cash or in shares, under the terms and conditions set forth by the laws and regulations in force.

The General Meeting of the Shareholders may in addition resolve to distribute sums drawn from the reserve accounts at its disposal. In this case, the decision must indicate explicitly the reserve accounts from which the amounts are to be drawn.

However, dividends are drawn in priority from the year's benefits available for distribution.

Shareholders' meetings (Article 25 of the Articles of association)

Notices of meeting - Composition

Shareholders' meetings are convened as provided by law and deliberate under the conditions of a quorum and majority provided by law.

Meetings are held at the registered office or in another location specified in the notice of meeting.

Owners of registered shares may attend the general meeting if their shares have been recorded five days prior to the date of the meeting.

The owners of bearer shares must justify the lock-up of their shares three days prior to the date fixed for the meeting to be able to attend such meeting.

The Management Board always has the option to reduce such time limits.

Any shareholder may also, if the Management Board of directors so decides at the time of convening the general meeting, participate and vote at general meetings by videoconference or by any means of telecommunication allowing their identification under the terms and conditions provided by law.

The meetings are chaired by the chairman of the Supervisory Board or in his absence by the vice-chairman of the Supervisory Board and, failing that, by a member of the Supervisory Board specially appointed for this purpose by the Supervisory Board. Failing that, the meeting shall itself elect its Chairman.

The minutes of meetings are drawn up and their copies certified by the chairman of the Supervisory Board, the vice-chairman of the Supervisory Board, the secretary of the Supervisory Board or an authorized representative empowered to this effect.

Ownership disclosure threshold (Article 11ter of the Articles of association)

Pursuant to the Company's Articles of association, shareholders which acquire a fraction of the capital or voting rights equal or above 1% are required to notify the Company the total number of shares and the number of voting rights it holds

Trading by the Company of its own shares

The shareholders general meeting of May 19, 2011 authorized the Company to trade in its own shares on the stock exchange in accordance with Article L225-209 et seq of the French commercial code in order to:

- enhance trading in and the liquidity of the Company's shares by engaging the services of an investment service provider under a liquidity agreement in accordance with the AFEI's charter. ;
- grant or transfer shares to employees in connection with the employee profit-sharing plan or the allotment of shares under the conditions provided for in Articles L225-197-1 to L225-197-3 ;
- allot share in connection with the conversion or exchange of securities (including debt securities) conferring rights to the Company's share capital ;
- purchase shares for holding purposes and subsequently remit them as part of an exchange offer or in consideration for potential future acquisitions;
- cancel shares through a reduction in the share capital in accordance with the French commercial code.

The maximum purchase price is set at €80 per share. This price is set subject to adjustments related to any transactions affecting the Company's share capital. In view of the maximum purchase price set, the aggregate amount of share purchases may not exceed €159,703,520.

These share purchases, grants or sales may be entered into and paid for by any means, including as part of a liquidity agreement entered into by the Company with an investment services provider.

Since May 20, 2011, the Company has not made use of this authorization, except for the acquisitions made under the liquidity agreement. At December 31, 2011, 54619 shares were held under this liquidity agreement.

In March, 2005, the Company signed a liquidity agreement with Exane-BNP Paribas in compliance with AFEI's charter.

This authorization is valid until the general meeting called to vote on the financial statements for fiscal 2011. A new authorization concerning share repurchase will be submitted to the vote of shareholders at the general meeting on May 23, 2012..

Double voting rights

No shares carry double voting rights.

General information about the share capital

Conditions

Changes in the share capital and the respective rights of the various categories of shares are made in accordance with the applicable laws and regulations.

Amount and structure of the share capital (Article 6 of the Articles of association)

As of December 31, 2011, the registered capital is set at 40 576 708 Euros, divided into 20 288 354 shares of two (2) euros each, all in the same category.

Authorizations to carry out increases of the share capital

Combined General Meeting of May 20, 2010

Increases of share capital with preferential right of shareholders

The General Meeting authorized the Management Board, subject to the Supervisory Board's prior approval, to issue share or negotiable securities conferring rights immediately and/or in the future to the Company's share capital, through capitalization of premiums, reserves or retained earnings. The aggregate nominal amount of the immediate and/or future increases in the share capital that may be carried out under this authorization may not exceed €10 million. This authorization is valid for 26 months.

Issuance of bonds with redeemable equity warrants enabling subscription and/or acquisition of shares (Bonds)

The Shareholders' Meeting authorized the management Board, with the right to sub-delegate in accordance with applicable law and regulations, to increase the share capital by issuing, in a single transaction, bonds with redeemable equity warrants enabling subscription and/or acquisitions of shares (hereinafter referred to as the "2010 Bonds"). The 2010 Bonds will be offered exclusively to the 2007 Bonds Owners in exchange of existing bonds under a simplified exchange offer without preferential subscription right. The 2007 Bonds Owners are owners of Bonds which were issued by the Company in November 22, 2007 and for which a public note was filed with, and registered by the French financial market authority. The nominal amount of the 2010 Bonds that may be issued pursuant to this authorization shall not exceed €246,240, which represent a maximum of 123,120 shares of nominal value of €2 each. This maximum number of shares does not include any additional shares which may be issued to protect the rights of 2010 Bonds owners. The 2010 Bonds will give the right to subscribe to or acquire Company shares at a price which shall not be lower than 150% of the average of the closing price of the Mersen shares on the Eurolist market compartment B of Euronext Paris SA over the 40 trading days preceding the management Board' meeting deciding the conditions of issuance of the 2010 Bonds.

At its meeting on May 20, 2010, the Management Board laid down the terms and conditions of the simplified exchange offer for all the 2007 Bonds in exchange of 2010 Bonds with an exercise price of 40.50 euros. The 2010 Bonds are not transferable until July 16, 2017.

At its meeting on July 15, 2010, the Management Board acknowledged, upon the report made to the French Stock Regulator (AMF) (Information 210C0631), that the definitive number of 2007 Bonds tendered was 113,771 and decided to issue 103,331 2010 Bonds

Combined General Meeting of May 19, 2011

Option for payment of the dividend in shares

The General Meeting of May 19, 2011 resolved to offer each shareholder the possibility of opting for payment of the entire dividend in respect of shares held in new shares of the Company.

At its meeting on May 19, 2011, the Management Board set the issue price for the new shares at 35.93 euros. This issue price for the new shares was set at 90% of the average opening price of the shares on Euronext during the twenty stock market sessions preceding the date of the General Meeting less the amount of the dividend. On July 7, 2011, at the end of the option period, the Management Board formally noted that 13,953,960 rights were reinvested in the new shares of the Company and decided to issue 294 894 new shares with a par value of 2 euros.

Capital increase reserved for employees who are members of the Group Savings Plan

The General Meeting authorised the Management Board to increase the authorised share capital, on one or more occasions, and in its sole discretion, by the issue of shares subscribed in cash reserved for employees who are members of the Group Savings Plan. The General Meeting resolved expressly to waive shareholders' preferential subscription rights in respect of the new shares to be issued for the benefit of employees who are members of the Group Savings Plan. The nominal amount of the capital increases capable of being carried out pursuant to this delegated power may not exceed a maximum of €780,000, namely approximately 1,6% of the Company's share capital. This authorization is valid for 26 months. This authorisation cancels and replaces that given by the third resolution of the Combined General Meeting on 20 May 2010.

At its meeting of July 22, 2011, the Management Board, after prior approval of the Supervisory Board, decided to offer employees of its European, North American and Chinese subsidiaries the option of acquiring 159,703 shares at a price of €30.79, corresponding to the average opening price of the shares on Euronext during the twenty stock market sessions preceding the date of the Management Board less of 20% discount. At its meeting of August 30, 2011, the Management Board decided to change the issue price to €26.81 in order to take into consideration to financial context and the evolution of the price of the Mersen shares. This new price corresponded to the average opening price of the shares on Euronext during the twenty stock market sessions preceding the date of the Management Board less of 20% discount.

At its meetings of November 24 and December 2, the Management formally noted that 26,580 new shares each with a par value of €2 were issued at the end of the subscription period.

Allotment of free shares

The General Meeting authorized the Management Board to allot at no cost to the Company's officers or employees or those of affiliated companies, or certain categories thereof, 200,000 new or existing shares in the Company, corresponding to 1% of the share capital. The number of shares that may be allotted pursuant to this authorization to all the officers of the Company must be under 20% of the total number of the allotted shares. The acquisition period after which the allotment shall be definitive is set to 4 years from the allotment of the shares by the Management Board. No obligation and retention period is required after the acquisition period. This authorization is valid 38 months.

At its meeting of May 27, 2011, the Management Board decided to allot 200,000 shares under to separate free shares allotment plans:

- allotment of 60,000 shares subject to no performance conditions to 103 managers,
- allotment of 140,000 shares subject to performance conditions, to the members of the Management Board and to 36 executive officers.

Issue of free equity warrants to shareholders in case of public offer for the Company

The General Meeting, in the event of public offer for shares of the company, authorized the Management Board to issue, on one or several occasions, equity warrants enabling subscription, under preferential terms, for a share or shares in the Company, and the free allotment thereof to all of the Company's shareholders having shareholder status before the expiry of the public offer period. This authorization shall not be implemented without the prior approval of the Supervisory Board, such approval being given pursuant to a written opinion to be issued by a committee composed of three independent members of the Supervisory Board duly designated by the Supervisory Board. The opinion of this committee shall be issued on the basis of a written opinion of a financial advisor duly appointed by the committee. the total maximum par value of ordinary shares issued resulting from the exercise of the warrants may not exceed 25% of the share capital of the Company. This authorization requires that the Management Board shall explain, at the time of the issuance, the reasons and circumstances for which it considers that the public offer would not be in the interest of the shareholders and which justify that the Company should proceed with such issuance. The Management Board shall also describe the financial and legal conditions of the issuance. The equity warrants shall become automatically null and void at the time the public offer and any other potential alternative offer has failed, becomes void or is cancelled. This authorization is granted to the Management Board for any issuance of equity warrants in respect of any public offer filed within 18 months as from the date of this General Meeting. This authorization cancels and replaces that given by the third resolution of the Combined General Meeting on 20 May 2010. As of today, the Management Board did not implement this authorization.

SUMMARY OF CHANGES IN THE SHARE CAPITAL

Dates	Nature of the transaction	Share capital after the transaction	Share premium	Total number of shares after the transaction
31/12/2001	Issue of 18,729 shares with a par value of € 2 through the exercise of subscription of stock options	22,256,924	292,041	11,128,462
31/12/2002	Issue of 10,688 shares with a par value of €2 through the exercise of subscription of stock options	22,278,300	180,704	11,139,150
27/11/2003	Issue of 3,750 shares with a par value of € 2 through the exercise of subscription of stock options	22,285,800	63,512	11,142,900
23/12/2003	Issue of 54,990 shares with a par value of € 2 as a result of the capital increase reserved to employees	22,395,780	1,110,798	11,197,890

Dates	Nature of the transaction	Share capital after the transaction	Share premium	Total number of shares after the transaction
15/04/2004	Issue of 2,000 shares with a par value of € 2 as a result of the exercise of stock options	22,399,780	30,520	11,199,890
20/08/2004	Issue of 2,500 shares with a par value of € 2 as a result of the exercise of stock options	22,404,780	38,150	11,202,390
19/10/2004	Issue of 2,489,420 shares with a par value of € 2 as a result of the capital increase in cash with preferential subscription rights for shareholders	27,383,620	58,003,486	13,691,810
16/12/2004	Issue of 46,328 shares with a par value of € 2 as a result of capital increase reserved for employees	27,476,276	1,176,731	13,738,138
31/12/2004	Issue of 17,439 shares with a par value of€ 2 as a result of the exercise of stock options	27,511,154	254,261	13,755,577
31/12/2005	Issue of 85,775 shares with a par value of € 2 as a result of the exercise of stock options	27,682,704	1,829,333	13,841,352
28/06/2006	Issue of 44,494 shares with a par value of € 2 as a result of capital increase reserved for employees	27,771,692	1,388,213	13,885,846
31/12/2006	Issue of 79,629 shares with a par value of € 2 as a result of the exercise of stock options	27,930,950	2,219,832	13,965,475
25/07/2007	Issue of 30,900 shares with a par value of € 2 as a result of allotment of free shares	27,992,750	1,721,748 Unavailable reserve	13,996,375
11/09/2007	Issue of 200,191 shares with a par value of€ 2 as a result of the exercise of stock options	28,393,132	6,627,591	14,196,566
17/12/2007	Issue of 44,094 shares with a par value of €2 as a result of capital increase reserved for employees	28,481,320	1,931,317	14,240,660
24/01/2008	Issue of 40,075 shares with a par value of €2 as a result of the exercise of stock options	28,561,470	1,254,681	14,280,735
24/07/2008	Issue of 16,478 shares with a par value of € 2 as a result of the allotment of free shares	28,594,426	540,478 Unavailable reserve	14,297,213
26/05/2009	Issue of 400,000 shares with a par value of € 2 as a result of the exercise of 400 000 share issuance bonds	29,394,426	7,340,000	14,697,213
11/06/2009	Issue of 400,000 shares with a par value of € 2 as a result of the exercise of 400,000 shares issuance bonds	30,194,426	7,064,000	15,097,213
25/06/2009	Issue of 400,000 shares with a par value of € 2 as a result of the exercise of 400,000 shares issuance bonds	30,994,426	6,248,000	15,497,213
07/07/2009	Issue of 355,484 shares with a par value of € 2 as a result of the payment of dividends in shares	31,705,394	5,822,827	15,852,697
19/10/2009	Issue of 3,730,044 shares with a par value of € 2 as a result of the capital increase in cash with preferential subscription rights for shareholders	39,165,482	55,950,660	19,582,741
15/12/2009	Issue of 62,668 shares with a par value of € 2 as a result of capital increase reserved for employees	39,290,818	982,007	19,645,409
02/07/2010	Issue of 294,921 shares with a par value of € 2 as a result of the payment of dividends in shares	39,880,660	6,370,293	19,940,330
27/01/2011	Issue of 2,447 shares with a par value of €2 as a result of the exercise of stock options	39,885,554	43,263	19,942,777
01/03/2011	Issue of 20,164 shares with a par value of € 2 as a result of the allotment of free shares	39,925,882	707,756 Unavailable reserve	19,962,941
07/07/2011	Issue of 294,894 shares with a par value of € 2 as a result of the payment of dividends in shares	40,515,670	10,005,753	20,257,835
24/11/2011	Issue of 25,130 shares with a par value of €2 as a result of capital increase reserved for employees	40,565,930	623,475	20,282,965
02/12/2011	Additional issue of 1,450 shares with a par value of €2 as a result of capital increase reserved for employees	40,568,830	35,974	20,284,415
25/01/2012	Issue of 3,939 shares with a par value of €2 as a result of the exercise of stock options made in 2011	40,576,708	69,641	20,288,354

Voting rights certificates

None.

Investment certificates

None.

Shares pledged

None

Shareholders' agreement

The Company is not aware of any shareholders' agreements or other agreements concerning the share capital.

Negotiable securities conferring rights to the share capital

The stock options still to be exercised at December 31, 2011 (after taking into account cancellations), entitle their holders to acquire a total of 507,857 shares each with a par value of 2 euros.

The Bonds that may be exercised at December 31, 2011 entitle their holders to acquire a total of 103,331 shares each with a par value of 2 euros.

The total number of free shares likely to be granted definitely stands at 228,388 shares each with a par value of 2 euros, representing 1.12 % of the share capital.

There are no other instruments or securities conferring rights to Mersen's share capital.

Based on the number of stock options, Bonds that may be exercised by Bonds holders and the free shares that may be definitely granted, the maximum dilution would be 4.13%.

There are no other instruments or securities conferring rights to the Company's share capital.

Shareholdings

The Company's share capital at December 31, 2011 amounted to 40,576,708 euros, comprising 20,288,354 shares each with a par value of 2 euros and of the same category.

The number of voting rights stands at 20,233,735 at December 31, 2011.

At December 2011, 54,619 shares representing 0.2 % of the share capital were held by the Company pursuant to the liquidity agreement entered into with Exane BNP Paribas. The Company did not buy or sell its own shares during fiscal 2011. The Company did not hold any other instruments or securities at this date.

No share carry double voting rights.

The number of stock options granted to members of the Management Board and still outstanding stood at 162,720 taking into account the cancelled stock options.

The number of free shares which may be granted definitely to members of the Management Board stood at 38,000 shares, taking into account the cancelled free shares.

Furthermore, no public tender nor any guaranteed share price offer has been made in respect of the Company's shares over the past three years. The Company has not initiated any such offer for other companies over the same period.

Following the investment by AXA Private Equity in the Company's share capital in July 2008, an agreement was entered into with the Company. Under the terms and conditions of this agreement, ACF I Investment (AXA Private Equity Group) undertook not to sell any block of shares representing 5% of more of Mersen's share capital to an identified investor, except in connection with a public offer. Any sale by ACF I Investment of its shares on the market is to be performed in an orderly manner, wherever possible, with a view to limiting the effects of such disposal on the Company's share price.

The agreement is due to expire on June 30, 2012. It will automatically expire before that date when AXA Capital crosses below the threshold of 10% of the share capital or the voting rights. If this agreement ends before its term, the arrangement for an orderly sale of the Mersen shares will remain in force until June 30, 2012.

Share repurchase program

Description of the share repurchase program submitted to shareholders' approved at the combined general meeting of May 23, 2012

In accordance with Articles 241-1 et seq of the General Regulation of the "Autorité des Marchés Financiers" and with the EC Regulation n° 2273/2003 of December 22, 2003, which became effective on October 13, 2004, this information memorandum is intented to present the objectives and terms for the renewal of the share repurchase program and the estimated impact on the Company's shareholders.

SUMMARY OF THE MAIN CHARACTERISTICS OF THE PROGRAM

Issuer : MERSEN.

Shares : Mersen ordinary shares, admitted for trading in Compartment B of Eurolist by Euronext Paris (code ISIN FR0000039620).

Maximum percentage of the share capital authorized for repurchase by shareholders at the general meeting: 10 %.

Maximum acquisition price per share: 60 euros.

Objectives of the program in order of priority :

- **enhance trading in and the liquidity of the Company's shares by engaging the services of an independent investment service provider under a liquidity agreement in accordance with the AMAFI's charter;**
- **grant or transfer shares to employees in connection with the employee profit-sharing plan or the allotment of shares under the conditions provided for in Articles L.225-197-1 to L.225-197-3 of the French Commercial Code;**
- **allot shares in connection with the conversion or exchange of securities (including debt securities) conferring rights to the Company's share capital;**
- **purchase them for holding purposes and subsequently remit them as part of an exchange offer or in consideration for any acquisitions;**
- **cancel shares through a reduction in the share capital in accordance with the French Commercial Code.**

Duration of the program: This authorization is valid for a period of 18 months from May 23, 2012 until the general meeting called to vote on the financial statements for fiscal 2012.

I – Outcome of the previous program

With the exception of the repurchases made under the liquidity agreement, the Company did not make any use of the authorization granted by shareholders at the Combined General Meeting of May 19, 2011 in connection with the previous share repurchase program to stabilize the share price. At December 31, 2011, 54,619 shares were held under this liquidity agreement.

The Company did not use any derivatives.

SUMMARY STATEMENT

ISSUER'S DECLARATION OF TRANSACTIONS OF ITS OWN SHARES MADE BETWEEN MAY 19, 2011 AND DECEMBER 31, 2011

Percentage of share capital held directly and indirectly	0,2 %
Number of shares cancelled over the last 24 months	None
Number of shares held in portfolio	None
Accounting value of the portfolio	None
Market value of the portfolio	None

	Gross cash flows		Open interest on the filing date of information memorandum					
	Purchases	Sales / Transfers	Open interest, buy side			Open interest, sell side		
			Calls purchased	Puts sold	Future purchases	Calls sold	Puts purchased	Future sales
Number of shares	None							
Average maximum term			None	None	None	None	None	None
Average transaction price	None							
Average exercise price			None	None	None	None	None	None
Amounts	None		None	None	None	None	None	None

Since February 25, 2005, and for an automatic renewable annual term, the Company has entrusted Exane BNP Paribas (an independent services provider) with implementing a liquidity agreement in accordance with AMAFI's charter approved by the « Autorité des Marchés Financiers". The funds made available pursuant to this agreement and credited to the liquidity account on February 25, 2005 comprised a sum of 2,200,000 euros and no shares.

II – Objectives of the share repurchase program

Mersen wants to be able to implement a program to repurchase its own shares pursuant to the authorization submitted to the approval of the shareholders at the Combined General Meeting on May 23, 2012.

Shares purchases may be carried out, in decreasing order of priority, to:

- enhance trading in and the liquidity of the Company's shares by engaging the services of an independent investment service provider under a liquidity agreement in accordance with the AMAFI's charter;
- grant or transfer shares to employees in connection with the employee profit-sharing plan or the allotment of shares under the conditions provided for in Articles L.225-197-1 to L.225-197-3 of the French Commercial Code;
- allot shares in connection with the conversion or exchange of securities (including debt securities) conferring rights to the Company's share capital;
- purchase them for holding purposes and subsequently remit them as part of an exchange offer or in consideration for any acquisitions;
- cancel shares through a reduction in the share capital in accordance with the French Commercial Code.

III – Legal Framework

This program is compliant with the provisions of Articles L. 225-209 et seq of the Commercial Code and with the EC Regulation n° 2273/2003 of December 22, 2003 implementing the « Market Abuse » Directive 2003/6/CE of January 28, 2003, which became effective on October 13, 2004. It will be submitted to the approval of the shareholders at the Combined General Meeting of May 23, 2012, deliberating in accordance with quorum and majority voting requirement for Ordinary General Meetings. The corresponding resolution to be proposed by the Management Board is drafted as follows:

Purchase of Mersen shares

The General Meeting, under the conditions stipulated in Article L.225-209 et seq. of the French Commercial Code and European regulation 2273/2005 of December 22, 2003, authorizes the Management Board to acquire, on one or more occasions and by any means, a number of shares representing up to 10% of the shares comprising the Company's share capital, or a maximum of 2,028,835 shares.

The General Meeting resolves that purchases of the Company's shares may be made to:

- enhance trading in and the liquidity of the Company's shares by engaging the services of an independent investment service provider under a liquidity agreement in accordance with the AMAFI's charter;
- grant or transfer shares to employees in connection with the employee profit-sharing plan or the allotment of shares under the conditions provided for in Articles L.225-197-1 to L.225-197-3 of the French Commercial Code;
- allot shares in connection with the conversion or exchange of securities (including debt securities) conferring rights to the Company's share capital;
- purchase them for holding purposes and subsequently remit them as part of an exchange offer or in consideration for any acquisitions;
- cancel shares through a reduction in the share capital in accordance with the French Commercial Code.

The maximum purchase price is set at €60 per share. This price is set subject to adjustments related to any transactions affecting the Company's share capital. In view of the maximum purchase price set, the aggregate amount of share purchases may not exceed €121,730,124.

These share purchases, grants or sales may be entered into and paid for by any means, including as part of a liquidity agreement entered into by the Company with an investment services provider.

This authorization is valid until the general meeting called to vote on the financial statements for fiscal 2012. In no case whatsoever will this authorization remain valid for more than 18 months.

It replaces and supersedes the previous authorization granted previously to the Management Board by the Combined General Meeting of May 19, 2011.

The general meeting grants full powers to the Management Board, with the option of delegating them to the Chairman of the Management Board, to place all stock market orders, enter any into agreements, carry out all formalities and, generally speaking, do whatever is required to apply this authorization.

IV – Terms and conditions

1) Maximum percentage of the share capital to be acquired and maximum amount payable by Mersen

Mersen will have the option of acquiring up to 10% of the share capital at the date of the General Meeting, i.e. 2,028,835 shares. The Company reserves the right to make full use of the authorized program. Accordingly, the maximum amount that Mersen may pay assuming that it acquires shares at the maximum price set by the General Meeting, i.e.60 euros per share, would be 121,730,124 euros.

The Company's discretionary reserves, as stated under liabilities in the most recent annual financial statements prepared and certified at December 31, 2011, amounted to 256,872,170 euros ; Pursuant to applicable law, the size of the share repurchase program may not exceed this figure ahead of the December 31, 2012 close.

Mersen undertakes to stay below the direct and indirect ownership threshold of 10% of the share capital at all times.

2) Conditions governing repurchases

Share repurchases, sales, transfers may take place at any time within the limits laid down in the stock market regulations and by any means, through trading on the market, through the use of option instruments or through block share purchases, provided that the General Meeting does not place any special restrictions on acquisition of blocks of shares.

The Company will ensure not to increase the volatility of its shares when using options instruments.

3) Duration of the program

The share repurchases may take place only after the approval of the corresponding resolution to be presented to the Combined General Meeting of May 23, 2012 and until the date of the General Meeting convened to approve the financial statements for 2012. In no case, whatsoever will this authorization remain valid for more than 18 months.

4) Financing of the share repurchase program

Share repurchases will be financed using the Company's cash funds or using debt finance. The Company will adjust its credit lines to cover these share repurchases.

For information purpose, net cash from operating activities before capital expenditures came to 61.3 million euros at December 31, 2011. Equity attributable to the Group's shareholders stood at 532.5 million euros and net debt at 239.5 million euros.

V – Presentation of the likely impact of the share repurchase program on Mersen's financial situation

Calculations of the impact of the program on the Group's financial statements were made assuming the repurchase of 10% of the share capital based on Mersen's share capital at December 31, 2011.

The other assumptions were as follows:

- interest expense estimated at the gross annual rate of 3.5 % ;
- a unit repurchase price of 26.48 euros, the average closing price for sessions between January 16 and February 13, 2012 ;
- theoretical tax rate : 33 %.

On this basis, the impact of the share repurchase program on the Group's consolidated financial statements would be as follows:

(in million euros)	Consolidated financial statements at Dec 31, 2011	Impact of the repurchase of 10% of the share capital	Pro forma after the repurchase of 10% of the share capital	Impact of the repurchase *(as a %)*
Equity attributable to Group shareholders	532.5	(55.0)	477.5	-10.3%
Total equity	542.9	(55.0)	487.9	-10.1%
Net debt	239.5	53.7	293.2	22.4%
Total number of shares outstanding at Dec 31	20,288,354	2,028,835	18,259,519	- 10.0 %
Weighted average number of shares used to compute Earning per share	20,080,554	2,008,055	18,072,499	-10.0%
Net income attributable to Mersen's shareholders	**56.9**	**(1.3)**	**55.6**	**-2.2%**
Earning per share	**2.83**		**3.08**	**8.8%**

VI – Tax treatment of share repurchases

1) For Mersen

The repurchase by Mersen if its own shares as part of this program without cancellation of the shares would have an impact on its taxable income if the shares were sold or transferred at a price other than their repurchase price. Taxable income would then be affected by the capital gain or loss arising.

2) For shareholders selling shares

Capital gain tax regime applies to this repurchase program (Article 112-6 of the French Tax Code). Gains realized by legal entities subject to French corporate income tax incur business capital gain tax, in line with Article 39 *duodecies* of the French Tax Code. Gains realized by individuals in France are subject to the disposal gains on securities or other instruments regime provided for in Article 150-0-A of the French Tax Code. Under this regime, capital gains are taxable at a tax rate of 19 % (which means a total taxation of 32.5% when including social contributions). Gains are not taxable in France when realized by individuals who are not domiciled in France for tax purpose or by entities having their registered office located outside France (or with no permanent establishment in France holding shares on its balance sheet) without the former at any time having owned directly or indirectly, alone or with family members, a shareholding of over 25% in rights to the Company's corporate profits at any time whatsoever during the five years preceding the sale (Articles 244 bis B and C of the French Tax Code).

VII - Intervention by the person(s) controlling the issuer alone or in concert

No individual or legal entity controls Mersen either alone or in concert.

VIII – Breakdown of Mersen's share capital at December 31, 2011

Mersen's share capital is divided into 20,288,354 shares each with a par value of 2 euros, ownership of which at December 31, 2011 was as follows based on the information received by Mersen:

OWNERSHIP OF THE SHARE CAPITAL AT DECEMBER 31, 2011

Shareholders	Number of shares	% of share capital	% of voting rights
Public including :	20,233,735	99.8 %	100.0 %
- employees shareholders	193,414	1.0 %	1.0 %
- individual shareholders	3,613,040	17.8 %	17.8 %
- French institutional investors	9,584,581	47.3 %	47.4 %
- international institutional investors	6,842,700	33.7 %	33.8 %
Shares repurchased by the Company (liquidity agreement)	54,619	0.2 %	
TOTAL	**20,288,354**	**100.0 %**	**100.0 %**

To the Company's knowledge, the following shareholders own over 5% of the Company's share capital and voting rights :

Shareholder	Number of shares	Percentage
ACF I Investment (groupe AXA Private Equity)	3,521,922	17.36 %
Fonds Stratégique d'Investissement / Caisse des Dépôts et Consignations	3,138,987	15.47 %
SOFINA	1,582,400	7.80 %
Mondrian Investment Partners	1,273,000	6.28 %
Ameriprise Financial Inc.	1,127,400	5.56 %

The Company's knowledge, no other shareholders hold over 5% of the Company's share capital and voting rights.

There is no shareholder agreement.

As a result of the stock options granted under the 1999 to 2010 plans still outstanding at December 31, 2011, 507,857 new shares (following the adjustment after the capital increase carried out in October 2009) may potentially be issued. The information concerning Mersen stock options plans is shown on page 49 of this document.

The Bonds existing at December 31, 2011 entitle their holders to acquire 103,331 new shares each with a par value of 2 euros. Note that these Bonds may not be exercised prior to July 17, 2012, barring occurrence of specific events.

The total number of free shares that may be granted definitely at December 31, 2011 was 228,388 new shares each with a par value of 2 euros (following the adjustment after the capital increase carried out in October 2009).

IX - Persons responsible for this information memorandum

To the Company's knowledge, the information contained in this information memorandum is true and accurate. It provides all the information required for investors to make their own judgment of Mersen's share repurchase program. There are no omissions liable to impair its significance.

Shareholding

Share ownership thresholds crossed

March 17, 2011: Dimensional Fund Advisors LP, acting on its behalf and on behalf of its subsidiaries, crossed above the 1% threshold, holding 245,883 shares, representing 1.233 % of the share capital and 1.153 % of the voting rights.

April 6, 2011: Caisse des Dépôts et Consignations, via the Fonds Stratégique d'Investissement (FSI), crossed the following thresholds :

- March 31, 2011, above 11 % of the share capital and the voting rights
- April 4, 2011, above the 12 %, 13 % and 14 % thresholds of the share capital and voting rights.

On April 4, 2011, Caisse des Dépôts et Consignation (CDC) holds indirectly 2,838,503 shares and voting rights, representing 14.21 % of the share capital and the voting rights.

May 9, 2011: Caisse des Dépôts et Consignations, via the Fonds Stratégique d'Investissement (FSI), crossed above the 15% threshold. On May 4, 2011, CDC holds indirectly 2,994,662 shares and voting rights, representing 15.001 % of the share capital and the voting rights.

May 17, 2011: AMUNDI Group (Amundi, Société Générale et Etoile Gestion), following the purchase made on May 16, 2011, disclosed holding 249,939 shares, representing 1.25 % of the share capital and the voting rights.

June 9, 2011: Ameriprise notified that it holds 1,586,090 shares, representing 7.945 % of the share capital and the voting rights.

June 10, 2011: Amundi Group (Amundi, Société Générale Gestion et Etoile Gestion), following purchase made on June 9, 2011, declared that it holds 138,468 shares, representing 0.69 % of the share capital and the voting rights.

June 23, 2011: Mondrian Investment Partners declared that it holds 1,687,618 shares, representing 8.45 % of the share capital and 5.97% of the voting rights.

July 1, 2011: Ameriprise declared that it holds on June 30, 2011 1,387,363 shares, representing 6.950 % of the share capital and the voting rights.

July 5, 2011: BNP Asset Management declared, acting on its behalf and on behalf of Cam Gestion, Fundquest France and entities of Fortis Investments integrated in BNP Paribas Investment Partners, that it holds 222,995 shares, representing 1.11 % of the share capital and the voting rights.

July 8, 2011: Ameriprise declared that it holds on July 7, 2011 1,413 ,958 shares, representing 7.083 % of the share capital and the voting rights.

September 16, 2011: Threadneedle (subsidiary of d'Ameriprise Financial) declared that it holds on September 15, 2011, 1,386,781 shares, representing 6.947 % of the share capital and the voting rights.

September 20, 2011: Amundi Group (Amundi, Société Générale Gestion et Etoile Gestion) declared that it holds on September 19, 2011, 202,936 shares, representing a shareholding of 1.01 %.

October 25, 2011: Threadneedle (subsidiary of d'Ameriprise Financial) declared that it holds on October 24, 2011, 1,185,942 shares, representing 5.941 % of the share capital and the voting rights.

November 4, 2011: Norges Banks (the Central Bank of Norway) declared that it holds on November 1, 2011, 400,571 shares, representing a shareholding of 2.01 %.

CHANGE IN OWNERSHIP OF THE SHARE CAPITAL

	31 Dec. 2011			31 Dec. 2010			31 Dec. 2009		
Shareholders	Number of shares	% of the share capital	% of the voting rights	Number of shares	% of the share capital	% of the voting rights	Number of shares	% of the share capital	% of the voting rights
Public, including	20,233,735			19,916,343			19,603,222		
- French institutional investors	9,584,581	47.3 %	47.4 %	7,897,940	39.6 %	39.6 %	7,569,248	38.5 %	38.6 %
- individual shareholders	3,613,040	17.8 %	17.8 %	3,358,122	16.9 %	16.9 %	4,148,926	21.1 %	21.2 %
- employee shareholders	193,414	1.0 %	1.0 %	257,912	1.3 %	1.3 %	273,095	1.4 %	1.4 %
- international institutional investors	6,842,700	33.7 %	33.8 %	8,402,369	42.1 %	42.2 %	7,611,953	38.8 %	38.8 %
Shares repurchases by the Company (liquidity agreement)	54,619	0.2 %		26,434	0.1 %		42,187	0.2 %	
TOTAL	20,288,354	100.0 %	100.0 %	19,942,777	100.0 %	100.0 %	19,645,409	100.0 %	100.0 %

To the Company's knowledge, no shareholders other than ACF I Investment (AXA Private Equity Group), FSI/CDC, Sofina, Ameriprise Financial Inc. and Mondrian hold more than 5 % of the share capital and the voting rights of the Company.

The Management Board and the Supervisory Board members hold 44,392 registered shares and Management Board members hold 1,507 shares via the Mersen FCPE (Group Investment plan), representing 0.2 % of the share capital. The Company held 54,619 of its own shares at December 31, 2011 under a liquidity agreement complying with AMAFI's charter.

Dividend

	Number of shares at year-end	Earning per share *(in euros)*	Share price *(in euros)*			Overall yield based on year-end share price
		Dividend	High	Low	Last	
2007	14,280,735	0.85	61.77	41.60	47.20	1.8 %
2008	14,297,213	0.62	47.58	17.06	17.81	3.5 %
2009	19,645,409	0.50	28.07	14.46	25.40	2.0 %
2010	19,942,777	0.75	35.38	23.21	34.30	2.2 %
2011	20,288,354	1.00	42.81	21.17	23.35	4.3 %

Dividends payments are time-barred as prescribed by law, that is five years after their payment. After this time, payments are made to the French Tax Administration.

With respect to fiscal 2011, the third resolution of the Combined General Meeting of May 23, 2012 provides for a payment of a dividend of 1.00 euro per share, subject to shareholders' approval.

MERSEN SHARE

Mersen endeavors to meet the value creation targets of its shareholders and to promote a broader understanding of the Group by providing clear, regular and transparent information.

→ Share price performance

Mersen's share price increased during the first half of 2011. At June 30, 2011, the progression was 13.4% compared with December 31, 2010. During the second half of 2011, Mersen share price was affected by the financial crisis and the European uncertainties. It ends 2011 with a decrease of 25% compared with the end of 2010.

Share-related data

- Listing: NYSE Euronext Paris.
- Market: Eurolist Compartment B.
- Indices: CAC Allshares, CAC Mid&Small, Next 150.
- Eligible for deferred settlement and for inclusion in French PEA.
- ISIN code: FR0000039620.

Share price(1)

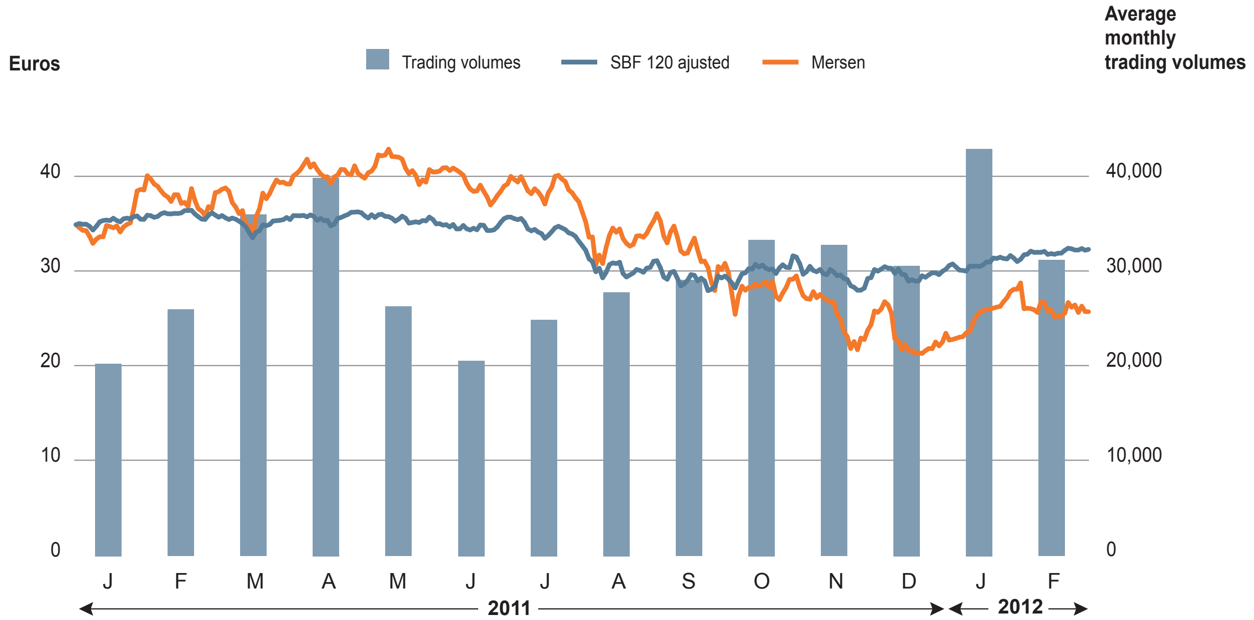
- December 31, 2011: €23.35.
- 2011 High: €42.81.
- 2011 Low: €21,17.

(1) at the close of the market.

Trading

- Average monthly trading volume in 2011: 567,379 (2010 average monthly trading volume: 463,202).
- Average daily trading volume in 2011: 28,999.

→ Share price performance and trading volumes



Euronext data.

Market data

Mersen share	Number of shares traded	Capital traded monthly[a] *(in M€)*	Average daily number of shares traded	Share price High *(in euros)*	Share price Low *(in euros)*	Share price Average *(in euros)*
2010						
January	654,711	17.03	32,736	27.80	24.17	26.01
February	552,088	13.42	27,604	25.60	23.35	24.31
March	581,287	14.98	24,892	27.25	23.71	25.83
April	572,324	15.79	28,616	28.55	26.20	27.62
May	564,541	14.66	26,883	27.05	23.95	26.00
June	356,833	9.90	16,220	29.27	25.60	27.83
July	313,654	8.58	14,257	28.51	26.45	27.39
August	270,368	7.73	12,289	29.50	27.01	28.64
September	520,859	15.31	23,675	32.76	26.81	29.54
October	393,151	12.59	18,721	32.94	32.3	32.05
November	343,360	10.88	15,607	34.50	31.07	31.67
December	435,250	14.80	18,924	35.38	31.12	34.06
2011						
January	427,390	14.93	20,352	38.55	32.85	34.94
February	521,420	19.66	26,071	40.00	35.77	37.70
March	830,317	31.15	36,101	39.55	33.61	37.51
April	760,013	30.73	40,001	41.75	39.20	40.44
May	580,588	23.72	36,390	42.81	39.06	40.86
June	454,292	17.85	20,650	40.86	36.91	39.29
July	524,585	20.38	24,980	40.04	37.01	38.84
August	641,590	21.58	27,895	37.24	30.61	33.63
September	642,352	20.54	29,198	36.00	27.86	31.98
October	702,411	19.73	33,448	29.41	25.35	28.09
November	723,596	18.18	32,891	27.75	21.62	25.12
December	644,315	14.76	30,682	26.69	21.17	22.91
2012						
January	946,929	24.03	43,042	28.67	22.63	25.37
February	641,841	16.58	30,564	26.69	25.09	25.84

Source : Euronext
(a) Based on monthly average share price

(share price in euros)	February 2012	January 2012	2011	2010
End of period	25.60	28.67	23.35	34.30
Number of shares at end of period	20,288,354	20,288,354	20,288,354	19,942,777
Market value at end of period *(in million euros)*	519	582	474	684
Average number of shares traded	30,564	43,042	29,888	21,702

Dividend per share

(in euro)	2011	2010	2009	2008	2007
	1.00	0.75	0.50	0.62	0.85

A confidence-based relationship with shareholders

Mersen maintains a confidence-based relationship with its shareholders built on transparency and communicates through various channels to give them a better understanding of the Group, its strategy, businesses and fundamentals.

The Group's investor relations strategy is predicated on an active program of information meetings and presentations, including :

- meetings in Europe and North America with institutional investors ;
- meetings and seminars on specific themes for investment analysts and business and financial journalists ;
- meetings with individual shareholders en France, backed up by a half-yearly newsletter.

To provide insight into the Group's business lines, Focus Mersen, a source of information about the Group distributed exclusively over internet, has been published since 2009. Fourteen editions were published since it was first launched.

Key events in 2011

Sales reports

Fourth quarter 2010 sales – January 25

First-quarter 2011 sales – April 20

Second-quarter 2011 sales – July 20

Third-quarter 2011 sales – October 25

Earning reports

Full-year 2010 results – March 16

Interim 2011 results – August 31

Meetings for institutional investors

In Europe and North America : during the year

Annual General Meeting

Paris – May 19

Meetings for individual shareholders

Toulouse – May 25

Lyon – December 15

Seminar for individual shareholders

Versailles – June 14 : Analysis of the economy in order to better understand the stock exchange

Investor relations calendar for 2012

Sales reports

Fourth quarter 2011 sales – January 24

First-quarter 2012 sales – April 25

Second-quarter 2012 sales – July 25

Third-quarter 2012 sales – October 24

Earning reports

Full-year 2011 results – March 15

Interim 2012 results – August 30

Meetings for institutional investors

In Europe and North America : during the year

Annual General Meeting

Paris – May 23

Officer responsible for information

Thomas Baumgartner

Group Chief Financial Officer

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Immeuble La Fayette
2 place des Vosges
92400 Courbevoie La Défense 5
Tel.: + 33(0) 1 46 91 54 19

5 Management report

Introduction

The Group's results for 2011 backed up its strategy of building up its positions in its two areas of expertise and expanding in solar energy and electronics, its two major growth markets.

Sales in renewable energies accounted for more than 18% of total sales, including close to 13.5% deriving from the solar segment. In the electronics market, Mersen finalized the acquisition of Eldre at the beginning of 2012. This purchase of the world's leading specialist manufacturer of laminated bus bars has strengthened its position as a leading partner to the power electronics industry.

Thanks to this positioning, the Group posted record sales in 2011 of €830 million, up close to 11% on a like-for-like basis. Its profitability also improved, since the Group recorded operating income before non recurring items of €103.5 million. This represented a margin of 12.5%, up 2 points from the previous year. Mersen exceeded its full-year targets for both these indicators. Its return on capital employed also advanced by almost 3 points to 12.8%.

Lastly, the Group was unable to match the operating cash flow performance it achieved in 2010. However, it bolstered its financial structure, with its net debt/EBITDA ratio improving to 1.61x by the end of the year. In addition, the Group completed a USD100 million private placement with an average maturity of 9 years at the end of the year, which gave it more of the funds it needs for its future expansion. As a result, Mersen had close to €500 million in credit lines available at December 31, 2011, with an average maturity of over four years.

Consolidated results

→ Sales

Mersen posted full-year 2011 consolidated sales of €829.6 million, which represented an increase of 10.7% on a like-for-like basis compared with 2010. On a reported basis, growth ran at 11.9%, with the positive impact of acquisitions (€19 million, attributable in particular to M.Schneider and Yantai Zhifu Graphite), offset partially by negative currency effects.

(in millions of euros)	2011	2010	total growth	organic growth
Advanced Materials and Technologies	379.6	324.8	16.9%	15.2%
Electrical Components and Technologies	450.0	416.4	8.1%	7.2%
GROUP TOTAL	**829.6**	**741.2**	**11.9%**	**10.7%**
Europe	310.6	281.6	10.3%	7.5%
Asia-Pacific	214.0	178.7	19.7%	13.4%
North America	263.4	236.9	11.2%	15.8%
Rest of the world	41.6	44.0	-5.4%	-6.7%
GROUP TOTAL	**829.6**	**741.2**	**11.9%**	**10.7%**

The **Advanced Materials and Technologies** segment's sales posted organic growth of 15.2% during the year, beating the pace achieved in 2010:

- **Solar energy** sales recorded strong growth across the Group to reach €110 million or close to 13.5% of the Group's total sales,
- In **process industries**, business trends were again brisk across all the Group's geographical regions,
- Trends in the **chemicals/pharmaceuticals** market showed strong growth, chiefly in North America. The order backlog in this market segment is at a record high.

Sales growth in **Advanced Materials and Technologies** slowed significantly towards the end of the year, owing chiefly to high temperature equipment for the **solar industry**, as a result of a very high base of comparison and slacker demand from solar cell manufacturers, as they had built up their inventories.

Sales growth in the **Electrical Components and Technologies** segment ran at 7.2% during the year, following on from organic growth of 12% in 2010:

- In electronics and transportation, growth was vibrant across all geographical regions.
- In the energy market, wind energy sales were again boosted by the momentum of the replacement market in Europe and North America,
- In process industries, growth was relatively weak over the year as a whole, with a slowdown during the second half.

Growth was stronger in North America (32% of Group sales) and in Asia (26% of Group sales), with both regions getting a boost from the momentum of all the market segments, particularly solar energy. Europe recorded weaker growth owing to the first signs of a slowdown in sales in process industries during the second half.

→ EBITDA and operating income before non-recurring items

EBITDA[1] totaled €140.7 million or 17.0% of sales, which represented a 23% increase compared with 2010.

in millions of euros	2011	2010
Operating income before non-recurring items	103.5	77.6
Depreciation and amortization	37.2	36.6
EBITDA	**140.7**	**114.2**
as a % of sales	*17.0%*	*15.4%*

The Group's operating income before non-recurring items[2] totaled €103.5 million in 2011. This represented a rise of 33% compared with 2010. The operating margin before non-recurring items worked out at 12.5% of sales, up 2 points compared with 2010. This improvement was led by the Advanced Materials and Technologies segment and was largely attributable to growth in business volumes, to a favorable pricing environment and to a very positive contribution of Yantaï. The profitability of the Electrical Components and Technologies segment held up in 2011, after a strong increase in 2010.

(in millions of euros)	2011	2010	% chg.
Sales	829.6	741.2	*+11.9%*
Gross income	264.4	231.1	*+14.4%*
As a % of sales	*31.9%*	*31.2%*	
Selling and other costs	(80.5)	(79.0)	*-2.7%*
R&D and administrative costs	(80.4)	(74.5)	*-7.9%*
Operating income before non-recurring items	**103.5**	**77.6**	**+33.4%**
As a % of sales	*12.5%*	*10.5%*	

Gross income rose by more than 14% owing to the increase in business volumes, a high production capacity utilization rate and a supportive pricing environment.

Selling, general & administrative costs and R&D costs increased as human resources were reinforced to cope with the growth in volumes.

(1) Operating income before non-recurring items + depreciation and amortization.
(2) Based on the definition laid down in CNC regulation 2009.R.03.

Net income

Net income attributable to Mersen's shareholders totaled €56.9 million, compared with €38.4 million in 2010.

(in millions of euros)	2011	2010
Operating income before non-recurring items	**103.5**	**77.6**
Non-recurring income and expense	(4.2)	(3.1)
Amortization and impairment of remeasured intangible assets	(0.9)	(0.9)
Operating income	**98.4**	**73.6**
Net finance income/(costs)	(10.2)	(10.8)
Income tax	(29.5)	(19.9)
Net income from continuing operations	**58.7**	**42.9**
Net income from operations sold or discontinued	1.0	(3.1)
Consolidated net income	**59.7**	**39.8**
Net income attributable to Mersen's shareholders	***56.9***	***38.4***

Trends in the principal income statement headings can be analyzed as follows:

- Non-recurring income and expense came to €4.2 million, primarily consisting of the reorganization-related costs at the M.Schneider facility in Germany.
- Amortization of revalued intangible assets came to negative €0.9 million, the same amount as in 2010.
- Mersen recorded €10.2 million in net financial costs during 2011, in line with the 2010 level of €10.8 million. This stability was attributable to a reduction in average debt between 2010 and 2011, which was offset by a negative currency effect and a rise in interest rates.
- Income tax expense totaled €29.5 million over the year, which represented an effective tax rate of 33%. In 2010, the effective tax rate stood at 32%.
- Income from discontinued operations totaled €0.9 million. It includes the earn-out payment from the sale of the Brushes and brushholders for automobiles and household electrical appliances division in 2009. During 2010, income from discontinued operations comprised the gain on the outsourcing of automobile business (the contract expired during the first half of 2011), as well as the resolution of a dispute with the previous owner of a subsidiary now sold.

Dividend

The Supervisory Board will propose payment of a dividend of €1.00 per share at the Annual General Meeting of the shareholders. If approved, this would lead to a total payout of €20.3 million, representing 35.7% of net income attributable to Mersen's shareholders and 34.5% of net income from continuing operations, in line with the dividend policy adopted by the Group over the past few years. A proposal of receiving this dividend in shares will be put to shareholders.

Cash and debt

Consolidated statement of cash flows

(€ 000s)	2011	2010
Cash generated by operating activities before change in the WCR	131.5	111.0
Change in the working capital requirement	(36.8)	(2.6)
Change in tax expense	(31.8)	(10.0)
Cash generated by discontinued operations	(0.4)	(0.9)
Net cash generated by operating activities	**62.5**	**97.5**
Capital expenditures	(53.3)	(31.5)
Net cash generated by continuing operations after capital expenditures	**9.2**	**66.0**
Impact of changes in the scope of consolidation	(9.5)	(16.7)
Disposals of non-current assets and other	7.9	2.6
Net cash generated/(used) by operating and investing activities	**7.6**	**51.9**
Non-recurring cash outflow (EU fine)		(29.1)
Interest payments	(9.8)	(9.6)
Dividends paid	(5.2)	(3.5)
Increase in the share capital and other	(0.2)	0.3
Net cash flow before change in net debt	**(7.6)**	**10.0**

The net cash generated during the year was lower than the very strong cash flows posted by the Group in 2010. This lower level of cash generation was chiefly attributable to an increase in inventories during a period of high activity and a large chemicals order backlog at the end of the year. Even so, inventories were being run down towards the end of the year, and the impact of this trend will be significant in 2012 given payment terms. The WCR has also increased by a rise in late payments, in particular in China.

Capital expenditures totaled €53.3 million, primarily reflecting the increase in graphite production capacity to meet demand for the solar energy, electronics and process industries markets. The investment policy is presented in this chapter.

Balance sheet

Net debt at year-end 2011 came to €239.5 million, slightly above the year-end 2010 level of €220.1 million. This increase reflects the buy-out of minority interests in Mingrong Electrical Protection and a limited negative currency effect owing to the appreciation in the US dollar towards the end of the period.

The Group's finances remain in good shape. Its net debt to EBITDA ratio stood at 1.61x*, down from 1.86x* at year-end 2010, while the net debt to equity ratio came to 44%*, stable compared with at year-end 2010.

	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008
Total net debt *(in millions of euros)*	239.5	220.1	214.9	305.9
Net debt/equity	0.44	0.44	0.50	0.93
Net debt/EBITDA	1.61	1.86	2.52	2.73

* *Ratio calculated using the method specified for the USD350 million syndicated loan.*

Operations outside France

In 2011, the Group had a customer-facing presence on five continents. The international positioning of its manufacturing facilities protects the Group from the impact of currency fluctuations on its competitiveness.

In 2011, around 90% of the Group's capital expenditures were devoted to international markets. The Group continued to bolster its production capacity for graphite blocks and machining in Asia and invested in new equipment in Asia to pursue expansion in the solar energy, electronics and process industries markets.

During 2011, the Group derived 90%(1) of its sales from outside France (i.e. sales generated by foreign companies excluding those realized in France and exports by French companies).

The sales contributed by the Group's consolidated subsidiaries outside France came to €663 million, up 15% compared with 2010 on a like-for-like basis.

Sales were especially brisk in North America (growth of 16% on a like-for-like basis) and in the Asia-Pacific region (increase of 13% on a like-for-like basis). Asia-Pacific now contributes around 26% of the Group's consolidated sales. Business in Europe grew by 7% (on a like-for-like basis).

Investment policy

→ Investments made during the past two fiscal years

During 2010, capital expenditures totaled €31.5 million. They were devoted primarily to bolstering the Group's production capacity in order to serve fast-expanding markets such as solar energy and China. The bulk of these investments were accounted for by capacity extensions at the St Mary's (United States) and Chongqing (China) plants, as well as the extension to the Xianda facility (China) for the development of the nuclear, seawater desalination and also pharmaceutical markets. Other capacity investments were made, notably at the graphite finishing facilities.

Spending on acquisitions totaled around €17.0 million. These included the purchase of the M.Schneider group, the leader in the German-speaking market for DIN fuses and fuseholders, a standard enjoying strong expansion, particularly in China. It also concerns the acquisition of a controlling 85% interest in Boostec, a French advanced technology company developing innovative ceramic products, and the purchase of a 60% interest in Mersen Yantai, a Chinese company specialized in graphite machining for the production of monocrystalline silicon for the photovoltaic industry.

During 2011, Mersen maintained its investment spending with a view to making further inroads into expanding segments and regions, such as Asia, alternative energies and chemicals/pharmaceuticals. During 2011, investments in continuing operations amounted to €53.3 million. Mersen continued to increase its production capacity, carrying on where the investments it committed in 2010 left off.

Spending on acquisitions came to €9.5 million in 2011. They chiefly comprised the payment of a portion of the consideration for the buyout of minority investors in Mingrong Electrical Protection (MEP). The remainder of €7.4 million was recognized under financial liabilities.

Pursuant to the Group's internal procedure, the Supervisory Board authorizes all investments in excess of €10 million, as well as all acquisitions of over €3 million.

(1) Continuing operations

(in millions of euros)	Continuing operations 2011	2010
Increase in intangible assets	(0.2)	(0.2)
Increase in property, plant and equipment	(48.1)	(36.3)
Increase in financial assets		(1.2)
Other changes in cash generated/(used) by investing activities	(5.2)	4.8
Exceptional sales of assets	5.1	4.0
SUB-TOTAL	**(48.4)**	**(28.9)**
Investments linked to acquisitions	(9.5)	(17.0)
Investments linked to asset disposals	3.0	0.3
TOTAL	**(54.9)**	**(45.6)**

Financing policy

A Group policy has been defined for financing, which is coordinated by the Finance and Administration department.

The Group possesses confirmed credit lines, which have not been drawn down in their entirety.

Most of the Group's borrowings have been arranged by Mersen SA. Cash pooling systems in Europe, the United States and China help to optimize use of all the credit lines.

In 2003, the Group refinanced a bank loan due for repayment by means of private placements in the US with an average redemption date of 2015 to diversify its sources of financing.

During 2007, the Group launched an issue of bonds convertible into new and/or exchangeable for existing shares through attached warrants ("OBSAAR" bonds) with an average life of six years.

In 2008, the Group refinanced its syndicated loan due to expire in late 2009, replacing it with a new five-year syndicated loan.

In 2010, the Group refinanced its syndicated loan in China due to expire in September 2011, replacing it with a new three-year syndicated loan.

During 2011, the Group extended the maturity of its syndicated loan in China by a further year until September 2014. Secondly, the Group finalized a USD100 million private placement due to mature in 2021 in order to extend the maturity of its debt and diversify its sources of funding.

All the details concerning borrowings are presented in Note 15 to the consolidated financial statements.

Relations between the parent company and its subsidiaries

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

Mersen SA belongs to the Mersen group, which encompasses 91 consolidated and unconsolidated companies in 37 countries. The Group's largest manufacturing facilities are located in France, the United States, China, Germany and Mexico.

The Group's Executive Committee runs the Group's operational direction. In some cases, Executive Committee members (including the Management Board) are directors or officers in companies belonging to their segment.

Parent company results and financial statements

→ Parent company's financial position

The sales and other revenues recorded by the parent company, Mersen SA, amounted to €3.3 million. These revenues derived from Mersen SA's activities as a holding company, namely the management of investments in subsidiaries and affiliates, Group financing and various other services.

The parent company's operating loss, which reflects the holding company's operating expenses, came to €4.7 million, which was larger than in the previous year owing to costs arising from the departure of the Chairman of the Management Board, who left the Company in 2011.

Net financial income increased significantly to €32.2 million from €18.3 million in 2010 owing to the decline in impairment losses on investments in subsidiaries and affiliates.

The parent company's income before tax and non-recurring items came to €27.5 million. The parent company posted an exceptional profit of €0.4 million, compared with a loss of €1.2 million in fiscal 2010.

The parent company recorded a tax benefit of €1.9 million. This was the result of the tax paid by the French subsidiaries consolidated for tax purposes.

Taking all these items into account, the parent company posted net income of €29.8 million, up from €14.6 million in 2010.

→ Information about payment terms for the parent company's suppliers

The standard terms of payment for suppliers are 45 days end of month.

In accordance with Article D. 441-4 of the French Commercial Code, the maturity schedule for trade payables at December 31, 2011 comprised €0.7 million in amounts payable within less than 30 days and €0.1 million in amounts payable between 30 and 60 days. At December 31, 2010, the amounts payable within less than 30 days stood at €0.6 million and amounts payable between 30 and 45 days at €0.2 million.

Research and development policy

The Research and development policy covers the development of materials, manufacturing processes, products, systems and applications, the purpose of which is to safeguard the Group's profitable growth by developing an innovative and made-to-measure range of solutions catering to the needs of our strategic markets and reducing manufacturing costs. Mersen works closely with all its industry-leading customers in order to consolidate its technical leadership and to deliver innovative products.

The Group devotes around 3% of its sales to research and development concerning product development (materials/processes) and technical sales efforts with a view to adapting its solutions or services constantly to the specific requirements of each customer.

Most of this expenditure is financed internally.

The Group's approach is part of a continuing program. During 2011, as in previous years, innovation focused on two principal areas:

- developing "clean tech" products and solutions for sustainable development-related markets in the form of projects that will help to drive Mersen's growth over the long and short term;
- increasing the competitiveness of the products sold by the Group's core businesses.

Of the 2011 principal innovation projects pursued in 2011, 13 related to sustainable development markets in solar energy, wind energy, energy efficiency, LEDs and rail transportation, while the other seven were focused on a strategy of opening up new markets or consolidating the Group's positions through enhanced processes, targeting markets such as pharmaceuticals, electricity distribution, organic and mineral chemicals.

In 2011, the Group signed a major agreement with Corning SAS to manufacture ceramic continuous flow reactors for the specialty chemicals and pharmaceuticals sectors, as well as for the oil and gas industry. The new reactors will deliver a genuine technological breakthrough, by reducing the number of production stages and enhancing chemical reactions in what will be more compact and safer plants.

Risk management

The Risk, Internal Audit and Safety department coordinates the management of risks. Its role consists in:

- detecting the principal risks facing the Group;
- defining a risk prevention and mitigation policy;
- proposing action plans and making sure they are implemented;
- and safeguarding the security of information systems.

The Risk, Internal Audit and Safety department reports to the Management Board and to the Audit and Accounts Committee.

The mapping of operational, financial, strategic and information-related risks was first carried out in 2001 and has been updated every three years since then. At the request of the Audit and Accounts Committee, a decision was made to update this risk mapping survey on an annual basis from 2010. Even so, a detailed update will still be performed every three years. Accordingly, the Group carried out an update of its risk mapping in 2011. A new methodological approach was introduced on the recommendation of an external firm. For each category, the potential risks were classified based, firstly, on their significance (combination of their potential impact and their probability of occurrence) and, secondly, according to the level of control provided by existing risk control measures. This approach aims to draw a distinction between risk mitigation plans and measures controlling the effectiveness of existing action plans. No major risks came to light that were deemed to be insufficiently controlled. That said, new action plans were drawn up, as well as process for controlling existing plans. The risk mapping was presented to the Management Board and to the Audit and Accounts Committee.

Industrial risks and environment-related risks

The Risk, Internal Audit and Safety department continued to implement measures to curb the risks identified in the risk mapping update conducted in 2010. Some of these action plans were completed, while others are still underway. These initiatives focused primarily on:

- taking steps to secure the procurement of certain products that are strategically important for the Group by forming partnerships with its usual suppliers and identifying additional sources;
- finalizing the update of the major scenarios and implementing the action plans;
- relaunching a campaign to reduce consumption of energy and raw materials. This study program is due to be finalized in 2012, with new measures being implemented;
- the Risk Department also took steps to implement the new Grenelle 2 environmental protection regulations. The Group worked on rolling out a reporting standard. This task was carried out in conjunction with an external firm to ensure that the regulations are applied correctly.

Efforts concerning the REACH regulations focused during 2011 on monitoring certain raw materials that will need to be registered in 2013. The Group also set up a monitoring unit to take into account the new rules introduced by the ECHA. In particular, this new unit monitored the changes in the standards related to pitch, which is used in the manufacture of graphite products. To recap, during 2010, the Group registered the products subject to the REACH regulations, chiefly graphite. It also tracked the progress made with REACH registrations by its suppliers of certain strategic substances used in its manufacturing processes. This initiative was implemented to secure the Group's strategic purchases as far as possible.

As in previous years, inspections were arranged in conjunction with the Group's insurance experts to assess the level of fire prevention and protection at the Group's principal manufacturing facilities in and outside France. These inspections led to the drafting of recommendations to reinforce fire prevention and protection systems wherever necessary. The measures implemented undergo formal monitoring at least once every year with the Group's insurers.

Mersen also actively continued its efforts to eliminate the use of potential pollutants or to curb their use very strictly indeed. The Group continues to invest in improving working conditions and, more specifically, certain processes in order to reduce as far as possible the risks linked to CMR (cancerogenic, mutagenic and toxic to reproduction) substances. Soil monitoring is conducted to verify the conformity of samples with the regulations in force on a regular basis. Follow-up samples were taken following detection of a limited soil pollution problem during our 2010 monitoring campaign. This monitoring revealed that the extent of the pollution was indeed very limited and was not increasing. To recap, this pollution was caused by the processes and products used at the site more than 20 years earlier, before it was owned by the Group. The processes used have since been modernized and are under control. The products used at the time were replaced many years ago and are no longer in use.

The Group is also working on developing the eco-design of its products. Several initiatives and projects are currently in progress (see Chapter 2 on "Corporate social responsibility and Sustainable development")

Information systems risks

The information system security function continued to implement a series of measures aimed at safeguarding the integrity, availability and confidentiality of the Group's information systems.

In particular:

- after developing a cross-audit system and training a group of auditors in North America during 2010, it actually conducted cross audits in the region during 2011;
- it continued to develop centralized control systems that can be used to check remotely whether Group rules are being applied properly and rolled out a remote audit system checking whether the Group's safety guidelines have been implemented;
- it conducted network audits.

New Group rules were put online during 2010, as well as a self-assessment tool in late 2011. This system enables business units to conduct a self-assessment of their compliance with the Group's standards and help improve information systems security.

Raw materials risks

To secure its supply chain, the Group continued its research program and efforts to identify alternative procurement sources should it have to deal with a supplier holding a dominant position so that it can protect its purchases of the most sensitive materials over the long term.

From a more global perspective, the purchasing teams continued to achieve concrete results from their collaboration with technical teams on redesign to cost projects in order to enhance performance of suppliers with a view to:

- securing more competitive purchasing prices and industrialization solutions;
- planning ahead for the possible replacement of purchased products not deemed to comply with the REACH regulations;

- helping to reduce consumption of energy and raw materials used in the manufacture of finished products.

What's more, to protect against price increases, exposure to certain raw materials was hedged using either derivative products or supplier-provided protection (see the section on financial market and financing risks below).

Commercial risks

The risk arising from the failure of the Group's principal customers is modest as a result of the diversification of its portfolio. The Group's top ten customers accounted for just 17.1% of the Group's consolidated sales.

PROPORTION OF SALES DERIVING FROM THE GROUP'S PRINCIPAL CUSTOMERS

	2011		2010	
(€ 000s)	Sales	% of sales	Sales	% of sales
With the Group's leading customer	23,246	2.8%	20,687	2.8%
With the Group's top 5 customers	89,379	10.8%	77,277	10.4%
With the Group's top 10 customers	141,464	17.1%	118,028	15.9%

Country risks

The Group has manufacturing facilities in countries considered to be at high risk (based on the Coface's classification), i.e. in Argentina and Greece.

These unconsolidated subsidiaries potentially represent a risk, albeit a very modest one given their size, since their sales totaled less than €2.6 million in 2011.

Broadly speaking, the Group is not immune from geopolitical risk.

Insurance

The Group has arranged worldwide insurance programs with prime insurance companies to cover its main property/business interruption, civil liability, environmental, civil aviation and transport risks. These worldwide programs provide all the Group's subsidiaries with cover and restrictions tailored to their needs. No captive policies have been arranged.

The Group's civil liability (operations, before and after delivery) and environmental insurance programs notably cover bodily injury, physical and consequential damage, site clearance and rebuilding costs, withdrawal costs, damage to property entrusted with the Group and pollution abatement costs, subject to the usual deductibles, exclusions and restrictions. The program comprises a master policy in France and local policies in certain countries. The total premiums paid by the Mersen group during fiscal 2011 in respect of its civil liability, environmental and civil aviation insurance program came to €689,912.

The Group's property/business interruption insurance program notably covers bodily injury and physical damage, as well as losses caused by the interruption of business at the Group's main plants as a result of any sudden and accidental events (such as fire, storm, explosion, electrical damage, theft, etc.), subject to the usual deductibles, exclusions and restrictions. The program comprises a master policy and local policies in certain countries. It provides a contractual restriction per event (property/business interruption combined) of €100 million with sub-restrictions for certain events, such as storms, natural disasters or certain specific guarantees, such as machine failures and IT and electrical risks. The total premiums paid by the Mersen group during fiscal 2011 in respect of this insurance program came to €1,080,997.

Under the Group's transport insurance program, Mersen and its subsidiaries are protected by a worldwide policy that provides a guarantee of up to €5 million per shipment for all the Group's goods shipments, irrespective of the means of transportation used. Mersen paid a premium of €41,310 under this insurance program in fiscal 2011.

The Group's insurance policy is determined by the Management Board. To protect the Group's future, the levels of coverage are set based on the Group's claims experience and an assessment of the risks incurred by each Group subsidiary. Amid the high level of claims recorded in 2010, notably following the incident that occurred at the Gennevilliers site in April 2010, certain deductible levels in the property/business interruption insurance program arranged in early 2011 were adjusted. All the Group's other insurance policies remained unchanged by comparison with the previous year. The improvement in the Group's insurance loss record during 2011 and continued efforts under its risk mitigation policy helped to maintain its coverage levels and premiums for 2012.

Human and social risks

To guard as best it can against the risk of losing expertise, the Group prepared action plans with respect to the key personnel within its organization during its management reviews and introduced measures to maintain their loyalty and/or ensure that they could be replaced.

In general terms, a review of the competencies that the Group will need over the next few years was carried out by each business unit to identify key jobs for the Group and to equip existing teams with the know-how they will need. Planning ahead for departures linked to demographic trends in Mersen's workforce is also a key aspect of its policy of forward human resource planning.

The "Seniors and Group culture management" work group drafted an action plan that will be implemented progressively around the world (with adjustments to take into account the labor rules applicable in the various countries in which the Group is present). The aim of the action plan is to replace and pass on the knowledge gained by seniors, increase the size of the workforce and the managers' competencies to help drive the Group's growth, and develop communication about its values and corporate culture. It includes implementation of a process identifying key competencies at global level and organizing their dissemination. The process of defining core competencies was rolled out at the Group's major manufacturing facilities from March 2009 onwards. For each employee whose skills are considered to be crucial, a succession plan is drawn up, which needs to be updated on an annual basis. The transfer of skills is recorded formally through an experience interview held by managers with each of their employees when they turn 58 (this age may vary from country to country depending on the legislation and local practices). In France, the December 2009 agreement on the management of seniors strengthened the competency development and career support process for senior employees (i.e. those aged 50 or over). Mentoring was also organized at various facilities in France, with seniors training employees in key jobs.

In France, management and all the Group's labor partners signed an agreement on well-being in the workplace in September 2011. A monitoring committee has been set up to evaluate progress towards achieving the undertakings given in these negotiations. Indicators, including staff turnover, absenteeism rate, the proportion of new projects taking psychosocial risks into account and the number of occupational conditions diagnosed, will be analyzed every year to determine the level of employee well-being in France. What's more, an agreement on occupational stress was signed in November 2011. It lays down a methodological approach (analytical chart and labor/management committees at each plant) for determining which jobs have stressful aspects. At the end of this diagnostic assessment, an agreement or an action plan are implemented to retain Mersen's employees for as long as possible and to protect their health in the workplace. The Group will focus on reducing multiple sources of exposure to physical stress and making adjustments to workstations as soon as practicable.

The Company pays particular attention to the quality of its labor relations and to dialog with employees and unions. For example, union representatives, employee representatives and the Group's Management meet each year as part of the Group Works Committee in France and the European Works Committee. In addition, the central delegates of all the unions represented at the Group's plants in France meet with the Group's human resources department on an annual basis.

When restructuring measures liable to have an impact on the workforce are contemplated, the solutions envisaged are studied in conjunction with the unions and employee representatives in accordance with the provisions of law. Appropriate measures are taken to reassign affected employees to new positions within or outside the Group.

The Amiens manufacturing facility is an example of this policy. In the past, the plant had two main activities:

- the first, which served the automobile, household electrical appliance and hand-held power tool industries, had faced economic difficulties for several years. Its activities could no longer be pursued sustainably and profitably within the Group;
- the second, whose principal customers are in the energy, transportation and process industries, is expanding and harnessing genuine growth opportunities on which Mersen intends to capitalize.

During 2007, a streamlining and industrial retraining plan was drawn up for the Amiens plant. This plan consisted in gradually transferring the automobile operations to two other plants and initiating substantial investments to increase its research and development capabilities and the volume of rail collection business.

In parallel to this industrial plan, a training, reskilling and retraining plan was launched. Its goal was to restrict the social impact of the restructuring plan on the employees working for the first unit by enabling them to retrain in the second unit's business under an ambitious professional training and retraining plan. The Amiens plant aimed to protect a total of 134 jobs in this manner. By the end of 2011, four years after the project first began, all the relevant former employees had been retrained.

Tax risks

The Group undergoes regular tax audits by the tax authorities in the countries in which it operates.

Financial market and financing risks

Currency risks

Currency risks are addressed in the “Currency risks” section of Note 3 to the consolidated financial statements.

Interest-rate risk

Interest-rate risks are addressed in the “Interest-rate risks” section of Note 3 to the consolidated financial statements.

Commodity risks

Commodity risks are addressed in the “Commodity risks” section of Note 3 to the consolidated financial statements.

Counterparty risks

All hedging transactions are entered into with prime financial institutions. The Group has no material investment securities and is not exposed to counterparty risks on such securities. In terms of credit risk, the Group set up an insurance program with commercial credit insurer Coface covering its principal companies in the US, France, Germany, the UK and China (domestic customers) against the risk of non-payment for financial or political reasons. Coverage varies between 0 and 90% of invoiced amounts from customer to customer.

Liquidity risks

Liquidity risks are addressed in the “Liquidity risks” section of Note 3 to the consolidated financial statements.

Equity risks

At December 31, 2011, the Group held 54,619 shares in treasury worth €1.2 million. At the same date, the Group had not subscribed any shares in listed companies.

Legal risks

Dependence of the Company

The Mersen group is not dependent on any patent, license or supply contract that may have a material adverse effect on its business activities or profitability.

The Group’s principal customer contributed 2.8% of its sales. Its top 10 customers generated 17.1% of its sales.

Litigation

Civil proceedings in Canada

The separate lawsuit initiated during 2004 in Canada by certain customers against the main Canadian manufacturers of graphite brushes, including Mersen Toronto (previously Carbone of America Ltd), a Canadian subsidiary of Mersen, is still in progress and there have been no new developments since 2007. To recap, this lawsuit was instigated following the fine of CAD1 million that Morgan Crucible Ltd was ordered to pay in July 2004 for anti-trust practices in the field of graphite brushes for traction applications during the 1995-1998 period. No new developments occurred in 2011. To recap, the Canadian judge ruled in February 2007 that only Canadian urban transportation companies could join the proceedings in progress. The amount at risk for Mersen Toronto (formerly Carbone of America Ltd) remains non-material.

Civil proceedings in the United Kingdom

<u>2007 civil action:</u> During 2011, the CAT (Competition Appeal Tribunal) handed down a ruling favorable to Mersen, by agreeing to exclude its UK subsidiary from the action. This decision represents a key development in the proceedings supporting Mersen’s rebuttal of the claims for compensation lodged by customers with the CAT. The plaintiffs have appealed this decision. To recap, in October 2007, three customers called on Mersen to appear in the proceedings they had initiated in early 2007 before the CAT against Morgan, SGL Schunk. With these proceedings, the plaintiffs are attempting to secure redress in the CAT for losses that they allegedly suffered following practices sanctioned in December 2003 by the European Commission in brushes for electric motors and products for mechanical applications. Mersen rejects all of the allegations made by the plaintiffs.

<u>2011 civil action:</u> In February 2011, the Deutsche Bahn group, together with other European rail companies, announced that it was launching legal action against Morgan, SGL, Schunk and Mersen in the CAT. The plaintiffs are attempting to secure redress in the CAT for losses that they allegedly suffered following practices sanctioned in December 2003 by the European Commission in brushes for electric motors and products for mechanical applications. During May 2011, the CAT ruled that plaintiffs’ action against Morgan was time-barred. The plaintiffs have appealed this decision. The action against Mersen, Schunk and SGL has been suspended pending the outcome of the appeal.

Since 1999, the Group has developed a worldwide compliance program to provide training for and raise the awareness of operational and commercial managers about competition legislation. This worldwide compliance program remains in place. It was updated again in June 2010 following the change in the Group’s name and corporate identity. Highly stringent internal control measures and external audits ensure that competition legislation is scrupulously complied with in all the countries where the Group is present.

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

Following the tragic accident that occurred on April 7, 2010, at Mersen's site in Gennevilliers, a police investigation and then a criminal investigation were launched to determine the exact circumstances and causes of this accident, as well as any criminal responsibilities. The criminal investigation continues and there were no significant developments during 2011.

Based on the information available, the requisite provisions have been set aside for all the identified litigation in progress.

There are no other governmental, legal or arbitration proceedings, including any such proceedings which are pending or threatened of which the Group is aware, during the previous 12 months which may have, or have had in the recent past material adverse effects on the Group's business activities, financial position or results of operations.

Recent trends and outlook for 2012

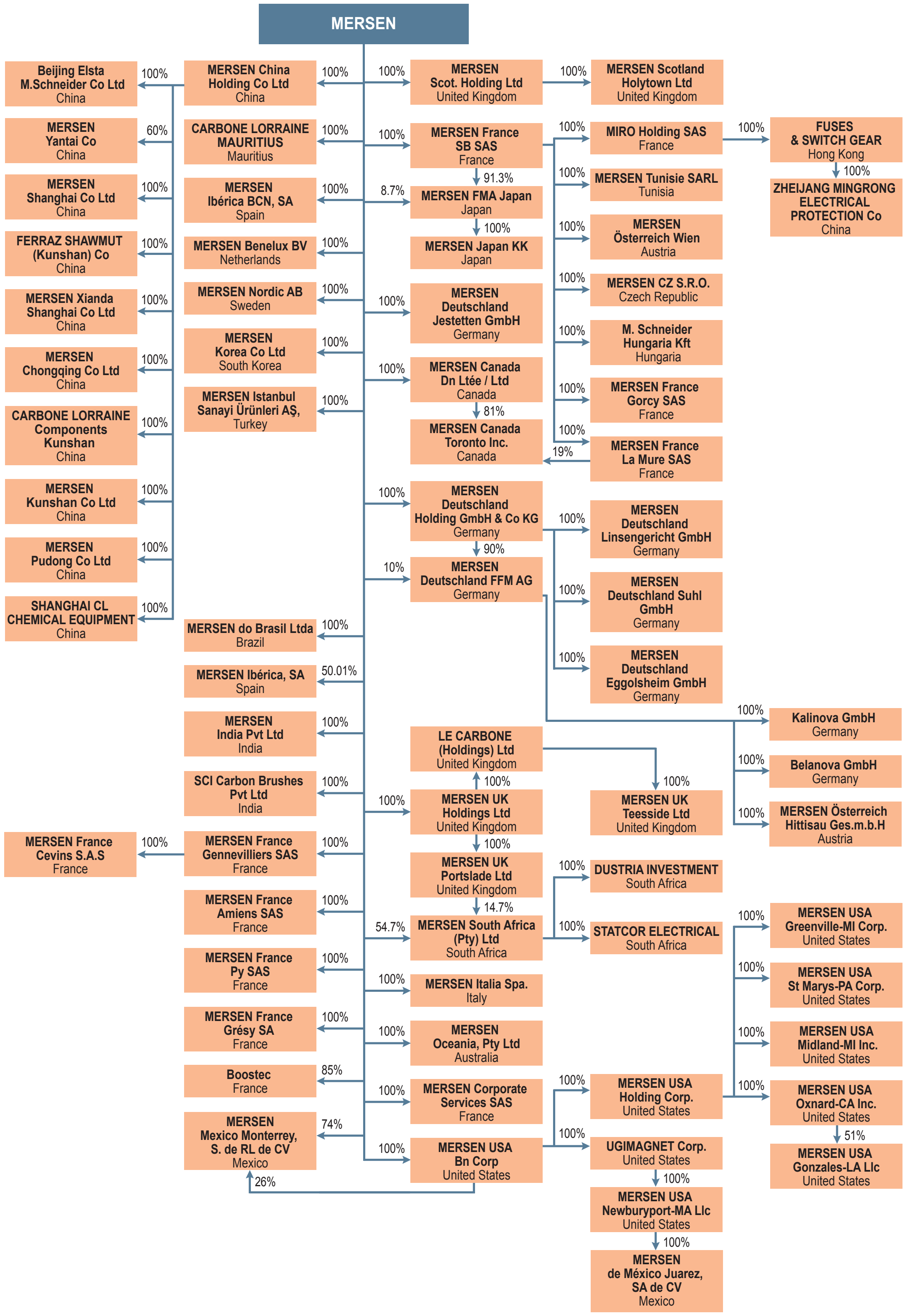
Visibility on 2012 remains limited. As previously announced, the Group anticipates, during the first part of the year, a moderate decline in sales (on a like-for-like basis) compared to the very good level in 2011. This decline would be principally due to the decrease in activity in the solar energy market pending the absorption of solar cell inventories in China, and also to the unfavourable macroeconomic environment in Europe. During the second half, the Group is expected to reap the benefit of firmer conditions in the solar energy market and of higher deliveries to the chemicals sector. For 2012 as a whole, the product mix is unlikely to be as supportive as in 2011, but the Group will benefit from the impact of the spending caps already introduced and the ramped-up measures to enhance cash management. The Group is thus starting out in 2012 confidently and will continue to execute its growth strategy in expanding markets, while remaining attentive and responsive to fluctuations in the global economic environment.

For the medium term, the Group is very confident on the performance it can expect from its competitive position and the solid partnerships it has built with its main customers.

Consolidated financial statements

6

Scope of consolidation at December 31, 2011



List of consolidated companies

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

	Method of consolidation IG: Full consolidation	% of voting rights held by the Group	% of the share capital owned by the Group
19. MERSEN Canada Dn Ltée / Ltd. (Canada)	IG	100	100
- MERSEN Canada Toronto Inc. (Canada)	IG	100	100
20. MERSEN USA Bn Corp. (United States)	IG	100	100
- MERSEN USA Holding Corp. (United States)	IG	100	100
- MERSEN USA Greenville-MI Corp. (United States)	IG	100	100
- MERSEN USA St Marys-PA Corp. (United States)	IG	100	100
- MERSEN USA Midland-MI Inc. (United States)	IG	100	100
- MERSEN USA Oxnard-CA Inc. (United States)	IG	100	100
- MERSEN USA Gonzales-LA LLC (United States)	IG	51	51
- Ugimagnet Corp. (United States)	IG	100	100
- MERSEN USA Newburyport-MA LLC (United States)	IG	100	100
- MERSEN de México Juarez, S.A DE. C.V (Mexico)	IG	100	100
21. MERSEN México Monterrey, S de R.L. de C.V. (Mexico)	IG	100	100
22. MERSEN Oceania, Pty Ltd. (Australia)	IG	100	100
23. MERSEN Korea Co. Ltd. (Korea)	IG	100	100
24. MERSEN India Pvt. Ltd. (India)	IG	100	100
25. SCI Carbon Brushes Pvt. Ltd. (India)	IG	100	100
26. Carbone Lorraine Mauritius (Mauritius)	IG	100	100
27. MERSEN China holding Co. Ltd (China)	IG	100	100
- MERSEN Pudong Co Ltd (China)	IG	100	100
- MERSEN Chongqing Co Ltd (China)	IG	100	100
- Carbone Lorraine Components Kunshan Co Ltd (China)	IG	100	100
- MERSEN Kunshan Co Ltd (China)	IG	100	100
- Shanghai Carbone Lorraine Chemical Equipment Cy Ltd (China)	IG	100	100
- MERSEN Xianda Shanghai Co. Ltd (China)	IG	100	100
- MERSEN Shanghai Co. Ltd (China)	IG	100	100
- Ferraz Shawmut (Kunshan) Company (China)	IG	100	100
- MERSEN Yantai Co (China)	IG	60	60
- Beijing Elsta M.Schneider Co Ltd (China)	IG	100	100
28. MERSEN South Africa PTY Ltd (South Africa)	IG	69	69
- Statcor Electrical (South Africa)	IG	69	69
- Dustria Investment (South Africa)	IG	69	69
29. MERSEN do Brasil Ltda. (Brazil)	IG	100	100
30. MERSEN Istanbul (Turkey)	IG	100	100

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

Changes in the scope of consolidation during the past two years

The principal changes that affected the consolidated financial statements in 2010 and 2011 are presented below:

- during fiscal 2010:
  - Lumpp, a company that merged with and into Mersen France PY, was consolidated for the first time from January 1, 2010,
  - Fuses & Switchgear (Mingrong's parent company), Zhejiang Mingrong Electrical Protection, Mersen Shanghai Co. Ltd and Ferraz Shawmut Kunshan were consolidated for the first time from January 1, 2010,
  - French company Boostec, which was acquired in March 2010, was consolidated for the first time from January 1, 2010,
  - the M.Schneider group companies were acquired on May 1, 2010 and were also consolidated for the first time from the same date,
  - Mersen France Grésy was consolidated for the first time from January 1, 2010,
  - Mersen Yantai Co, which was incorporated on November 1, 2010, was also consolidated for the first time from the same date.

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

- during fiscal 2011:
  - Beijing Elsta M. Schneider Co. Ltd, a Chinese company whose minority investors were bought out by the Group during the first half of 2011, was consolidated for the first time from January 1, 2011.
  - Mersen Istanbul Sanayi Ürünleri was also consolidated for the first time from January 1, 2011.

IFRS

In accordance with European regulation no. 1606-2002, which applies to the consolidated financial statements of listed European companies, the consolidated financial statements of the Mersen group have been published using the internationally recognized IFRS since 2005 because the Group is listed in a member state of the European Union.

Consolidated income statement

In millions of euros	Note	2011	2010
CONTINUING OPERATIONS			
Consolidated sales	18	829.6	741.2
Cost of sales		(565.2)	(510.1)
Gross income		**264.4**	**231.1**
Selling and marketing costs		(75.8)	(73.6)
Administrative and research costs		(80.4)	(74.5)
Other operating costs		(4.7)	(5.4)
OPERATING INCOME BEFORE NON-RECURRING ITEMS		**103.5**	**77.6**
Non-recurring charges	17	(7.2)	(6.3)
Non-recurring income	17	3.0	3.2
Amortization of remeasured intangible assets		(0.9)	(0.9)
OPERATING INCOME	**18-20**	**98.4**	**73.6**
Financial expense		(10.2)	(10.9)
Financial income			0.1
Finance costs		(10.2)	(10.8)
Net finance income/(costs)		**(10.2)**	**(10.8)**
Income before tax and non-recurring items		**88.2**	**62.8**
Current and deferred income tax	22	(29.5)	(19.9)
Net income from continuing operations		**58.7**	**42.9**
Net income from assets held for sale or discontinued operations	5	1.0	(3.1)
NET INCOME FOR THE YEAR		**59.7**	**39.8**
Attributable to:			
- Equity holders of the parent		56.9	38.4
- Non-controlling interests		2.8	1.4
NET INCOME FOR THE YEAR		**59.7**	**39.8**
Earnings per share	**23**		
Basic earnings per share *(€)*		2.83	1.94
Diluted earnings per share *(€)*		2.73	1.88
Earnings per share from continuing operations	**23**		
Basic earnings per share *(€)*		2.79	2.10
Diluted earnings per share *(€)*		2.69	2.03

Condensed statement of comprehensive income

In millions of euros		2011	2010
NET INCOME FOR THE YEAR		**59.7**	**39.8**
Change in fair value of hedging derivatives	21	(0.2)	(1.7)
Change in balance sheet items at year-end exchange rate		8.5	24.4
Tax on income recognized in equity	21	0.1	0.7
INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY		**8.4**	**23.4**
TOTAL INCOME AND EXPENSE RECOGNIZED DURING THE PERIOD		**68.1**	**63.2**
Attributable to:			
- Equity holders of the parent		65.7	61.5
- Non-controlling interests		2.4	1.7
TOTAL INCOME AND EXPENSE RECOGNIZED DURING THE PERIOD		**68.1**	**63.2**

Consolidated statement of financial position

ASSETS

In millions of euros	Note	Dec. 31, 2011	Dec. 31, 2010
NON-CURRENT ASSETS			
Intangible assets			
Goodwill	6	264.0	260.8
Other intangible assets	8	40.0	37.1
Property, plant and equipment			
Land		28.5	29.5
Buildings		58.6	51.1
Plant, equipment and other assets	8	189.5	172.5
Assets in progress		29.6	34.1
Non-current financial assets			
Investments	9	4.9	6.2
Non-current derivatives			
Other financial assets	3-15	8.6	9.7
Non-current tax assets			
Deferred tax assets	22	25.7	25.5
Non-current portion of current tax assets		2.1	1.1
TOTAL NON-CURRENT ASSETS		**651.5**	**627.6**
CURRENT ASSETS			
Inventories	10	188.7	168.0
Trade receivables	11	128.0	117.7
Other receivables		20.7	17.8
Current portion of current tax assets		4.6	4.3
Other current assets			0.4
Current financial assets	15	5.3	4.6
Current derivatives	3	0.5	0.7
Financial assets	15		0.3
Cash and cash equivalents	15	52.2	48.3
Assets held for sale and discontinued operations	5		0.0
TOTAL CURRENT ASSETS		**400.0**	**362.1**
TOTAL ASSETS		**1,051.5**	**989.7**

LIABILITIES AND EQUITY

In millions of euros	Note	Dec. 31, 2011	Dec. 31, 2010
EQUITY			
Share capital	12	40.6	39.9
Premiums and retained earnings		455.8	432.2
Net income for the year		56.9	38.4
Cumulative translation adjustments		(20.8)	(29.7)
EQUITY ATTRIBUTABLE TO MERSEN'S SHAREHOLDERS		**532.5**	**480.8**
Non-controlling interests		10.4	12.9
EQUITY		**542.9**	**493.7**
NON-CURRENT LIABILITIES			
Non-current provisions	13	0.5	0.5
Employee benefits	14	35.6	36.7
Deferred tax liabilities	22	24.8	22.4
Borrowings	15	261.7	227.1
Non-current derivatives	3	2.1	1.5
TOTAL NON-CURRENT LIABILITIES		**324.7**	**288.2**
CURRENT LIABILITIES			
Trade payables		64.0	71.6
Other payables		67.8	66.8
Current provisions	13	5.0	4.1
Current portion of current tax liabilities		5.5	8.4
Other liabilities	13	5.1	8.6
Other current financial liabilities	15	5.3	35.0
Current derivatives	3	1.2	2.1
Current advances	15		4.3
Bank overdrafts	15	30.0	6.9
Liabilities related to assets held for sale and disc. op.	5		0.0
TOTAL CURRENT LIABILITIES		**183.9**	**207.8**
TOTAL LIABILITIES AND EQUITY		**1,051.5**	**989.7**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In millions of euros	Attributable to Mersen's shareholders						
	Share capital	Premiums and retained earnings	Net income for the year	Cumulative translation adjustment	Total	Non-controlling interests	Equity
EQUITY AT DEC. 31, 2009	**39.3**	**420.5**	**14.6**	**(53.8)**	**420.6**	**4.3**	**424.9**
Prior period net income		14.6	(14.6)		0.0		0.0
Net income for the year			38.4		38.4	1.4	39.8
Change in fair value of hedging derivatives, net of taxes		(1.0)			(1.0)		(1.0)
Cumulative translation adjustment				24.1	24.1	0.3	24.4
TOTAL OTHER COMPREHENSIVE INCOME	**0.0**	**(1.0)**	**0.0**	**24.1**	**23.1**	**0.3**	**23.4**
COMPREHENSIVE INCOME FOR THE YEAR	**0.0**	**(1.0)**	**38.4**	**24.1**	**61.5**	**1.7**	**63.2**
Dividends paid		(9.8)			(9.8)	(0.6)	(10.4)
Issue of new shares	0.6	6.6			7.2		7.2
Expenses on issue of new shares		(0.3)			(0.3)		(0.3)
Treasury shares		0.3			0.3		0.3
Other items		1.3			1.3	7.5	8.8
EQUITY AT DEC. 31, 2010	**39.9**	**432.2**	**38.4**	**(29.7)**	**480.8**	**12.9**	**493.7**
Prior period net income		38.4	(38.4)		0.0		0.0
Net income for the year			56.9		56.9	2.8	59.7
Change in fair value of hedging derivatives, net of taxes		(0.1)			(0.1)		(0.1)
Cumulative translation adjustment				8.9	8.9	(0.4)	8.5
TOTAL OTHER COMPREHENSIVE INCOME	**0.0**	**(0.1)**	**0.0**	**8.9**	**8.8**	**(0.4)**	**8.4**
COMPREHENSIVE INCOME FOR THE YEAR	**0.0**	**(0.1)**	**56.9**	**8.9**	**65.7**	**2.4**	**68.1**
Dividends paid		(15.0)			(15.0)	(0.7)	(15.7)
Issue of new shares	0.7	10.7			11.4		11.4
Expenses on issue of new shares		(0.2)			(0.2)		(0.2)
Treasury shares		0.2			0.2		0.2
Change in non-controlling interests [a]		(10.7)			(10.7)	(4.2)	(14.9)
Other items		0.3			0.3		0.3
EQUITY AT DEC. 31, 2011	**40.6**	**455.8**	**56.9**	**(20.8)**	**532.5**	**10.4**	**542.9**

(a) The change in non-controlling interests arose chiefly from the first-time consolidation of Mersen Yantai Co (non-controlling interests representing 40%) and the buy-out of minority interests in Mingrong Electrical Protection

Consolidated statement of cash flows

In millions of euros	2011	2010
Income before tax	88.2	62.8
Depreciation and amortization	37.2	36.6
Additions to/(write-backs from) provisions	(1.1)	0.3
Net finance income/(costs)	10.2	10.8
Capital gains/(losses) on asset disposals	1.3	
Other	(4.3)	0.5
Cash generated by operating activities before change in the WCR	**131.5**	**111.0**
Change in the working capital requirement	(36.8)	(2.6)
Income tax paid	(31.8)	(10.0)
Net cash generated by continuing operations	**62.9**	**98.4**
Cash generated by discontinued operations	**(0.4)**	**(0.9)**
NET CASH GENERATED BY OPERATING ACTIVITIES	**62.5**	**97.5**
Intangible assets	(0.2)	(0.2)
Property, plant and equipment	(48.1)	(36.3)
Financial assets		(1.2)
Impact of changes in the scope of consolidation	(9.5)	(16.7)
Other changes in cash generated/(used) by investing activities	2.9	8.8
Cash generated/(used) by investing activities from continuing operations	**(54.9)**	**(45.6)**
Cash generated/(used) by investing activities from discontinued operations		
CASH GENERATED/(USED) BY INVESTING ACTIVITIES	**(54.9)**	**(45.6)**
Cash generated/(used) by operating and investing activities	**7.6**	**51.9**
Non-recurring cash outflow (EU fine)		**(29.1)**
Proceeds from issue of new shares and other increases in equity	(0.2)	0.3
Net dividends paid to shareholders and minority interests	(5.2)	(3.5)
Interest payments	(9.8)	(9.6)
Change in debt (Note 15)	10.0	1.1
CASH GENERATED/(USED) BY FINANCING ACTIVITIES	**(5.2)**	**(11.7)**
CHANGE IN CASH	**2.4**	**11.1**
Cash at beginning of fiscal year (Note 15)	48.6	34.1
Cash at end of fiscal year (Note 15)	52.2	48.6
Impact of changes in the scope of consolidation	(0.4)	(1.6)
Impact of currency fluctuations	(0.8)	(1.8)
CHANGE IN CASH	**2.4**	**11.1**

Notes to the consolidated financial statements

Summary of the notes to the financial statements

Note 1 Statement of conformity

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

The mandatory standards and interpretations at January 1, 2011 and their impact are presented in Note 2. The new standards and interpretations not yet applied are presented in Note W.

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

The consolidated financial statements at December 31, 2011 have been prepared using the recognition and measurement principles stated in the IFRSs adopted for use in the European Union at the same date. They have also been prepared in line with the presentation and financial reporting rules applicable to annual financial statements, as defined in the General Regulation of the Autorité des Marchés Financiers (AMF, the French market regulator).

For comparison purposes, the consolidated financial statements for the fiscal year to December 31, 2011 include data for fiscal 2010 restated using the same accounting rules.

The accounting principles stated from Note 2 onwards have been used to prepare the comparative figures and the annual financial statements for 2010.

Note 2 Accounting policies and principles of consolidation

A - Basis of consolidation

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

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

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

All intra-Group transactions and balances have been eliminated.

The consolidated financial statements have been prepared in euros.

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

B - Presentation of the financial statements

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

B1 - Statement of comprehensive income

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

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

B2 - Statement of financial position

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

B3 - Statement of cash flows

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

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

B4 - Assets and liabilities held for sale and discontinued operations

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

The non-current assets or group of assets held for sale are stated at the lower of their carrying amount and fair value net of disposal costs. Non-current assets appearing on the balance sheet as held for sale are no longer depreciated once they are presented as such.

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

C - Foreign currency translation

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

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

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

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

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

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

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

D - Foreign currency assets and liabilities

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

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

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

E - Hedging

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

E1 - Currency and commodity hedges

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

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

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

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

E2 - Interest-rate hedging

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

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

F - Intangible assets

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

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

The Group's intangible assets primarily comprise goodwill.

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

F1 - Goodwill

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

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

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

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

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

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

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

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

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

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

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

Goodwill impairment losses are irreversible.

F2 - Patents and licenses

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

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

F3 - Development costs

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

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

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

F4 - Intangible assets acquired in connection with a business combination

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

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

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

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

G - Property, plant and equipment

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

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

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

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

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

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

The periods used are as follows:

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

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

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

H - Leases

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

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

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

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

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

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

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

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

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

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

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

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

J - Financial assets and liabilities

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

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

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

Subsequently, loans and receivables are recognized at amortized cost.

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

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

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

J1 - Investments

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

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

These impairment losses are irreversible and are not written back.

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

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

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

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

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

J2 - Other non-current financial assets

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

K - Share capital

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

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

L - Provisions

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

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

The estimated amount shown in provisions represents the outflow of resources that the Group will have to incur to extinguish its obligation. Where this amount cannot be measured reliably, no provision is recorded. In this instance, information is disclosed in the notes to the financial statements.

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

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

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

M - Inventories

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

Cost comprises acquisition or production cost.

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

N - Consolidated sales

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

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

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

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

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

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

O - Employee benefits

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

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

These actuarial calculations are based on various estimates:

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

Actuarial gains and losses comprise the cumulative impact of:

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

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

The Group has opted to use the following method:

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

O1 - Recognition of post-employment benefit obligations

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

- on the face of the balance sheet:
  - the amount recognized under liabilities in respect of defined contributions is equal to the total of:
  - the present value of defined benefit obligations at the balance sheet date,
  - less the fair value at the balance sheet date of plan assets used directly to pay or finance the obligations,
  - plus unrecognized actuarial gains (or less unrecognized actuarial losses) that exist under the aforementioned rule,
  - less as yet unrecognized past service costs and payments;
- on the face of the income statement:
  - the amount expensed or recognized in income (net periodic cost of employee benefits) is the total amount net of the following items:
  - current service cost incurred during the period (or rights vested during the period),
  - interest cost (also called the discounting effect),
  - expected return on plan assets: this expected return is determined based on market expectations at the beginning of the period for returns on plan assets over the entire duration of the corresponding liability (long term),
  - actuarial gains and losses: portion recognized during the period,
  - past service cost: portion recognized during the period,
  - losses/(gains) on any curtailment or settlement of the plan.

O2 - Recognition of unrecognized past service cost

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

P - Non-recurring income and expense

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

Non-recurring income and expense include the following items:

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

Q - Operating income

Operating income is shown before net finance costs, taxes and minority interest.

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

R - Deferred taxes

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

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

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

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

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

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

S - Segment reporting

IFRS 8 on segment reporting defines an operating segment as a component of an entity:

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

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

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

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

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

T - Earnings per share

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

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

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

U - Equity-linked benefits granted to employees

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

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

V - Use of estimates

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

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

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

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

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

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

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

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

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

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

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

W – New standards and interpretations not yet applied

New standards, norms and interpretations will enter force in the fiscal year beginning on or after January 1, 2011 and were not applied in the preparation of these consolidated financial statements:

- IFRS 10, 11 and 12 on analyzing control (basis for full consolidation) will not have any impact on prior periods;
- The amendment to IFRS 7 concerning risks arising from the transfer of financial assets and their effects is not expected to have any impact on the Group's consolidated financial statements;
- The revised IAS 19 on employee benefits is likely to have a material impact on the Group's employee benefits and equity. The Group has not yet determined the potential impact of this interpretation;
- IFRS 9: Financial instruments, application of which is mandatory for the Group's 2013 consolidated financial statements and may affect the classification and measurement of financial assets. The Group does not intend to adopt this standard early and its possible impact has not been determined.

Note 3 Financial risk management

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

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

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

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

Capital management is presented in Note 12.

Liquidity risk

Mersen has at its disposal credit lines and confirmed borrowings representing a total amount of €493 million with an average maturity of 3.2 years, of which 53% was drawn down at December 31, 2011. The average maturity of the lines drawn down was 4.1 years.

Mersen has five major financing agreements in place:

- a USD100 million private placement negotiated in November 2011 with a US investor, comprising one USD50 million tranche with a final maturity of 10 years and one USD37.2 million tranche with a final maturity of 8 years, both with a bullet structure. The investor will receive a fixed rate of interest.
- A USD350 million loan arranged in July 2008 with a maturity of five years syndicated with an international pool of banks. The interest rates on the syndicated loan are the interbank rate for the relevant currency when drawings are made plus a fixed credit margin;
- a RMB500 million loan arranged in September 2010, with a maturity of three years, syndicated with an international pool of banks, intended to finance the Mersen group's operations in China. The interest rate paid is the PBoC without a credit margin when drawdowns are made. Under an extension option agreed in September 2011, the maturity of this borrowing was extended by a further year to September 2014.
- a €40 million bond issue comprising bonds convertible into new and/or exchangeable for existing shares through attached warrants ("OBSAAR" bonds) finalized in November 2007 and repayable in one-third installments between 2012 and 2014, giving it an average life of six years (at issue). The interest rate paid is 3-month Euribor plus a fixed margin. This margin is negative owing to the sale of the warrants;
- a USD85 million private placement negotiated in May 2003 with US investors, comprising one USD65 million tranche with a final maturity of 10 years and one USD20 million tranche with a final maturity of 12 years. The average duration of the private placement was initially around eight years because it is repayable in installments. The interest paid to investors carries a fixed rate.

Breakdown by maturity of credit lines and confirmed borrowings

(in millions of euros)	Amount	Amount drawn down at December 31, 2011	% drawn down at December 31, 2011	Maturities: less than 1 year	between 1 and 5 years	Over 5 years
Group syndicated loan	270.5	55.6	21%	0.0	270.5	0.0
Confirmed credit lines, China	67.4	50.0	74%	3.4	64.0	0.0
2003 US private placements	26.7	26.7	100%	10.3	16.4	0.0
2011 US private placements	75.9	75.9	100%	0.0	0.0	75.9
OBSAAR bonds	39.9	39.9	100%	13.3	26.6	0.0
Confirmed credit lines, UK	7.8	7.8	100%	4.5	1.3	2.0
RoW	4.3	4.3	100%	0.2	4.1	0.0
TOTAL	**492.5**	**260.2**	**53%**	**AVERAGE MATURITY (YEARS) = 3.2**		

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

(in millions of euros) DRAW-DOWNS	Drawn down at Dec. 31 2011	Expected cash flows	Maturities: 1-6 months	6-12 months	Over 1 year
Group syndicated loan	55.6	55.6	55.6	0.0	0.0
Confirmed credit lines, China	50.0	57.3	8.0	2.9	46.4
2003 US private placements	26.7	29.1	11.1	0.5	17.5
2011 US private placements	75.9	108.1	1.8	1.8	104.5
OBSAAR bonds	39.9	41.9	0.5	13.8	27.6
Confirmed credit lines, UK	7.8	8.9	2.3	2.4	4.2
RoW	4.3	4.7	0.2	0.2	4.3
TOTAL	**260.2**	**305.6**	**79.5**	**21.6**	**204.5**

Interest-rate risk

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

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

When it was acquired by Mersen, Mersen Scotland Holytown had an interest rate swap with a nominal amount of GBP4 million that was arranged on January 15, 2008 to convert part of the interest on its confirmed medium-term debt into a fixed rate. Under this swap, the Company receives interest due to the lender and pays a fixed rate of 5.38%. The repayment and duration profile of the swap match those of the debt. At December 31, 2011, the nominal amount stood at GBP3.0 million.

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

The 2011 US private placements carry a fixed rate of interest, with an average coupon of 4.7%.

(in millions of euros)	Amount	Interest rate received	Interest rate paid	Maturities: less than 1 year	between 1 and 5 years	over 5 years
EUR swap	39.0	3-month Libor EUR - margin	2.815%	13.0	26.0	0.0
GBP swap	3.6	1-month GBP Libor + margin	5.38%	0.3	1.3	2.0

(in millions of euros)			Maturities		
SWAP	**MTM [a]**	**Expected cash flows**	**less than 1 year**	**between 1 and 5 years**	**over 5 years**
Assets	0.0	1.2	0.6	0.6	0.0
Liabilities and equity	(2.1)	(3.3)	(1.3)	(1.7)	(0.3)

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

Sensitivity analysis of the fair value of fixed-income instruments

The Group has not recognized any fixed-income financial assets or liabilities at fair value through profit or loss or designated any derivatives (interest rate swaps) as fair value hedges. Accordingly, a change in interest rates at the balance sheet date, would not have had any impact on the income statement.

A 50 basis point fluctuation in interest rates would have triggered a change in other comprehensive income of €0.5 million (vs. €0.8 million in 2010).

Commodity risk

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

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

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

At year-end 2011, 35% of the hedgable copper tonnages the quantities projected for 2012 and 33% of hedgable silver tonnages were actually hedged.

Additional hedges were arranged in early January 2012, lifting the percentage of 2012 silver tonnages hedged to 50%.

Recognition at year-end 2011 of commodity hedges

MTM [a] *(In millions of euros)*	**Impact on 2011 other comprehensive income**	**2011 income statement impact**
MTM of copper hedges	0.3	0.0
MTM of silver hedges	-0.4	0.0

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

Currency risk

Fluctuations in the principal currencies used by the Group

	JPY	**USD**	**KRW**	**GBP**	**RMB**
Average exchange rate from Jan. 1, 2010 through Dec. 31, 2010 [a]	116.46	1.3257	1,532.51	0.8582	8.9805
Closing exchange rate at Dec. 31, 2010 [b]	108.65	1.3362	1,499.06	0.8608	8.8220
Average exchange rate from Jan. 1, 2011 through Dec. 31, 2011 [a]	109.86	1.3920	1,541.05	0.8678	8.9961
Closing exchange rate at Dec. 31, 2011 [b]	100.20	1.2939	1,498.69	0.8353	8.1588

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

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

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

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

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

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

The Group's operating income before non-recurring items is exposed to exchange rate fluctuations principally through the translation of earnings recorded by companies whose local currency is not the euro. The principal exposure is to the US dollar. A 10% decline in the value of the US dollar compared with the average recorded from January to December 2011 would have had a translation impact of negative €5.2 million on the Group's operating income before non-recurring items. Conversely, this 10% decline in the US dollar compared with the 2011 closing exchange rate would have had a translation impact of negative €5.6 million on the Group's net debt at December 31, 2011.

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

€/foreign currency risks

Risks *(stated in millions of euros)* [(a)]	JPY	USD	KRW	GBP	RMB
Sale of foreign currencies	15.6	32.3	4.0	2.2	4.0
Purchase of foreign currencies	(3.1)	(26.4)	0.0	(5.6)	(12.6)
Potential 2012 exposure	12.5	5.9	4.0	(3.4)	(8.6)
Hedges at December 31, 2011	(8.4)	(10.7)	0.0	(1.0)	0.0
Net position	4.1	(4.8)	4.0	(2.4)	(8.6) (b)
Impact in euros of a 5% fall in the euro [(c)]	0.2	(0.3)	0.2	(0.1)	(0.5)

(a) Excluding potential anticorrosion equipment business that is hedged when an order is placed.
(b) Several hedges on the EUR/RMB were put in place during early January 2012 covering the equivalent of €4 million. Taking these hedges into account, the net debt position on this exchange rate stood at negative €4.2 million.
(c) Sensitivities were calculated based on exchange rates at December 31, 2011.

USD/foreign currency risks

Risks *(stated in millions of euros)* [(a)]	JPY	KRW	GBP	RMB
Sale of foreign currencies	8.5	15.0	0.0	26.3
Purchases of foreign currencies	(0.8)	(0.4)	(12.4)	(12.5)
Potential 2012 exposure	7.7	14.6	(12.4)	13.8
Hedges at December 31, 2011	(3.0)	0.0)	5.4	(2.4)
Net position	4.7	14.6 [(b)]	(7.0)	11.4
Impact in euros of a 5% fall in the USD [(c)]	0.2	0.8	(0.4)	0.6

(a) Excluding potential anticorrosion equipment business that is hedged when an order is placed
(b) Several hedges on the USD/KRW were put in place during early January 2012 covering the equivalent of €4.2 million. Taking these hedges into account, the net debt position on this exchange rate stood at €10.4 million.
(c) Sensitivities were calculated based on exchange rates at December 31, 2011.

Recognition at year-end 2011 of currency transactions

MTM [(a)] *(stated in millions of euros)*		December 31, 2011
Marked to market value of currency hedges	Other comprehensive income	(0.3)
	Other financial components of operating income	(0.4)

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

An increase or decrease in the euro, such as stated below, relative to the USD, GBP and JPY at December 31, 2011, would have led to an increase/(decrease) in other comprehensive income and operating income by the amounts stated below as a result of the currency hedges.

Impact *(in millions of euros)* at Dec. 31, 2011	Increase in the euro against foreign currencies		Decrease in the euro against foreign currencies	
	Other comprehensive income	Gains or losses recognized in operating income*	Other comprehensive income	Gains or losses recognized in operating income*
USD (change of 5 %)	0.2	0.3	(0.2)	(0.3)
GBP (change of 5 %)	(0.1)	0.0	0.1	0.0
JPY (change of 5 %)	0.3	0.1	(0.3)	(0.2)

**Excluding (reverse) impact arising from remeasurement of the underlyings on the balance sheet.*

This analysis is conducted on the basis of fluctuations in exchange rates that the Group considers as reasonably feasible at the balance sheet date. For the purposes of this analysis, all the other parameters, especially interest rates, are assumed to have remained unchanged and the impact of projected sales and purchases was ignored.

Sensitivity to the other exchange rates was not measured because it was not material.

Future impact on income of currency transactions recognized at year-end 2011

(Stated in millions of euros) CURRENCY	Marking to market of currency derivatives in other comprehensive income	Impact on income	
		less than 6 months	over 6 months
Assets	0.3	0.2	0.1
Liabilities and equity	(0.6)	(0.4)	(0.2)

Future cash flows on currency transactions recognized at December 31, 2011

CURRENCY *(in millions of euros)*	MTM	Expected cash flows
Assets	0.3	0.3
Liabilities and equity	(1.0)	(1.0)

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

Credit risk

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

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

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

Note 4 Business combinations

Business combinations during fiscal 2011: None

In relation to the business combinations during 2010, the Group finalized the allocation of the goodwill that arose on the acquisition of M.Schneider and identified €1.2 million in customer relationships. It also finalized the allocation of goodwill for the Boostec acquisition (€0.8 million for technology).

On January 3, 2012, the Group acquired Eldre, a family-owned US company with manufacturing facilities in the United States (Rochester, NY) and France (Saint Sylvain d'Anjou).

Eldre produces laminated bus bars. The Group will thus strengthen its position as the leading global partner to the power electronics industry.

Power electronics components are required for applications in expanding markets targeted by Mersen, such as energy (solar, energy, etc.), transportation (motors for rail sector, etc.) and electronics (speed controllers, converters, etc.).

Eldre's recorded net income of €1.5 million on sales of approximately €30 million in 2011.The purchase price stood at USD38 million. The carrying amount of the net assets is €11 million, with goodwill at €17 million prior to the measurement of assets and liabilities at their fair value.

Note 5 Sale of the automobile and household electrical appliance brush division

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

Under IFRS 5, net income from discontinued operations came to €1 million after tax in fiscal 2011. It reflected the receipt of an earn-out payment under the performance clause included in the sale agreement and residual costs related to the sale.

Note 6 Goodwill

In millions of euros	Dec. 31, 2011	Dec. 31, 2010
Carrying amount at end of period	260.8	231.3
Acquisitions	1.1	23.3
Other movements	(1.8)	(4.1)
Translation adjustments	3.9	10.3
Carrying amount at end of period	264.0	260.8
Gross value at end of period	264.0	260.8

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

	Dec. 31, 2010	Movements during 2011			Dec. 31, 2011
In millions of euros	Carrying amount	Acquisitions	Other movements	Cumulative translation adjustment	Carrying amount
Anticorrosion Equipment	69.1				69.1
High-Temperature Applications	91.5		(0.8)	2.3	93.0
Electrical Applications	12.9			(0.1)	12.8
Electrical Protection	87.3	1.1	(1.0)	1.7	89.1
TOTAL	**260.8**	**1.1**	**(1.8)**	**3.9**	**264.0**

Acquisitions reflect the goodwill related to M.Schneider China.

The other movements primarily reflect the allocation of M.Schneider's and Boostec's goodwill.

Note 7 Asset impairment tests

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

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

- five-year cash flow forecasts based on the 2012 budget and projections for the following four fiscal years. A gradual return in the Anticorrosion Equipment CGU's margins toward their past levels is anticipated after a year when they were depressed by deliveries of equipment carrying low margins;
- a discount rate after tax of 8.5% for all the CGUs. There was no significant evidence suggesting that different discount rates should be applied to the individual CGUs;
- a perpetual growth rate of 3.5% for the anticorrosion equipment CGU, 2% for the electrical applications CGU and 3% for the electrical protection and high temperatures CGUs. The rate of 3.5% applied to the Anticorrosion Equipment CGU was attributable to business trends at the CGU in the pharmaceuticals, renewable energies and nuclear power markets;
- a normalized tax rate of 34%.

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

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

No evidence of impairment was identified. Even so, potential uncertainties associated with the economic environment pose a risk to the preparation of the cash flow projections used in the valuations produced.

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

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

Note 8 Property, plant and equipment and intangible assets

In millions of euros	Intangible assets	Land	Buildings	Plant, equipment and other	Assets in progress	Total property, plant and equipment
Carrying amount at January 1, 2010	**31.0**	**32.1**	**47.8**	**146.2**	**37.6**	**263.7**
Acquisitions of non-current assets	0.6		0.4	20.7	14.1	35.2
Retirements and disposals		(4.6)	(0.3)	(1.1)		(6.0)
Depreciation and amortization	(2.0)		(2.6)	(33.0)		(35.6)
Translation adjustments	0.5	0.8	3.3	9.4	2.0	15.5
Impact of changes in the scope of consolidation	2.2	1.0	1.7	9.1	0.3	12.1
Other movements	4.8	0.2	0.8	21.2	(19.9)	2.3
Carrying amount at December 31, 2010	**37.1**	**29.5**	**51.1**	**172.5**	**34.1**	**287.2**
Gross value at December 31, 2010	61.9	30.1	98.6	434.5	34.1	597.3
Total depreciation and amortization at December 31, 2010	(24.8)	(0.6)	(47.5)	(262.0)		(310.1)
Total impairment losses at December 31, 2010						0.0
Carrying amount at January 1, 2011	**37.1**	**29.5**	**51.1**	**172.5**	**34.1**	**287.2**
Acquisitions of non-current assets	0.2	**0.5**	2.6	22.2	22.8	48.1
Retirements and disposals		(1.2)	(0.9)	(0.9)	0.0	(3.0)
Depreciation and amortization	(2.5)	(0.1)	(2.9)	(32.0)		(35.0)
Translation adjustments	0.3	(0.3)	1.8	6.6	0.4	8.5
Impact of changes in the scope of consolidation		0.0	1.0	0.2		1.2
Other movements	4.9	0.1	5.9	20.9	(27.7)	(0.8)
CARRYING AMOUNT AT DECEMBER 31, 2011	**40.0**	**28.5**	**58.6**	**189.5**	**29.6**	**306.2**
GROSS VALUE AT DECEMBER 31, 2011	**68.2**	**29.2**	**107.9**	**480.2**	**29.6**	**646.9**
TOTAL DEPRECIATION AND AMORTIZATION AT DECEMBER 31, 2011	**(28.2)**	**(0.7)**	**(49.3)**	**(290.7)**		**(340.7)**
TOTAL IMPAIRMENT LOSSES AT DECEMBER 31, 2011						**0.0**

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

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

At December 31, 2011, the Group had not identified any development costs over the period satisfying these criteria.

Note 9 Investments

At year end, the unconsolidated shareholdings held by consolidated companies had a gross value of:

In millions of euros	Dec. 31, 2011	Dec. 31, 2010
Gross value	8.8	15.2
Impairment losses	(3.9)	(9.0)
CARRYING AMOUNT	**4.9**	**6.2**

The reduction in investments reflected the first-time consolidation of M.Schneider China and Mersen Istanbul Sanayi Ürünleri.

The impairment losses recognized on investments at December 31, 2011 primarily affected units in Argentina and Greece.

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

In millions of euros **Company name**	**% held**	**Gross value**	**Carrying amount**
Fusetech	50%	1.3	1.3
Mersen Argentina	100%	3.7	0.8
Mersen Russia	100%	0.8	0.8
Mersen Maroc SARL	100%	0.7	0.7
Nortroll	34%	0.8	0.5
GMI	25%	0.2	0.2
Mersen Chile Ltd	100%	0.2	0.2
Mersen Hellas SA	100%	0.8	0.1
Investments in other companies		0.3	0.3
TOTAL		**8.8**	**4.9**

Note 10 Inventories

In millions of euros	Dec. 31, 2011	Dec. 31, 2010
Raw materials and other supplies	91.6	75.3
Work in progress	74.0	62.0
Finished goods	31.8	41.2
Carrying amount of inventories	**197.4**	**178.5**
Impairment losses	(8.7)	(10.5)
CARRYING AMOUNT OF INVENTORIES	**188.7**	**168.0**

Net inventories rose by €20.7 million in fiscal 2011, with an increase of €1.1 million attributable to changes in the scope of consolidation and an increase of €4.3 million to currency effects. On a like-for-like basis, inventories grew by 9.1% to €15.3 million.

Note 11 Trade receivables

In millions of euros	Dec. 31, 2011	Dec. 31, 2010
Gross trade receivables	131.9	120.9
Impairment losses	(3.9)	(3.2)
NET TRADE RECEIVABLES	**128.0**	**117.7**

Net trade receivables grew by €10.3 million in fiscal 2011, with an increase of €1.3 million attributable to changes in the scope of consolidation and a rise of €1.9 million to currency effects. On a like-for-like basis, trade receivables grew by €7.1 million or 6.0%.

A factoring agreement was set up in 2009 covering the sale of trade receivables held by the Group's principal subsidiaries in France.

The agreement stipulates a maximum outstanding balance of €31.0 million. At December 31, 2011, the outstanding amount was €16.1 million vs. €15.6 million at December 31, 2010.

At year-end 2011, late payments accounted for 13% of trade receivables compared with 9% at year-end 2010. The increase was attributable to a rise in late payments in China.

Overdue trade receivables broke down as follows at December 31:

In millions of euros	Dec. 31, 2011		Dec. 31, 2010	
	Gross	Impairment	Gross	Impairment
Receivables not yet due	110.3	(0.8)	105.9	(0.7)
Receivables 0-30 days past due	8.4	(0.4)	6.7	(0.1)
Receivables 31-120 days past due	8.4	(0.6)	4.2	(0.3)
Receivables 121 days to 1 year past due	2.8	(0.8)	1.9	(0.3)
Receivables more than 1 year past due	2.0	(1.3)	2.2	(1.8)
NET TRADE RECEIVABLES	**131.9**	**(3.9)**	**120.9**	**(3.2)**

The movements related to valuation allowances on trade receivables were as follows:

In millions of euros	Dec. 31, 2011	Dec. 31, 2010
Impairment losses at January 1	(3.2)	(3.1)
Allowance/reversal during the fiscal year	(0.7)	(0.1)
IMPAIRMENT LOSSES AT DECEMBER 31	**(3.9)**	**(3.2)**

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

Note 12 Equity

Breakdown of the share capital

In number of shares (unless otherwise stated)	**Ordinary shares**
Number of shares at January 1, 2011	19,942,777
Issue of new shares *(in millions of euros)*	0.7
Number of shares at December 31, 2011	20,288,354
Number of shares in issue and fully paid-up	345,577
Number of shares in issue and not fully paid-up	0
Par value of shares *(€)*	2
Entity's shares held by itself or by its subsidiaries and associates	54,619

Capital management

The Company's share capital at December 31, 2011 amounted to €40,576,708, comprising 20,288,354 shares each with a par value of €2 and all belonging to the same category. The number of voting rights stood at 20,233,735, since shares held in treasury do not carry voting rights. No shares carry double voting rights.

To the best of the Group's knowledge, ownership of the share capital breaks down as follows:

- French institutional investors: 47.3%
- International institutional investors: 33.7%
- Individual shareholders: 17.8%
- Employee shareholders: 1.0%
- Treasury shares: 0.2%

At December 31, 2011, 54,619 shares representing 0.2% of the share capital were held under a liquidity agreement approved by the Autorité des Marchés Financiers and entrusted to investment services provider Exane.

At December 31, 2011, the Group's employees own 147,700 shares representing 0.7% of the share capital, plus 507,857 stock options that, if exercised in full, would represent 2.5% of the current share capital. The stock option plans set up by the Group are based on an exercise price determined without any discount, since exercise of the options is subject to conditions linked to the Group's future performance. Using this method, the Group ensures that the interests of its managers are aligned with those of its shareholders.

In addition, the Group implemented a policy of awarding free shares. Definitive allotment of the shares is contingent upon beneficiaries' presence on the Group's payroll at the end of the vesting period. Since 2011, certain allotments have also been made subject to performance conditions. At December 31, 2011, the number of free shares likely to be allotted definitively stands at 228,388 new shares, representing 1.2% of the current share capital.

Pursuant to the overall authorization granted by the Combined General Meeting on May 19, 2011, the Management Board decided on July 22 to offer the employees of the Group's European, North American and Chinese subsidiaries the option of acquiring 159,703 new shares at a price of €30.79 per share. The subscription period ran from September 27 to October 13, 2011. Owing to the financial and stock market environment and Mersen's share price performance, the Management Board decided at its meeting on August 30, 2011 to lower the subscription price to €26.81 for the Group's employees. At its meetings on November 24 and December 2, 2011, the Management Board noted that 26,580 new shares had been issued by the end of the subscription period.

In the fourth resolution, the General Meeting of May 19, 2011 decided to offer each shareholder the option of receiving payment of the entire dividend for shares owned in new shares of the Company. On May 19, 2011, the Management Board set the issue price for new shares at €35.93. In a decision made on July 7, 2011, the Management Board noted that at the end of the option period, 13,953,960 rights were reinvested in new Company shares and decided to issue 294,894 new shares, each with a par value of €2.

To date, the Group has not conducted any stock repurchases because it uses its cash for its policy of selective acquisitions.

During fiscal 2011, the Group did not alter its capital management policy.

Neither the Company, nor its subsidiaries are subject to specific capital constraints under external rules.

No shares carry double voting rights.

With respect to share-based payments, the plans set up after November 7, 2002 were measured in accordance with IFRS 2.

The characteristics and assumptions used to value the plans are as follows:

Characteristics/Assumptions	2008 plan Free share allotments	2009 plan Stock options	2009 plan Free share allotments	2011 plan Free share allotments	2011 plan Free share allotments
Allotment date	26/02/2008	11/02/2009	11/02/2009	27/05/2011	27/05/2011
Availability date	01/03/2011	11/02/2013	11/02/2013	27/05/2015	27/05/2015
Expiration date	01/03/2013	11/02/2019	11/02/2014	27/05/2015	27/05/2015
Adjusted exercise price *(€)*	N/A	€17.53	N/A	N/A	N/A
Adjusted share price at allotment date *(in €)*	27.48	17.95	17.95	39.06	39.06
Estimated life *(number of years)*	3	8	4	4	4
Volatility	N/A	38.10%	N/A	35.20%	35.20%
Dividend per share *(as a % of share price)*	2.30%	2.50%	2.50%	2.50%	2.50%
Risk-free interest rate	N/A	3.26%	N/A	3.26%	N/A
Exercise period *(number of years)*	3	4	4	4	4
Lock-up period *(number of years)*	2	0	0	0	0
Number of options/adjusted share allotments	21,567	366,581	53,900	140,000	60,000
Estimated annual cancellation rate	1.50%	7.00%	2.50%	5.00%	5.00%
% of shares/options acquired following satisfaction of the performance condition	100%	100%	100%	100%	N/A
Estimated number of options at end of vesting period	20,164	338,055	48,938	100,779	49,382
Valuation of options/shares *(in €)*	25.67	6.11	16.24	35.34	35.34
Valuation as a % of the share price at grant	93.40%	34.10%	90.50%	90.50%	90.50%

An expense of €0.9 million was recognized in the income statement in respect of these equity-settled plans compared with €1.4 million in fiscal 2010. The 2011 expense reflects a gain arising from the cancellation of two-fifths of the 2007 plan stock options, as the performance conditions were not met at the availability date.

The 2011 employee share ownership plan was recognized, taking into account the discount reflecting the non-transferability cost, in line with the CNC recommendation. The non-transferability cost was measured by an external consultant and calculated using the applicable borrowing rate in the personal lending market.

Note 13 Provisions, contingent liabilities and other liabilities

In millions of euros	Dec. 31, 2011		Dec. 31, 2010	
	Non-current	Current	Non-current	Current
- provision for restructuring	0.4	2.9	0.4	0.5
- provision for litigation				0.2
- other provisions	0.1	2.1	0.1	3.4
TOTAL	**0.5**	**5.0**	**0.5**	**4.1**

Provisions amounted to €5.5 million at December 31, 2011 (€4.6 million at December 31, 2010) and comprise primarily:

- a provision linked to the reorganization of the M.Schneider Germany; and
- a provision for decontamination set aside in 2010 as a result of the processes and products used by a manufacturing facility before it joined the Group.

Civil proceedings:

Certain customers who opted out of the US class action lawsuit in 2009 initiated proceedings in the United Kingdom before the CAT (Competition Administrative Tribunal). With these proceedings, the plaintiffs are attempting to secure redress for losses that they allegedly suffered following practices sanctioned in December 2003 by the European Commission in brushes for electric motors and products for mechanical applications. Since the Group considers that there is no basis for this legal action, no provision was set aside.

In February 2011, the Deutsche Bahn group, together with other European rail companies, commenced legal action in the UK against Morgan, SGL, Schunk and Mersen in the CAT (Competition Administrative Tribunal). With these proceedings, the plaintiffs are attempting to secure redress for losses that they allegedly suffered following practices sanctioned in December 2003 by the European Commission in brushes for electric motors and products for mechanical applications. The Group has filed pleadings calling for the action to be dismissed. To date, the Group does not possess sufficient information to estimate the risk linked to these proceedings, and no provision was thus set aside.

Other liabilities (€6.2 million at December 31, 2011) now chiefly comprise liabilities related to property, plant and equipment.

No other material contingent liabilities were identified at December 31, 2011.

Note 14 Employee benefits

The Mersen group's principal pension plans are defined benefit plans and are located in the US (39% of obligations), the UK (23% of obligations), France (14% of obligations) and Germany (10% of obligations).

Under defined contribution plans, the Group is under no obligation to make additional payments on top of the contributions already paid into a fund if the latter does not have sufficient assets to pay out the benefits corresponding to the service provided by employees during the period in progress or during future periods. For these plans, contributions are expensed as incurred.

The Group's obligations were measured at December 31, 2011 with the assistance of independent actuaries in accordance with IAS 19. The rates used for the principal countries are summarized below:

2010	Discount rate	Return on plan assets	Average rate of salary increases	Inflation rate
France	4.50%	3.80%/4.20%	2.0%	2.0%
Germany	4.50%	Not applicable	2.5%	2.0%
United States	5.40%	7.75%	Not applicable	Not applicable
United Kingdom	5.50%	5.40%	4.0%	3.25%

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

Reconciliation between assets and liabilities recognized

	Dec. 31, 2011	Dec. 31, 2010
Actuarial obligation	126.3	114.6
Fair value of plan assets	(64.4)	(59.5)
Unrecognized actuarial gains and losses	(23.8)	(16.3)
Unrecognized past service cost (rights not vested)	(2.5)	(2.7)
PROVISION BEFORE THE LIMIT ON ASSETS	35.6	36.1
Surplus management reserve		0.6
PROVISION AFTER THE LIMIT ON ASSETS	35.6	36.7

Breakdown of the Group's obligations at December 31, 2011 by geographical area

	France	Germany	United States	United Kingdom	Rest of the world	Total at December 31, 2011
Actuarial obligation	17.6	12.2	48.9	29.6	18.0	126.3
Fair value of plan assets	(0.2)		(28.5)	(27.0)	(8.7)	(64.4)
Unrecognized actuarial gains and losses	(1.6)		(14.1)	(3.5)	(4.6)	(23.8)
Unrecognized past service cost (rights not vested)	(2.3)		(0.2)			(2.5)
Surplus management reserve						0.0
NET AMOUNT RECOGNIZED	13.5	12.2	6.1	(0.9)	4.7	35.6

Movements in the Group's obligations

	France	Germany	United States	United Kingdom	Rest of the world	Total
December 31, 2010	**17.9**	**12.8**	**40.9**	**24.7**	**18.3**	**114.6**
Payments made	(0.5)	(0.7)	(0.9)	(0.8)	(0.9)	(3.8)
Expense charged to income	1.6	0.5	4.2	1.5	1.7	9.5
Translation adjustment			1.6	0.8	(0.1)	2.3
Actuarial gains and losses	0.2	(0.3)	3.5	3.2	(0.5)	6.1
Other movements	(1.6)	(0.1)	(0.4)	0.2	(0.5)	(2.4)
DECEMBER 31, 2011	17.6	12.2	48.9	29.6	18.0	126.3

Other movements derived principally from the close of a plan in South Africa and one beneficiary's departure from the senior executive pension plan.

Change in plan assets

	France	Germany	United States	United Kingdom	Rest of the world	Total
December 31, 2010	**0.4**	0.0	**24.8**	**25.3**	**9.0**	**59.5**
Return on plan assets				0.8	(0.6)	0.2
Employer contribution	(0.1)	0.7	2.4	0.8	0.9	4.7
Employee contribution			1.6	0.2		1.8
Payment of benefits	(0.1)	(0.7)	(1.2)	(0.8)	(0.4)	(3.2)
Translation adjustment			0.9	0.7	0.1	1.7
Other movements					(0.3)	(0.3)
DECEMBER 31, 2011	0.2	0.0	28.5	27.0	8.7	64.4

US plan assets account for 44% of total plan assets, with 53% invested in equities and 47% in bonds.

UK plan assets account for 42% of total plan assets, with 48% invested in equities, 47% in government bonds and 5% in real estate and cash.

The charge recognized at December 31, 2011 in respect of these plans was €6.5 million, compared with €7.3 million in 2010, which breaks down as follows:

	France	Germany	United States	United Kingdom	Rest of the world	Total at December 31, 2011	Total at December 31, 2010
Current service cost	0.8	0.1	2.1	0.2	0.9	4.1	3.9
Interest cost	0.8	0.5	2.1	1.3	0.8	5.5	5.8
Expected return on plan assets			(1.9)	(1.4)	(0.4)	(3.7)	(4.0)
Amortization of actuarial gains and losses	(0.1)		1.0		0.4	1.3	0.9
Impact of the limit on assets				(0.6)		(0.6)	0.7
Other movements	(0.6)			0.6	(0.1)	(0.1)	0.0
TOTAL CHARGE FOR THE PERIOD	**0.9**	**0.6**	**3.3**	**0.1**	**1.6**	**6.5**	**7.3**

The change in actuarial gains and losses arising on the valuation of obligations and plan assets breaks down as follows:

	France	Germany	United States	United Kingdom	Rest of the world	Total at Dec. 31, 2011	Total at Dec. 31, 2010
Adjustments linked to changes in assumptions	(0.1)	(0.4)	2.7	2.5	1.0	5.7	1.9
Experience adjustments to obligations	0.3	(0.1)	0.5	0.5	(1.5)	(0.3)	(1.5)
Experience adjustments to plan assets			1.9	0.6	1.0	3.5	8.1
ACTUARIAL GAINS AND LOSSES	**0.2**	**(0.5)**	**5.1**	**3.6**	**0.5**	**8.9**	**8.5**

An increase of 0.25 points in discount rates would lead to a reduction of €4.1 million in the estimated actuarial obligation, breaking down as follows:

France	(0.4)
Germany	(0.3)
United Kingdom	(1.2)
United States	(1.8)
Rest of the world	(0.4)
TOTAL	**(4.1)**

Note 15 Net debt

Analysis of total net debt at December 31, 2011

(in millions of euros)	Dec. 31, 2011	Dec. 31, 2010
Borrowings	261.7	227.1
Current financial liabilities	5.3	35.0
Current advances	0.0	4.3
Bank overdrafts	30.0	6.9
TOTAL GROSS DEBT	**297.0**	**273.3**
Including use of confirmed credit lines	*260.2*	*248.3*
Current financial assets	**(5.3)**	**(4.6)**
Financial assets	(0.0)	(0.3)
Cash and cash equivalents	(52.2)	(48.3)
Cash	**(52.2)**	**(48.6)**
TOTAL NET DEBT	**239.5**	**220.1**

Total consolidated net debt at December 31, 2011 rose to €239.5 million from €220.1 million at year-end 2010.

Of the €297.0 million in total gross debt, €260.2 million stems from the use of the confirmed loans and borrowings and the remainder chiefly from use of the non-confirmed lines (bank overdrafts and other lines).

Net debt/equity

(in millions of euros)	Dec. 31, 2011	Dec. 31, 2010
Total net debt	239.5	220.1
Net debt/equity	0.44	0.44

Net debt amounted to 44% of equity at December 31, 2011, compared with 44% at December 31, 2010.

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

(in millions of euros)	Dec. 31, 2011	Dec. 31, 2010
Prior year debt	**220.1**	**214.9**
Cash generated by operating and investing activities after tax	(19.0)	(70.4)
Cash used by restructurings	1.5	0.9
Net cash inflows/(outflows) attributable to changes in the scope of consolidation	9.5	16.7
Cash generated by the operating and investing activities of continuing operations	(8.0)	(52.8)
Cash generated by the operating and investing activities of assets held for sale and discontinued operations	**0.4**	**0.9**
Non-recurring cash outflow (EU fine)	**0.0**	29.1
Proceeds from issuance of new shares	0.2	(0.3)
Dividends paid	5.2	3.5
Interest payments	9.8	9.6
Translation adjustments and other	5.8	9.7
Impact of changes in the scope of consolidation	(0.1)	5.8
Other changes	6.1	(0.3)
DEBT AT YEAR-END	**239.5**	**220.1**

Financial covenants at December 31, 2011

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

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

Financial covenants (a) (consolidated financial statements)

(in millions of euros)	Net debt/EBITDA	Net debt/equity	EBITDA/ net interest expense
Covenant ratios			
Group syndicated loan	< 3.35	< 1.3	-
2003 US private placement	< 3.35	< 1.3	> 3
2011 US private placement	< 3.35	< 1.3	> 3
OBSAAR bonds	-	< 1.35	-
Syndicated loan, China		< 1.35	
Actual ratios at December 31, 2011			
Group syndicated loan	1.61	0.44	-
2003 US private placement	1.61	0.44	14.76
2011 US private placement	1.66	0.44	14.36
OBSAAR bond issue		0.45	
Syndicated loan, China		0.44	
Actual ratios at December 31, 2010			
Group syndicated loan	1.86	0.44	-
US private placement	1.86	0.44	12.24
OBSAAR bond issue		0.45	
Syndicated loan, China		0.44	
Actual ratios at December 31, 2009			
Group syndicated loan	2.52	0.50	-
US private placement	2.52	0.50	8.07
OBSAAR bonds		0.52	
Syndicated loan, China		0.50	

(a) Method for calculating covenants: In line with the accounting rules, the net debt shown in the financial statements uses closing rates to calculate the euro-equivalent value of debt denominated in foreign currencies. Solely for the calculation of the net debt/EBITDA ratio, net debt has to be recalculated at the average €/USD exchange rate for the period in the event of a difference of over 5% between the average exchange rate and the closing rate. To calculate the covenants at June 30, the convention is for EBITDA or gross operating income to be deemed to be EBITDA reported for the first six months of the year multiplied by two. To calculate the ratios, the EBITDA of the Group syndicated loan and the 2003 US private placement is restated for certain costs that were not included in EBITDA prior to the introduction of IFRSs.

At December 31, 2011, there were no material borrowings or liabilities secured by assets or guaranteed by third parties.

Breakdown by currency of the drawdowns on credit lines and confirmed long- and medium-term borrowings including the short-term portion at December 31, 2011

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

(in millions of euros)	Total	< 1 year	> 1 and < 5 years	> 5 years
Borrowings in USD	65.4	10.3	16.5	38.6
Borrowings in EUR	101.5	13.5	50.7	37.3
Borrowings in GBP	43.3	4.5	36.8	2.0
Borrowings in RMB	50.0	2.8	47.2	0.0
TOTAL	**260.2**	**31.1**	**151.2**	**77.9**
Amortization of issuance costs at the EIR [(a)]	(1.1)			
Fair value of interest-rate derivatives	0.6			
TOTAL	**259.7**			

(a) Effective interest rate.

Of the €151.2 million in debt due to mature in between one and five years' time, €91.2 million had a maturity of less than two years at December 31, 2011.

Analysis of total net debt at December 31, 2011

(By currency)	%
EUR	45.1
USD	25.5
RMB	17.8
GBP	15.1
Other [(a)]	-3.5

(a) Net financial surplus on other currencies.

(By interest rate)	%
Fixed	60.6
Floating	39.4

(in millions of euros)	Total	With a maturity < 5 years	With a maturity > 5 years
Long-term debt	297.1	219.2	77.9
Financial assets	(57.6)	(57.6)	0.0
Net position before hedging	**239.5**	**161.6**	**77.9**
Fixed-rate debt	145.2	67.3	77.9
Net position after hedging	**94.3**	**94.3**	**0.0**

Assuming Mersen's debt and exchange rates remain unchanged at their December 31, 2011 level and taking into account the swaps held in the portfolio, an increase of 100 basis points in floating interest rates would increase the Group's annual interest costs by around €0.9 million.

Note 16 Fair value

The following tables show the fair value of assets and liabilities, as well as their carrying amount on the balance sheet:

Dec. 31, 2011		Accounting categories						
Balance sheet accounts and instrument categories	Note	Assets held at fair value through P&L	Held-to-maturity assets	Available-for-sale assets	Loans and receivables	Liabilities stated at amortized cost	Total carrying amount of the category on the balance sheet	Fair value of the category
Unlisted investments	9			4.9			4.9	4.9
Other non-current financial assets and derivatives held as assets	3-15				8.6		8.6	8.6
Non-current financial assets		0.0	0.0	4.9	8.6	0.0	13.5	13.5
Trade receivables	11				128.0		128.0	128.0
Current financial assets	15				5.3		5.3	5.3
Other assets							0.0	
Financial assets	15						0.0	
Current financial assets		0.0	0.0	0.0	5.3	0.0	5.3	5.3
Cash and cash equivalents	15	52.2					52.2	52.2
Bank borrowings	15					(261.7)	(261.7)	(261.7)
Current advances	15						0.0	
Bank overdrafts	15					(30.0)	(30.0)	(30.0)
Current financial liabilities	15					(5.3)	(5.3)	(5.3)
Borrowings	15	0.0	0.0	0.0	0.0	(297.0)	(297.0)	(297.0)
Trade payables						(64.0)	(64.0)	(64.0)
Carrying amount per category		52.2	0.0	4.9	141.9	(361.0)	(162.0)	(162.0)

Fair value hierarchy

	Fair value of the asset class at Dec. 31, 2011	Listed price	Internal model with observable inputs	Internal model with non-observable inputs
		Level 1	Level 2	Level 3
Investments (see Note 2, J1)	4.9			4.9
Derivatives held as assets	0.5		0.5	
Cash	52.2	52.2		
Derivatives held as liabilities	(3.3)		(3.3)	

Dec. 31, 2010		Accounting categories						
Balance sheet accounts and instrument categories	Note	Assets held at fair value through P&L	Held-to-maturity assets	Available-for-sale assets	Loans and receivables	Liabilities stated at amortized cost	Total carrying amount of the category on the balance sheet	Fair value of the category
Unlisted investments	9			6.2			6.2	6.2
Other non-current financial assets and derivatives held as assets	3-15				9.7		9.7	9.7
Non-current financial assets		**0.0**	**0.0**	**6.2**	**9.7**	**0.0**	**15.9**	**15.9**
Trade receivables	**11**				**117.7**		**117.7**	**117.7**
Current financial assets	15				4.6		4.6	4.6
Other assets					0.4		0.4	0.4
Financial assets	15			0.3			0.3	0.3
Current financial assets		**0.0**	**0.0**	**0.3**	**5.0**	**0.0**	**5.3**	**5.3**
Cash and cash equivalents	**15**	**48.3**					**48.3**	**48.3**
Bank borrowings	15					(227.1)	(227.1)	(227.1)
Current advances	15					(4.3)	(4.3)	(4.3)
Bank overdrafts	15					(6.9)	(6.9)	(6.9)
Current financial liabilities	15					(35.0)	(35.0)	(35.0)
Borrowings		**0.0**	**0.0**	**0.0**	**0.0**	**(273.3)**	**(273.3)**	**(273.3)**
Trade payables						**(71.6)**	**(71.6)**	**(71.6)**
Carrying amount per category		**48.3**	**0.0**	**6.5**	**132.4**	**(344.9)**	**(157.7)**	**(157.7)**

Note 17 Other non-recurring income and expense

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

In millions of euros	2011	2010
Transfers/Restructuring	(4.4)	(2.9)
Real estate/asset disposals	0.8	3.2
Prior period losses of newly consolidated companies and acquisition costs	0.1	(1.2)
Other	(0.7)	(2.2)
TOTAL	**(4.2)**	**(3.1)**

At December 31, 2011, non-recurring income and expense amounted to a net charge of €4.2 million. This item primarily consists of reorganization-related costs for the M.Schneider Germany and acquisition-related expenses, which were offset in part by capital gains from disposals (lighting business in Germany) and by the prior period income of Mersen Istanbul.

At year-end 2010, non-recurring income and expense showed a net charge of €3.1 million, predominantly reflecting expenses resulting from the reorganization of AMT manufacturing facilities and acquisition-related expenses (prior period income and acquisition costs). The real estate disposals relate to Brazil and France (Évreux). Other non-recurring expense mainly includes expenditure linked to the kiln incident at the Gennevilliers plant, as well as the shutdown of the Group's identical kilns. In addition, it includes expenditure linked to the change in corporate identity, leading to the Group being renamed "Mersen".

Note 18 Segment reporting

Operating income

In millions of euros	Advanced Materials and Technologies (AMT)		Electrical Components and Technologies (ECT)		Total for continuing operations	
Sales	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Sales to third parties	379.6	324.8	450.0	416.4	829.6	741.2
Breakdown of sales	45.8%	43.8%	54.2%	56.2%	100.0%	100.0%
Segment operating income before non-recurring items	**60.2**	**39.5**	**57.3**	**51.6**	**117.5**	**91.1**
Segment operating margin before non-recurring items [(a)]	15.9%	12.2%	12.7%	12.4%		
Segment non-recurring income and expense	(2.9)	(1.8)	(1.9)	(0.3)	(4.8)	(2.1)
Amortization of remeasured intangible assets	(0.2)	(0.7)	(0.7)	(0.2)	(0.9)	(0.9)
Segment operating income	**57.1**	**37.0**	**54.7**	**51.1**	**111.8**	**88.1**
Segment operating margin [(a)]	15.0%	11.4%	12.2%	12.3%		
EBITDA margin [(b)]	22.4%	19.7%	15.4%	15.3%		
Recurring unallocated costs					(14.0)	(13.5)
Non-recurring unallocated costs					0.6	(1.0)
Operating income from continuing operations					**98.4**	**73.6**
Operating margin from continuing operations					11.9%	9.9%
Net finance income/(costs)					(10.2)	(10.8)
Current and deferred income tax					(29.5)	(19.9)
Net income from continuing operations					**58.7**	**42.9**

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

Breakdown of sales and sales trends by geographical area

In millions of euros	2011	%	2010	%
France	84.4	10.2%	84.6	11.4%
Rest of Europe	226.2	27.3%	197.0	26.6%
North America	263.4	31.8%	236.9	32.0%
Asia	214.0	25.8%	178.7	24.1%
Rest of the world	41.6	4.9%	44	5,9%
TOTAL	**829.6**	**100.0%**	**741.2**	**100.0%**

No single customer accounts for over 10% of the Group's sales. The number one customer accounted for 2.8% of the Group's sales. The Group's activities are not subject to any significant seasonal variation.

Breakdown of depreciation and amortization recognized by segment

	2011				2010			
In millions of euros	AMT	ECT	Unallocated	Total	AMT	ECT	Unallocated	Total
TOTAL	**(24.9)**	**(12.1)**	**(0.2)**	**(37.2)**	**(24.4)**	**(12.0)**	**(0.2)**	**(36.6)**

Segment assets

In millions of euros	AMT	ECT	TOTAL	Intra-Group transactions eliminated	Total at December 31, 2011
Non-current assets, net (excluding investments)	424.5	194.3	618.8		618.8
Inventories	105.3	83.4	188.7		188.7
Trade receivables	89.4	85.2	174.6	(46.6)	128.0
Other receivables	18.5	10.7	29.2	(8.5)	20.7
TOTAL SEGMENT ASSETS	**637.7**	**373.6**	**1,011.3**	**(55.1)**	**956.2**
Investments					4.9
Deferred tax assets					25.7
Non-current portion of current tax assets					2.1
Current portion of current tax liabilities					4.6
Current financial assets					5.3
Current derivatives					0.5
Cash and cash equivalents					52.2
TOTAL UNALLOCATED ASSETS					**95.3**
TOTAL					**1,051.5**

Segment liabilities

In millions of euros	AMT	ECT	TOTAL	Intra-Group transactions eliminated	Total at December 31, 2011
Trade payables	59.3	51.3	110.6	(46.6)	64.0
Other payables and other liabilities	39.6	41.8	81.4	(8.5)	72.9
Non-current and current provisions	0.2	5.3	5.5		5.5
Employee benefits	10.1	25.5	35.6		35.6
TOTAL SEGMENT LIABILITIES	**109.2**	**123.9**	**233.1**	**(55.1)**	**178.0**
Deferred tax liabilities					24.8
Borrowings					261.7
Non-current derivatives					2.1
Current portion of current tax liabilities					5.5
Other current financial liabilities					5.3
Current derivatives					1.2
Bank overdrafts					30.0
TOTAL UNALLOCATED LIABILITIES					**330.6**
TOTAL					**508.6**

Note 19 Staff costs and headcount

Group payroll costs (including social security contributions, provisions for pension obligations and retirement indemnities) came to €243.8 million in fiscal 2011 compared with €231.7 million in fiscal 2010.

On a like-for-like basis, staff costs increased by 5% owing chiefly to the rise in temporary staff.

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

Geographical area	Dec. 31, 2011	%	Dec. 31, 2010	%
France	1,558	22%	1,527	22%
Rest of Europe (+Tunisia)	1,231	18%	1,275	18%
North America (incl. Mexico)	1,986	29%	2,024	29%
Asia	1,894	27%	1,949	28%
Rest of the world	253	4%	249	3%
TOTAL	6,922	100%	7,024	100%

Headcount of consolidated companies at end of period (continuing operations) broken down by category

Categories	Dec. 31, 2011	%	Dec. 31, 2010	%
Engineers and managers	940	14%	916	13%
Technicians and supervisors	808	12%	797	11%
Employees	928	13%	894	13%
Blue-collar workers	4,246	61%	4,417	63%
TOTAL	6,922	100%	7,024	100%

At comparable scope, the average headcount decreased by 171 employees.

Note 20 Operating income

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

In millions of euros	2011	2010
Product sales	802.6	716.9
Trading sales	27.0	24.3
TOTAL SALES	**829.6**	**741.2**
Other operating revenues	7.9	6.7
Cost of trading sales	(18.5)	(17.1)
Raw material costs	(222.6)	(190.6)
Costs on other operating revenues	(0.8)	(0.6)
Manufacturing costs	(140.6)	(128.3)
Salary costs	(238.8)	(226.1)
Employee incentives and profit-sharing	(5.0)	(5.6)
Other expenses	(69.1)	(65.9)
Financial components of operating income	(3.9)	(3.3)
Depreciation and amortization	(37.2)	(36.6)
Provisions	(2.8)	(3.4)
Impairment losses		
Gains/(losses) on asset disposals	0.2	3.2
OPERATING INCOME	**98.4**	**73.6**

Note 21 Financial income and costs

Recognized on the income statement (*in millions of euros*)	2011	2010
Amortization of bond issuance costs	(0.5)	(0.4)
Interest paid on debt	(9.2)	(9.9)
Commission on debt	(0.5)	(0.6)
Interest income from bank deposits	0.0	0.1
Net finance income/(costs)	**(10.2)**	**(10.8)**

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

Total interest income from financial assets	(0.0)	0.1
Total interest expense from financial liabilities	(10.2)	(10.9)
Net finance income/(costs)	**(10.2)**	**(10.8)**

Recognized directly in other comprehensive income *(in millions of euros)*	**2011**	**2010**
Change in fair value of currency hedges	0.4	(0.8)
Change in fair value of interest rate hedges	0.1	(1.5)
Change in fair value of commodity hedges	(0.7)	0.6
Tax on the fluctuations recognized in other comprehensive income	0.1	0.7
Net financial income recognized directly in other comprehensive income net of tax	**(0.1)**	**(1.0)**

Note 22 Income tax

In millions of euros	**2011**	**2010**
Current income tax	(27.9)	(15.3)
Deferred income tax	(1.6)	(4.6)
Withholding tax		
TOTAL TAX EXPENSE	**(29.5)**	**(19.9)**

The Group has:

- one consolidated tax group in France;
- one consolidated tax group in the United States;
- two consolidated tax groups in Germany; and
- The Group's effective tax rate on continuing operations came to 33% in fiscal 2011 compared with 32% in fiscal 2010.

Analysis of income tax expense

In millions of euros	**2011**
NET INCOME	**59.7**
Income tax expense/(benefit) on continuing operations	(29.5)
TOTAL INCOME TAX EXPENSE/(BENEFIT)	**(29.5)**
TAXABLE INCOME	**89.2**
Current tax rate in France	36.1%
Theoretical tax benefit/(expense) (taxable income x current income tax rate in France)	(32.2)
Difference between income tax rate in France and other jurisdictions	0.2
Transactions qualifying for a reduced rate of taxation	(0.2)
Permanent timing differences	0.5
Impact of limiting deferred tax assets	(0.5)
Other	2.7
ACTUAL INCOME TAX BENEFIT/(EXPENSE) RECOGNIZED	**(29.5)**

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

In millions of euros	Dec. 31, 2011	Dec. 31, 2010
Deferred tax assets	25.7	25.5
Deferred tax liabilities	(24.8)	(22.4)
Net position	**0.9**	**3.1**

Deferred tax movements during fiscal 2011 were as follows:

*In millions of euros**	2010	Net income for the year	Other	Cumulative translation adjustment	2011
Employee benefit obligations	8.2	(0.1)			8.1
Depreciation of non-current assets	(20.7)	(1.0)		(0.7)	(22.4)
Tax-regulated provisions	(3.4)	(0.3)			(3.7)
Impact of tax losses	24.2	(0.7)		(0.2)	23.3
Impairment losses	0.2	0.1			0.3
Other	(5.4)	0.4	0.3		(4.7)
DEFERRED TAX ON THE BALANCE SHEET – NET POSITION	**3.1**	**(1.6)**	**0.3**	**(0.9)**	**0.9**

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

Given the lack of short-term profitability prospects, certain tax losses were not capitalized as deferred taxes. These losses are principally located in China (€8 million) and France (€1.2 million).

Note 23 Earnings per share

Basic and diluted earnings per share are presented below:

Continuing operations and assets held for sale	2011	2010
Numerator: Net income used to compute basic earnings per share (net income for the period in millions of euros).	56.9	38.4
Denominator: Weighted average number of ordinary shares used to compute basic earnings per share	20,080,554	19,768,883
Adjustment for dilutive potential ordinary shares: - unexercised options	736,245	655,144
Weighted average number of ordinary shares used to compute diluted earnings per share	20,816,799	20,424,027
Basic earnings per share *(€)*	2.83	1.94
Diluted earnings per share *(€)*	2.73	1.88

Continuing operations	2011	2010
Numerator: Net income used to compute basic earnings per share (net income for the period in millions of euros).	55.9	41.5
Denominator: Weighted average number of ordinary shares used to compute basic earnings per share	20,080,554	19,768,883
Adjustment for dilutive potential ordinary shares: - unexercised options	736,245	655,144
Weighted average number of ordinary shares used to compute diluted earnings per share	20,816,799	20,424,027
Basic earnings per share *(€)*	2.79	2.1
Diluted earnings per share *(€)*	2.69	2.03

Note 24 Dividends

At the Annual General Meeting, shareholders decided to pay out a dividend of €0.75 per share in respect of 2010, representing an amount of €15 million. Following the decision made at the Annual General Meeting of May 19, 2011, allowing shareholders to opt for payment of dividends in new shares, and the Management Board's decision on July 7 in the light of shareholders' decision to reinvest 13,953,960 rights in new shares, a €10.5 million capital increase (issue of 294,894 new shares) was completed in July 2011 and the Group made a cash payment of €4.5 million in respect of the dividend.

The dividend proposed in respect of fiscal 2011 stands at €1.00 per share, representing an aggregate amount of €20.3 million.

Note 25 Leases

1 - Finance leases

Carrying amount by asset category

(in millions of euros)	Dec. 31, 2011	Dec. 31, 2010
Buildings	0	0

2 - The Group is the lessee (operating lease)

Schedule of minimum payments

(in millions of euros)	Total at Dec. 31, 2011	< 1 year	> 1 year	five years or more
Minimum payments	51.4	8.1	43.3	26.0

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

The reduction in minimum payments by comparison with December 31, 2010 (€53.6 million) derived mainly from lease payments.

Note 26 Related party disclosures

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

Mersen SA belongs to the Mersen group, which encompasses 91 consolidated and unconsolidated companies in 37 countries.

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

1 - Relations with unconsolidated subsidiaries and associates

Group sales to unconsolidated subsidiaries amounted to €11.4 million in fiscal 2011, compared with €7.4 million in fiscal 2010.

In fiscal 2011, the management and administrative fees charged to unconsolidated subsidiaries by the Group (deducted from administrative costs) amounted to €0.1 million, stable compared with the €0.3 million in fiscal 2007.

The amounts receivable by the Group from its unconsolidated subsidiaries came to €3.8 million at December 31, 2011, while amounts payable were zero.

Shareholders' advances made to unconsolidated subsidiaries by Mersen amounted to €1.2 million (vs. €0.5 million in fiscal 2010) at December 31, 2011.

2 - Compensation and benefits paid to key management officers (Management Board, including the Chairman of the Management Board)

(in millions of euros)	2011	2010
Salaries, bonuses, benefits in kind and attendance fees [b]	2.2	1.3
Graduated pension plan payments [a]	(0.6)	0.2
Other long-term employee benefits		
TOTAL	**1.6**	**1.5**

(a) The Chairman of the Management Board's contract entitles him to the benefit of a graduated pension plan, defined as follows: provided that the relevant person is still employed by the Group upon retirement, this regime guarantees graduated pension income of 10-20% of the basic reference salary depending on length of service during the final three years prior to retirement plus a flat-rate of 50% of the maximum bonus. The actuarial obligation was assessed at December 31, 2011 at €1.2 million (€1.7 million at December 31, 2010).

(b) The figures for 2011 reflect the departure of Ernest Totino and the addition of four new members to the Management Board.

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

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

In addition, the following share-based payments were granted to the five current members of the Management Board (including the Chairman of the Management Board):

- stock options: 265,706 stock subscription options were granted to the Management Board in 2007 and 2009:

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

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

- free share allotments: see table showing previous issues to the Management Board:

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

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

The 2011 plan is subject to performance conditions.

No free shares were allotted to Management Board members in respect of the 2008 and 2009 plans.

Note 27 Commitments and contingencies

A - Financial commitments and liabilities

(in millions of euros)	Dec. 31, 2011	Dec. 31, 2010
Commitments received		
Guarantees and endorsements	0.0	0.0
Other commitments received	0.0	2.8
TOTAL	**0.0**	**2.8**
Commitments given		
Collateralized debts and commitments	0.0	0.0
Market guarantees	21.1	15.0
Payment guarantee on acquisitions	0.0	0.0
Other guarantees	23.7	24.8
Other commitments given	6.5	7.5
TOTAL	**51.3**	**47.3**

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

Nature

The largest item, which amounted to €23.7 million, comprises other guarantees, which notably include a €16 million guarantee covering the maximum daily drawings by subsidiaries under the European cash pooling arrangements. The increase in market guarantees between 2010 and 2011 was attributable chiefly to new bank guarantees granted in respect of anticorrosion equipment deals.

Maturity

Commitments and contingencies with a maturity of over 1 year amounted to €30.8 million. They include the €16 million linked to the cash pooling system, which remains in force for as long as the cash pooling agreements are in place. Market guarantees generally last for less than one year, except for a few market guarantees, the duration of which does not exceed three years.

Internal control

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

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

B - Title retention clause

None

C – Individual Right to Training

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

Note 28 Subsequent events

On November 21, 2011, the Electrical Components and Technologies segment entered into an agreement in principle to buy US company Eldre, one of the world's leading specialists in laminated bus bars (cf. page 123).

The transaction was finalized at the beginning of 2012.

This deal fits perfectly with Mersen's policy of stepping up the pace of its expansion, notably through business development in the Electrical Components and Technologies segment.

Note 29 Approval of the financial statements

The Group's consolidated financial statements for the fiscal year to December 31, 2011 were approved by the Management Board at its meeting on March 14, 2012.

Statutory Auditors' report on the consolidated financial statements

Fiscal year ended December 31, 2011

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended on December 31, 2011, on:

- the audit of the accompanying consolidated financial statements of Mersen SA,
- the justification of our assessments;
- the specific verifications required by law.

The consolidated financial statements have been approved by the Management Board. Our role is to express an opinion on these financial statements based on our audit.

→ Opinion on the consolidated financial statements

We conducted our audit in accordance with the professional standards applicable in France. Those standards require and we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis or using other selection methods, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2011, and of the results of its operations for the year then ended, in accordance with IFRSs as adopted for use in the European Union.

→ Justification of our assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code *(Code de Commerce)* relating to the justification of our assessments, we bring to your attention the following matters.

Measurement of property, plant and equipment and of intangible assets

As disclosed in Notes 2.F.1 and 2.I to the consolidated financial statements, the Group performs goodwill impairment tests systematically at each balance sheet date and also assesses whether there is evidence of impairment in property, plant and equipment, and in intangible assets. We have examined the method used to implement the test as well as the estimated cash flows and the assumptions made. We have also verified that Notes 6 and 7 to the consolidated financial statements provide appropriate disclosures.

Employee benefits

Note 2.O describes the accounting policy used to evaluate pension and other related obligations. These obligations were evaluated by external actuaries. Our procedures consisted of examining the data used and the assumptions made, and verifying that Note 14 to the consolidated financial statements provides appropriate disclosures.

These assessments were made in the context of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

→ Specific verification

In accordance with professional standards applicable in France, we have also conducted the specific verifications provided for in law of the information disclosed in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

The Statutory Auditors

Paris La Défense, March 14, 2012
KPMG Audit ID

Catherine Porta
Partner

Neuilly-sur-Seine, March 14, 2012
Deloitte & Associés

Joël Assayah
Partner

PARENT COMPANY FINANCIAL STATEMENTS

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Income statement

(€ 000s)	2011	2010
OPERATING REVENUES (1)		
Revenues		
Other revenues	1,183	820
TOTAL SALES	**1,183**	**820**
Reversals of operating provisions	2	0
Transferred operating costs	1,249	1,027
Other income	823	817
TOTAL 1	**3,257**	**2,664**
OPERATING EXPENSES (2)		
Other purchases	14	14
External charges	3,969	3,516
Taxes other than income tax	503	464
Wages and salaries	2,072	1,400
Social security charges	627	418
Depreciation, amortization and charges to provisions:		
- against fixed assets: depreciation and amortization	54	34
- for liabilities and charges: charges to provisions	311	22
Other expenses	364	395
TOTAL 2	**7,914**	**6,263**
OPERATING INCOME (TOTAL 1 - 2)	**(4,657)**	**(3,599)**

(€ 000s)	2011	2010
FINANCIAL INCOME (3)		
Income from participating interests	27,095	24,599
Other income from fixed assets	131	109
Other interest and related income	2,941	2,603
Reversals of depreciation, amortization and charges to provisions	5,752	11,505
Foreign exchange gains	9,203	7,091
TOTAL 3	**45,122**	**45,907**
FINANCIAL EXPENSES (4)		
Depreciation, amortization and charges to provisions	538	15,694
Interest and related expenses	6,228	6,061
Foreign exchange losses	6,184	5,827
TOTAL 4	**12,950**	**27,582**
NET FINANCIAL INCOME (3 - 4)	**32,172**	**18,325**
INCOME BEFORE TAX AND NON-RECURRING ITEMS	**27,515**	**14,726**
EXCEPTIONAL INCOME		
Management transactions	673	265
Capital transactions	4,879	389
Reversals of provisions and transferred costs	84,953	1
TOTAL 5	**90,505**	**655**
EXCEPTIONAL CHARGES		
Management transactions	875	1,837
Capital transactions	89,149	38
Depreciation, amortization and charges to provisions	73	22
TOTAL 6	**90,097**	**1,897**
NET EXCEPTIONAL INCOME (TOTAL 5 - 6)	**408**	**(1,242)**
INCOME TAX	**(1,887)**	**(1,140)**
NET INCOME FOR THE YEAR	**29,810**	**14,624**
TOTAL INCOME	**138,884**	**49,226**
TOTAL EXPENSES	**109,074**	**34,602**

Balance sheet

ASSETS

(€ 000s)	Dec. 31. 2011 Gross	Dec. 31. 2011 Depreciation and amortization	Dec. 31. 2011 Net	Dec. 31. 2010 Net
FIXED ASSETS				
Intangible assets				
Concessions, patents, licenses, brands	8,846	8,793	53	20
SUB-TOTAL	**8,846**	**8,793**	**53**	**20**
Property, plant and equipment				
Other	426	313	113	80
SUB-TOTAL	**426**	**313**	**113**	**80**
Financial fixed assets [a]				
Participating interests	430,723	31,584	399,139	368,470
Loans and advances to participating interests	100,982	0	100,982	111,828
Other fixed assets	5		5	5
Other	3,630	96	3,534	4,657
SUB-TOTAL	**535,340**	**31,680**	**503,660**	**484,960**
TOTAL A	**544,612**	**40,786**	**503,826**	**485,060**
CURRENT ASSETS				
Advances and downpayments paid on orders [b]	0		0	1
Trade receivables and related accounts [b]	846		846	485
Other [b]	75,080		75,080	54,293
Cash and cash equivalents	369		369	720
ACCRUALS				
Prepaid expenses [b]	335		335	345
TOTAL B	**76,630**	**0**	**76,630**	**55,844**
Deferred costs D	779		779	679
Foreign currency translation losses E	4,499		4,499	5,460
TOTAL (A+B+C+D+E)	**626,520**	**40,786**	**585,734**	**547,043**

(a) due in less than one year: 2,464.
(b) due in over one year: 2,139

LIABILITIES AND SHAREHOLDERS' EQUITY

(€ 000s)	Dec. 31. 2011	Dec. 31. 2010
SHAREHOLDERS' EQUITY		
Share capital	40,577	39,886
Issue premium	215,260	205,704
Merger premium	8,252	8,252
Revaluation reserves	3,252	3,252
Unavailable reserves	2,970	2,262
Statutory reserve	3,989	3,442
Other reserves	33,360	34,108
Retained earnings	3	21
Net income for the year	29,810	14,624
Tax-regulated provisions	99	28
TOTAL A	**337,572**	**311,579**
PROVISIONS FOR LIABILITIES AND CHARGES		
Provisions for liabilities	78	37
Provisions for charges	380	70
TOTAL B	**458**	**107**
FINANCIAL LIABILITIES [(a)]		
Bond issues	43,269	43,251
Borrowings from credit institutions [(b)]	2,580	4,256
Other borrowings	158,648	143,164
Trade payables and related accounts	763	847
Tax and social security liabilities	1,804	1,619
Amounts due on fixed assets	17	0
Other financial liabilities	27,754	24,591
ACCRUALS		
Prepaid income	656	1,214
TOTAL C	**235,491**	**218,942**
Foreign exchange translation gains D	12,213	16,415
TOTAL (A+B+C+D)	**585,734**	**547,043**

(a) due in over one year: 178,803; due in less than one year: 56,688.
(b) including current bank loans and overdrafts: 2,115.

Notes to the balance sheet and income statement

Summary of the notes to the financial statements

Note 1 Accounting principles and methods

The financial statements of Mersen SA for fiscal 2011 have been prepared in accordance with the provisions of French law, notably including CRB Regulation no. 99-03 of June 22, 1999 and subsequent amendments.

The principal accounting methods used are as follows:

A - Share issuance costs

Share issuance costs are set off in full against share issue premiums.

B - Intangible fixed assets and property, plant and equipment

Fixed assets are stated at acquisition or production cost.

They are depreciated or amortized over their estimated useful life.

Differences between depreciation for tax and accounting purposes are recognized under accelerated depreciation and recorded under exceptional expenses, with a corresponding adjustment to tax-regulated provisions under liabilities on the balance sheet.

Generally speaking, the following useful lives are adopted:

- software and other intangible fixed assets: 5 years
- fixtures and fittings: 10 years
- office equipment and furniture: 5 years or 10 years

Where there is evidence of impairment, an impairment test is conducted comparing the net book value of the intangible or tangible fixed asset with its current value. Where this current value has fallen below net book value, an impairment loss is recognized to bring the net book value into line with its current value. No such impairment losses were recognized during the fiscal year.

C - Participating interests and other fixed assets

Gross value comprises the contribution value or acquisition cost of the asset. An impairment loss may be recognized where the book value of an asset exceeds its value in use, with the latter notably determined by reference to the share of the equity, development prospects and sales recorded by the subsidiary. The Company's development prospects are assessed based on past experience and various factors. The current backdrop of a significant deterioration in the economic and financial environment makes it hard to assess the future outlook. It is therefore possible that future performance may well differ from the estimates used to assess the value of the securities portfolio.

Expenses related to the acquisition of participating interests and other fixed assets are included in the cost of securities.

Impairment losses and reversals of impairment in investments, as well as provisions related to participating interests are recorded under financial items. When participating interests are sold, the reversals of impairment on them are recognized under exceptional items so as not to unbalance net financial income and exceptional items.

D - Current assets - receivables

Doubtful receivables are written down to reflect the probable loss.

E - Foreign currency transactions

At the balance sheet date, foreign currency assets and liabilities are stated at the official exchange rate at December 31. A corresponding adjustment is recorded under foreign currency translation gains or losses.

Unrealized currency gains or losses do not affect net income. This said, a provision is set aside to cover the risk arising from unhedged unrealized foreign currency losses related to these foreign currencies.

F - Provisions for liabilities and charges

Provisions for liabilities and charges are set aside to cover litigation, disputes, guarantee and risk-related commitments arising during the normal course of the Company's business and likely to give rise to an outflow of resources.

Accordingly, provisions were set aside to cover all significant risks that the situation or events known at December 31, 2011 deemed likely to occur.

G - Costs deferred over several periods

Bond issuance costs are allocated over the estimated average life of the relevant borrowing.

H - Pension obligations and retirement indemnities

Graduated pension obligations under "closed" defined benefit plans covering part of the workforce are recognized in the form of a provision. Obligations to still active employees are recorded under provisions for liabilities and charges. Obligations to retired employees are transferred to a deferred cost account.

A provision for charges is set aside to cover the Company's commitment arising from graduated pension obligations specifically related to the Group's senior managers.

Retirement indemnities and long-service awards payable under collective bargaining agreements are recognized under provisions for liabilities and charges.

Retirement indemnities and long-service awards are calculated on an annual basis by independent actuaries in accordance with the provisions of the collective bargaining agreement for the French chemicals industry and the CNC recommendation issued on April 1, 2003. The projected unit credit method is used for this purpose. It takes into account using actuarial assumptions the employee's probable future length of service, level of salary costs, life expectancy and the rate of staff turnover. The obligation is discounted at an appropriate discount rate. The obligation is partially funded through payments to an external organization under a collective life insurance policy, the assets of which are stated at fair value.

Retirement indemnities are recognized using the corridor method.

The principal assumptions used in this calculation are as follows:

- future salary costs are calculated based on current salaries including an annual rate of salary increases of 2.20% and additional age-related increases;
- changes in actuarial assumptions are taken into account only where they fall outside the corridor and are amortized over the expected average remaining working lives of the plan members;
- discounting to present value at a rate of 5.00%;
- an average cost ratio of 40% to 45%;
- staff turnover calculated by age bracket;
- return on plan assets: 3.80%;
- mortality table used: non-generational INSEE 98.

I - Stock repurchases

The stock repurchased by Mersen under the liquidity agreement entered into with a financial institution is shown under other fixed assets, in line with French accounting regulations.

An impairment loss in these shares is recognized when the cost of acquiring the stock exceeds the average share price during the final month of the fiscal year.

When these shares are sold, gains and losses are recognized under exceptional items.

J - Exceptional items

The Company has adopted the official French chart of accounts. Exceptional items encompass items not arising during the normal course of the Company's business. Accordingly, exceptional items comprise the book value of and proceeds from the disposal of fixed assets, accelerated tax depreciation and exceptional fixed asset write-downs, non-recurring indemnities, fines and penalties, as well as expenses related to these non-recurring events.

K - Stock subscription options and free share allotments

The Company has put in place stock option and free share allotment plans for certain of its employees.

When stock subscription options are exercised by beneficiaries, the new shares are issued and are accounted for in the same manner as a conventional issue of shares. The share premium is equal to the difference between the subscription price paid by the employee and the increase in the share capital.

When free shares are allotted to beneficiaries, new shares are issued and are accounted for in the same manner as an increase in capital through the capitalization of reserves. The par value of the shares is added to the share capital account, and the surplus is recorded under unavailable reserves.

The Company is not currently engaged in repurchasing shares in the market for allotment to beneficiaries under stock option and free share plans. In this case, the transaction would be recognized in accordance with Conseil National de la Comptabilité's notice no. 2008-17 concerning the treatment of stock subscription and purchase plans and free share allotment plans for employees.

Note 2 Analysis and commentary

Income statement

Sales

Revenues (€1,183 thousand) primarily derive from services billed in France and abroad.

Operating income

The operating loss of €4,657 thousand reflects the holding company's operating costs and expenses related to the departure of the Management Board.

Net financial income

The €32,172 thousand in net financial income represented an increase on the €18,325 thousand recorded in the previous fiscal year owing predominantly to the reduction in impairment losses on participating interests.

Exceptional items

The net exceptional gain of €408 thousand derived predominantly from an earn-out payment linked to the sale of the automobile brushes division.

Income tax

The Company recorded a 2011 income tax benefit of €1,887 thousand resulting from the consolidation of Mersen and its French subsidiaries for tax purposes.

Balance sheet

In addition to the notes shown below, the following comments apply:

Financial fixed assets

The net increase in value of €18,766 thousand was attributable to increase in capital by our subsidiaries, offset partly by the repayment of loans and advances to participating interests.

During 2011, the Company carried out a reorganization of its corporate structure. The value of Ugimac, which used to house the magnets business and had a gross carrying amount of €86,869 thousand, was written down by €83,940 thousand and sold to another Group company for €3,203 thousand.

Debt

The Company's total net debt declined by €13,374 thousand in the fiscal year to December 31, 2011.

(€ 000s)	Dec. 31. 2011	Dec. 31. 2010
Bank overdrafts	2,115	3,770
Bond issue	43,220	43,220
Other borrowings	158,203	142,976
Other financial liabilities [(a)]	27,123	23,257
Total debt	**230,661**	**213,223**
Cash and cash equivalents	(101)	(490)
Other receivables [(b)]	(69,140)	(52,788)
Marketable securities, cash and cash equivalents	**(69,241)**	**(53,278)**
Loans to subsidiaries	**(100,673)**	**(111,614)**
Other financial assets	**(3,489)**	**(4,447)**
Net debt	57,258	43,884
o/w: - due in over one year	75,673	72,880
- due in less than one year	(18,415)	(28,996)

(a) Financial advances received recognized under "Other financial liabilities".
(b) Financial advances made recognized under "Other receivables".

Note 3 Fixed assets

(€ 000s)	FIXED ASSETS				DEPRECIATION, AMORTIZATION & CHARGES TO PROVISIONS			
Accounts	Gross value at beginning of period	Increases	Decreases	Gross value at end of period	Total at beginning of period	Increases	Decreases	Total at end of period
Intangible assets								
Start-up costs	0	0	0	0	0	0	0	0
Concessions, patents, licenses, brands, processes, rights	8,778	68	0	8,846	8,758	35	0	8,793
Fixed assets in progress	0	0	0	0	0	0	0	0
TOTAL (1)	**8,778**	**68**	**0**	**8,846**	**8,758**	**35**	**0**	**8,793**
Property, plant and equipment								
Buildings and technical installations	0	0	0	0	0	0	0	0
Other property, plant and equipment	373	53	0	426	293	20	0	313
Fixed assets in progress	0	0	0	0	0	0	0	0
Advances and downpayments	0	0	0	0	0	0	0	0
TOTAL (2)	**373**	**53**	**0**	**426**	**293**	**20**	**0**	**313**
Financial fixed assets								
Participating interests[a]	490,631	28,558	88,466	430,723	122,161	7	90,584	31,584
Loans and advances to participating interests	111,904	61,690	72,612	100,982	76	0	76	0
Other fixed assets	5	0	0	5	0	0	0	0
Other financial assets	4,663	17,347	18,380	3,630	6	96	6	96
TOTAL (3)	**607,203**	**107,595**	**179,458**	**535,340**	**122,243**	**103**	**90,666**	**31,680**
TOTAL	**616,354**	**107,716**	**179,458**	**544,612**	**131,294**	**158**	**90,666**	**40,786**

(a) see Note 2 on Financial fixed assets

Note 4 Provisions

(€ 000s)	Amount at beginning of period	Charges	Reversals of provisions used	Reversals of provisions not used	Amount at end of period
Tax-regulated provisions					
Accelerated tax depreciation	28	73	2	0	99
TOTAL (1)	**28**	**73**	**2**	**0**	**99**
Provisions for liabilities and charges					
Foreign currency losses	37	55	37	0	55
Retirement indemnities	61	22	0	0	83
Long-service awards	9	1	1	0	9
Senior manager pensions	0	288	0	0	288
Risk related to CL PI	0	23	0	0	23
TOTAL (2)	**107**	**389**	**38**	**0**	**458**
Provisions for impairment					
Participating interests[a]	122,161	7	84,951	5,633	31,584
in loans and advances to participating interests	76	0	76	0	0
in shares held in treasury	6	96	6	0	96
TOTAL (3)	**122,243**	**103**	**85,033**	**5,633**	**31,680**
TOTAL	**122,378**	**565**	**85,073**	**5,633**	**32,237**

(a) see Note 2 on Financial fixed assets

Note 5 Maturity schedule of assets and liabilities

(€ 000s) **Amounts due to the Group**	**Gross balance sheet value**	**Due in one year or less**	**Due in over one year**
Loans and advances to participating interests	100,982	309	100,673
Other financial assets	3,630	2,155	1,475
Trade receivables	846	846	0
Other receivables	75,080	72,941	2,139
Prepaid expenses	335	335	0
TOTAL	**180,873**	**76,586**	**104,287**

(€ 000s) **Amounts payable by the Group**	**Gross balance sheet value**	**Due in one year or less**	**Due in over one year**	**Over five years ahead**
Bond issue	43,269	13,383	26,666	3,220
Borrowings from credit institutions	2,580	2,580	0	0
Other borrowings	158,648	10,713	72,007	75,928
Trade payables and related accounts	763	763	0	0
Tax and social security liabilities	1,804	1,108	444	252
Amounts due on fixed assets	17	17	0	0
Other financial liabilities	27,754	27,754	0	0
Prepaid income	656	370	286	0
TOTAL	**235,491**	**56,688**	**99,403**	**79,400**

Note 6 Information about related parties

The amounts shown in the columns below are taken from the balance sheet and income statement items referred to in the left-hand column.

(€ 000s) Balance sheet or income statement item	**Amount for related parties at least 50%-owned**	**Amount for participating interests (less than 50%-owned)**
Loans and advances to participating interests	100,982	0
Trade receivables	846	0
Other receivables	72,722	46
Cash and cash equivalents	263	0
Borrowings from credit institutions	5	0
Trade payables	3	0
Other financial liabilities	27,418	0
Financial expense	572	23
Financial income	35,055	10

Note 7 Revaluation reserve

(€ 000s)	
1. Revaluation reserves	
At beginning of period	3,252
Reversed during period	0
At end of period	3,252

Note 8 Accrued income and expenses

(€ 000s)		
1. Amount of accrued income included in the balance sheet items below		
Loans and advances to participating interests		309
Other financial assets		141
Trade receivables		4
Other receivables		425
Cash and cash equivalents		268
TOTAL		**1,147**
2. Amount of accrued expenses included in the balance sheet items below		
Bond issues		49
Borrowings from credit institutions		465
Other borrowings		445
Trade payables and related accounts		52
Tax and social security liabilities		1,331
Amounts due on fixed assets		17
Other financial liabilities		400
TOTAL		**2,759**
3. Amount of prepaid income and expenses	**Expenses**	**Income**
Operating items	335	9
Financial items	0	647
TOTAL	**335**	**656**
4. Costs deferred over several periods		
Bond issuance expenses at Jan. 1, 2011	679	
Bond issuance expenses in 2011	456	
2011 amortization of bond issuance costs	(356)	
TOTAL	**779**	

Note 9 Share capital

Share capital

The share capital is made up of 20,288,354 fully paid-up shares each with a par value of €2. During 2011, 294,894 new shares were issued in respect of the dividend payable in shares, as well as 3,939 new shares following the exercise of stock options granted to certain employees, 20,164 new shares under the free share allotment plans and 26,580 new shares in connection with the capital increase reserved for employees.

In November 2007, the Company completed the issue of a €40 million bond comprising 1,000 bonds convertible into new and/or exchangeable for existing shares through the attached warrants ("OBSAAR" bonds) with a nominal unit value of €40,000. Each bond carries 114 BSAR warrants, representing a total of 114,000 warrants sold to the Group's senior managers, which could ultimately lead to the issuance of a maximum of 123,120 shares (owing to the change in the exchange ratio linked to the capital increases completed in 2009), i.e. around 0.63% of the Company's share capital and voting rights. The sale of the warrants to the Group's senior executives has made for a significant reduction in the interest rates on the bond.

On May 21, 2010, a simplified exchange offer was launched for the BSAR warrants issued in 2007. Under the offer, the 2007 BSAR warrants could be tendered in exchange for 2010 BSAR warrants (redeemable warrants entitling holders to subscribe new or acquire existing shares).

2007 BSAR holders were able to choose between the following two alternatives when tendering their 2007 BSAR warrants:

Exchange option: five 2007 BSAR warrants in return for two 2010 BSAR warrants;

Combination option: one 2007 BSAR warrant plus a cash payment of €1.50 in return for one 2010 BSAR.

At its meeting on July 15, 2010, the Management Board formally noted based on the results of this offer that the final number of 2007 BSAR warrants tendered stood at 113,771. These BSAR warrants were automatically canceled. Given this outcome and the decisions made by the 2007 BSAR holders, the Management Board decided at the same meeting to issue 103,331 2010 BSAR warrants.

Stock subscription options and free share allotments

On the recommendation of the Appointments and Remuneration Committee, the Board of Directors regularly offers Group managers the chance to subscribe stock subscription options, subject to attainment of specific earnings targets, or free shares, provided that they remain with the Group for a certain period of time.

Three stock option plans have been awarded, namely on May 14, 2003, July 25, 2007 and February 11, 2009. The employee categories benefiting from these options are to be determined by the Management Board each time that it makes use of the authorization.

Four free share allotment plans were set up on February 26, 2008, February 11, 2009 and May 27, 2011.

The free share allotment plans and exercise of the stock options plans have to date been fulfilled through the issuance of new shares. As a result, no expenses or liabilities were recognized during the fiscal year in respect of these plans.

The characteristics of the stock options plans are as follows:

Characteristics/Assumptions	2003 stock option plan	2007 stock option plan	2009 stock option plan
Allotment date	May 14, 2003	July 25, 2007	February 11, 2009
Availability date	May 14, 2007	July 25, 2011	February 11, 2013
Expiration date	May 13, 2013	July 25, 2017	February 11, 2019
Adjusted exercise price *(€)*	19.68	53.10	17.53
Adjusted share price at allotment date *(€)*	20.48	52.35	17.95
Estimated life *(number of years)*	5.5	5.5	8
Volatility	40.6%	30.9%	38.1%
Dividend per share *(as a % of share price)*	2.4	1.9	2.5
Risk-free interest rate	3.43%	4.44%	3.26%
Exercise period *(number of years)*	4	4	4
Lock-up period *(number of years)*	0	0	0
Number of options/adjusted share allotments	140,293	177,876	366,582
Estimated annual cancellation rate at year-end 2004	1.7%		
Estimated annual cancellation rate at year-end 2005	1.7%		
Estimated annual cancellation rate at year-end 2006	1.5%		
Estimated annual cancellation rate at year-end 2007	End of the plan	End of the plan	
Estimated annual cancellation rate at year-end 2008	End of the plan	End of the plan	
Estimated annual cancellation rate at year-end 2009	End of the plan	End of the plan	7.0%
Estimated annual cancellation rate at year-end 2010	End of the plan	End of the plan	7.0%
Estimated annual cancellation rate at year-end 2011	End of the plan	End of the plan	7.0%
% of shares/options vested following satisfaction of the performance condition[a]	66.7	60	100
Estimate of the number of options/shares ultimately vested in 2005	81,023		
Estimate of the number of options/shares ultimately vested in 2006	81,685		
Estimate of the number of options/shares ultimately vested in 2007	82,089	155,321	
Estimate of the number of options/shares ultimately vested in 2008	82,089	155,321	
Estimate of the number of options/shares ultimately vested in 2009	88,481	167,442	274,222
Estimate of the number of options/shares ultimately vested in 2010	88,481	172,892	314,391
Estimate of the number of options/shares ultimately vested in 2011	88,481	104,616	338,055
Valuation of options/shares *(€)*	7.24	15.58	6.11
Valuation as a % of the share price at grant	35.5%	29.8%	34.1%

(a) The definitive performance condition satisfied on the 2007 stock option plan was 60% in the end, rather than the previously anticipated figure of 100%.

The characteristics of the free share allotment plans were as follows:

Characteristics/Assumptions	2008 free share plan	2009 free share plan
Allotment date	February 26, 2008	February 11, 2009
Availability date	March 1, 2011	February 1, 2013
Expiration date	March 1, 2013	February 1, 2014
Adjusted exercise price *(€)*	0.00	0.00
Adjusted share price at allotment date *(€)*	27.48	17.95
Estimated life *(number of years)*	3	4
Volatility	n/a	n/a
Dividend per share *(as a % of share price)*	2.3	2.5
Risk-free interest rate	n/a	n/a
Exercise period *(number of years)*	3	4
Lock-up period *(number of years)*	2	0
Number of options/adjusted share allotments	21,567	53,900
Estimated annual cancellation rate at year-end 2008	End of the plan	
Estimated annual cancellation rate at year-end 2009	End of the plan	2.5%
Estimated annual cancellation rate at year-end 2010	End of the plan	2.5%
Estimated annual cancellation rate at year-end 2011	End of the plan	2.5%
% of shares/options vested following satisfaction of the performance condition	100	100
Estimate of the number of options/shares ultimately vested in 2008	20,919	
Estimate of the number of options/shares ultimately vested in 2009	20,919	48,708
Estimate of the number of options/shares ultimately vested in 2010	19,363	47,715
Estimate of the number of options/shares ultimately vested in 2011	20,164	48,938
Valuation of options/shares *(€)*	25.67	16.24
Valuation as a % of the share price at grant	93.4%	90.5%

Characteristics/Assumptions	2011 free share plan	2011 free share plan
Allotment date	May 27, 2011	May 27, 2011
Availability date	May 27, 2015	May 27, 2015
Expiration date	May 27, 2015	May 27, 2015
Adjusted exercise price *(€)*	0.00	0.00
Adjusted share price at allotment date *(€)*	39.06	39.06
Estimated life *(number of years)*	4	4
Volatility	35.2%	35.2%
Dividend per share *(as a % of share price)*	2.5	2.5
Risk-free interest rate	n/a	n/a
Exercise period *(number of years)*	4	4
Lock-up period *(number of years)*	0	0
Number of options/shares allotted	140,000	60,000
Estimated annual cancellation rate at year-end 2011	5.0%	5.0%
% of shares/options vested following satisfaction of the performance condition	100	n/a
Estimate of the number of options/shares vested in 2011	100,779	49,382
Valuation of options/shares *(€)*	35.34	35.34
Valuation as a % of the share price at grant	90.5%	90.5%

Changes in equity

(€ 000s)	
Opening equity at January 1, 2010	**311,579**
Net income for the year	29,810
Change in tax-regulated provisions	71
Capital increases [(a)]	11,386
Expenses related to capital increases	(320)
Dividend payment	(14,954)
Closing equity at December 31, 2011	**337,572**

(a) principally linked to dividends payable in shares

Note 10 Commitments

Commitments and contingencies

(€ 000s)	
Commitments given	
Guarantee for euro cash pooling agreement	16,000
Guarantee covering pension obligations at our Mersen Deutschland AG subsidiary	600
Guarantee for the syndicated loan to Mersen Holding China	61,284
Mersen USA BN counterguarantee on security deposits	9,000
Mersen Scotland Holytown Scottish industry ministry guarantee	2,993
Security deposit paid to Ganton covering our Mersen USA Newburyport subsidiary	1,932
Other guarantees and deposits	2,992
TOTAL	**94,801**
Commitments received	**0**
TOTAL	**94,801**

Other reciprocal commitments

(€ 000s)	
Reciprocal commitments given	
Currency hedges	23,083
Commodity hedges	131
TOTAL	**23,214**
Reciprocal commitments received	
Currency hedges	24,081
Commodity hedges	131
TOTAL	**24,212**

Employee benefits

Retirement indemnities, long-service awards and defined-benefit graduated pension plans

(€ 000s)	
Present value of plan obligations at December 31, 2011	2,658
Mathematical value of plan assets	(113)
Unrecognized actuarial gains and losses	(1,271)
Unrecognized past service costs (rights not vested)	(87)
TOTAL	**1,187**

Other commitments related to financial instruments

(€ 000s)	
Fair value of financial instruments at December 31, 2011	
Interest rate swaps	(1,264)
TOTAL	**(1,264)**

Note 11 Leases

The Company did not hold any finance leases in progress at December 31, 2011.

Note 12 Executive compensation

The compensation and benefits paid to members of the Management and Supervisory Boards directly by the Company or indirectly by certain subsidiaries came to €2,617 thousand during 2011.

Net graduated pension obligations in respect of senior managers came to €1,171 thousand.

Note 13 Average headcount

	Salaried employees	Seconded employees
Executives	3	0
Supervisors and technicians	2	0
TOTAL	**5**	**0**

Note 14 Analysis of tax expense

(€ 000s)	Income before tax	Tax payable
Current	27,515	0
Exceptional	408	0
Tax benefit received from subsidiaries consolidated for tax purposes		1,887

Increase and decrease in future tax liability

(€ 000s)	Beginning of period	Change during period	End of period
Accelerated tax depreciation	(3)	(39)	(42)
Provision for GPC pension obligations	572	(33)	539
Graduated pension provision	296	(27)	269
Provision for senior manager pension obligations	0	288	288
Accrued expense, social solidarity contribution	7	0	7
Paid vacation	12	3	15
Retirement indemnities	61	22	83
Tax base or future tax credit (significant items)	945	214	1,159
Tax losses	47,175	(315)	46,860
Total	48,120	(101)	48,019
Future short-term tax rate adopted	34.43%		36.10%
Future long-term tax rate adopted	34.43%		34.43%
Amount of future tax receivable	16,568		16,536

Note 15 Tax consolidation

On January 1, 2007, Mersen formed a consolidated tax group as defined in Articles 223 A et seq. of the French General Tax Code. This tax group chiefly comprises Mersen France SB, Mersen France La Mure, Mersen France Gennevilliers, Mersen France Amiens, Mersen France PY and Mersen Corporate Services.

Tax expense is calculated for each subsidiary every year as if the company were not a member of the tax group. This tax expense thus takes into account the losses recorded by the subsidiary during the period for which it has belonged to the tax group, which it can offset pursuant to ordinary law.

No arrangements have been made for repayment of tax to a loss-making subsidiary based on each subsidiary's current situation. In addition, no compensation is provided for should a loss-making subsidiary leave the group.

The tax benefit recorded by the parent company primarily reflects tax payments made by subsidiaries in profit less the tax liability payable by the tax group to the tax administration.

Subsidiaries are jointly and severally liable for payment of their tax to the French treasury, should Mersen default on payment.

Note 16 Translation adjustments

(€ 000s)	Amounts	o/w set off by hedges or global currency position	o/w deferred foreign exchange gains and losses	Other
Foreign currency translation losses (unrealized)				
On financial fixed assets	387	387		
On miscellaneous borrowings	4,108	4,057		51
On other receivables and payables	4			4
TOTAL	**4,499**	**4,444**		**55**
Foreign currency translation gains (unrealized)				
On financial fixed assets	8,145	4,444		3,701
On miscellaneous borrowings	4,068		3,863	205
TOTAL	**12,213**	**4,444**	**3,863**	**3,906**

A provision for liabilities for currency losses of €55 thousand was set aside at December 31, 2011.

Note 17 Treasury shares

Pursuant to the liquidity agreement entered into with Exane-BNP Paribas, the Company held 54,619 treasury shares at December 31, 2011.

Note 18 Information about exceptional items

Exceptional income

(€ 000s)	
Management transactions	
Restructuring, professional fees and expenses	490
Business license tax rebate	183
SUB-TOTAL	**673**
Capital transactions	
Gains on the sale of treasury shares	327
Earn-out payment related to the disposal of EMC subsidiaries	1,143
Sale price of the participating interests [(a)]	3,409
SUB-TOTAL	**4,879**
Reversals of impairment on investment in Ugimag [(a)]	83,940
Reversals of impairment on other participating interests	1,011
Reversals of accelerated tax depreciation	2
SUB-TOTAL	**84,953**
TOTAL	**90,505**

(a) see Note 2 on Financial fixed assets

Exceptional charges

(€ 000s)	
Management transactions	
Professional fees and expenses related to disposal of automobile business	317
Professional fees and class-action expenses	359
Professional fees and expenses related to change in corporate name	74
Litigation related to Ugimag Brazil	79
GPC pensions for non-active workers	46
SUB-TOTAL	**875**
Capital transactions	
Losses on the sale of treasury shares	683
Net book value of Ugimag shares sold [(a)]	86,869
Net book value of the other investments sold	1,597
SUB-TOTAL	**89,149**
Allowance for accelerated tax depreciation	73
SUB-TOTAL	**73**
TOTAL	**90,097**

(a) see Note 2 on Financial fixed assets

Note 19 Information about risk factors

The financial risk management policy is approved by the Management Board based on proposals submitted by the finance department. Currency and commodity hedging transactions are carried out subject to strictly defined procedures.

Liquidity risk

The Company has signed four major borrowing agreements.

A €40 million bond issue comprising bonds convertible into new and/or exchangeable for existing shares through the attached warrants (“OBSAAR” bonds) arranged in November 2007 (please see Note 9 for a detailed description).

A USD85 million private placement negotiated in May 2003 with US investors, comprising one USD65 million tranche with a final maturity of 10 years and one USD20 million with a final maturity of 12 years. The average duration of the private placement was initially around eight years because it is repayable in installments. The interest paid to investors carries a fixed rate.

A USD350 million loan arranged in July 2008 with a maturity of five years was syndicated with an international pool of banks. The interest rates on the syndicated loan are the interbank rate for the relevant currency when drawings are made plus a fixed credit margin.

A USD100 million private placement was negotiated in November 2011 with a US investor, comprising one USD50 million tranche with a final maturity of 10 years and one USD37.2 million tranche with a final maturity of 8 years, both with a bullet structure. The investor will receive a fixed rate of interest.

Interest-rate risk

The interest-rate risk management policy consists in establishing positions from time to time as a function of the direction of interest rates.

Since the Company considered that interest rates are at low levels by historic standards, it decided to fix part of its cost of debt.

In May 2003, the Group purchased several interest-rate swaps covering an aggregate nominal amount of USD85 million to turn the interest payable on the US private placements into a floating rate. Under the terms of these swaps, the Company receives the interest payable to lenders and pays 3-month USD Libor plus a credit margin. The starting date of the swaps was May 28, 2003, and the swaps have the same duration as the US private placements. The amortization profile of these swaps mirrors that of the US private placements. At December 31, 2008, the swaps had a total nominal amount of USD66.4 million. These swaps were sold again in April 2009, bringing the debt back to a fixed rate.

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

At December 31, 2009, the Company arranged two interest rate swaps with nominal amounts of USD30 million and GBP20 million in order to convert the interest on part of its medium-term confirmed debt into a fixed rate. Under these swaps, the Company receives the interest due to the lender and pays a fixed rate of 1.175% for the US dollar swap and 1.58% for the sterling swap.

These two swaps expired on December 31, 2011.

Commodity risk

Certain Group companies purchase raw materials or components comprising commodities, such as non-ferrous metals like copper, silver and zinc. Copper and silver are the two metals accounting for the largest purchases.

The commodity price risk management policy currently consists in arranging forward commodity purchases with prime banking institutions. These are passed on symmetrically to the subsidiaries involved in commodity purchasing.

Currency risk

The currency risk management policy consists, based on a complete inventory of inter-company and external risks, in arranging forward currency purchases with prime banking institutions.

Except in special cases, the hedges arranged with banks are centralized with the parent company and passed on symmetrically to the relevant subsidiaries to hedge trading flows based either on specific orders or on annual budgets.

The Company does not specifically hedge its net foreign assets.

Note 20 Consolidation

Mersen is fully consolidated by the Mersen group.

LIST OF SUBSIDIARIES AND SHAREHOLDINGS

(€ 000s) Detailed information (gross book value exceeding 1% of the share capital)	Share capital	Share-holders' equity excluding the share capital	% of share capital owned	Carrying amount in Mersen's books		Dividends received by the Company	Loans and advances, net	Gua-rantees and sureties given
				Gross	Net			
Mersen France SB SAS	40,936	4,074	100	49,589	49,589			
Mersen France Amiens SAS	22,477	(445)	100	25,402	25,402			
Mersen France Gennevilliers SAS	19,896	(504)	100	19,896	19,896			
Mersen Corporate Services SAS (France)	3,574	576	100	3,646	3,646	353		
Mersen France PY SAS	17,321	826	100	17,321	17,321	580		
Mersen France Grésy SAS	1,000	(1,487)	100	4,454	4,454			
Boostec (France)	1,085	774	85.26	5,442	5,442			
Mersen Deutschland FFM AG (Germany)	10,021	15,983	10	1,635	1,635			600
Mersen Deutschland Holding GmbH & Co. KG (Germany)	28,700	(14,688)	100	28,700	11,550		414	
Mersen Argentina SA (Argentina)	219	512	97.99	962	807			
Mersen Oceania Pty Ltd (Australia)	865	4,479	100	702	702	1,596		
Mersen do Brasil Ltda (Brazil)	14,696	(6,818)	100	23,847	16,800			
Mersen Canada Dn Ltee/Ltd (Canada)	1,460	11,448	100	1,322	1,322	504		
Mersen China Holding Co Ltd (China)	87,796	(2,821)	100	77,255	77,255			18,385
Mersen Korea Co. Ltd (South Korea)	3,256	7,680	100	12,060	11,540	1,050		
Mersen Ibérica SA (Spain)	2,404	3,030	60	680	680	175		
Mersen Ibérica Bcn SA (Spain)	2,043	(292)	100	2,396	2,396			
Mersen USA Bn Corp. (United States)	37,266	20,738	100	68,926	68,926	17,382	65,362	9,000
Mersen UK Holdings Ltd (United Kingdom)	7,452	6,252	100	903	903		6,584	
Mersen Scot. Holding Ltd (United Kingdom)	63,331	(1,152)	100	57,000	57,000		28,313	3,975
Mersen Hellas SA (Greece)	91	(10)	100	758	120			
Carbone Lorraine Mauritius (Mauritius)	0	103	100	1,681	98			
Mersen India Pvt Ltd (India)	1,470	5,228	100	7,239	7,021			
Mersen Italia Spa (Italy)	4,000	1,314	100	6,090	6,090			
Mersen Fma Japan KK (Japan)	500	2,800	8.90	2,977	917	123		
Mersen Maroc SARL (Morocco)	666	(173)	100	692	692			
Mersen Mexico Monterrey S. de R.L. de C.V. (Mexico)	1,715	0	74	731	731			1,113
Mersen South Africa Pty Ltd (RSA)	100	2,348	54.77	813	813	236		
Mersen Rus (Russia)	752	(766)	100	803	803			
Mersen Nordic AB (Sweden)	224	347	100	551	551	554		
Mersen Istanbul Sanayi Urunleri AS (Turkey)	1,169	853	100	5,016	2,907	124		
Total figures (concerning the other subsidiaries and shareholdings)								
Subsidiaries (at least 50%-owned)								
in France				88	21			
outside France				929	929	854		
Shareholdings (10% to 50%-owned)								
outside France				217	180	10		
Other shareholdings (less than 10%-owned)				**0**	**0**			
TOTAL				**430,723**	**399,139**	**23,541**	**100,673**	**33,073**

STATUTORY AUDITORS' REPORT ON THE ANNUAL FINANCIAL STATEMENTS
FISCAL YEAR ENDED DECEMBER 31, 2011

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended on December 31, 2011, on:

- the audit of the accompanying financial statements of Mersen SA,
- the justification of our assessments;
- the specific verifications and disclosures required by law.

The financial statements have been approved by the Management Board. Our role is to express an opinion on these financial statements based on our audit.

→ Opinion on the financial statements

We conducted our audit in accordance with the professional standards applicable in France. Those standards require and we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis or using other selection methods, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the Company's financial position and its assets and liabilities as of December 31, 2011, and of the results of operations for the year then ended in accordance with the accounting principles generally accepted in France.

→ Justification of our assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code *(Code de Commerce)* relating to the justification of our assessments, we bring to your attention the following matters.

The Company assesses on an annual basis the carrying amount of its participating interests and other fixed assets using the method described in Note 1 to the financial statements on accounting principles and methods. We conducted the assessment of the approach adopted by the Company, which is described in the notes to the financial statements, based on the information available, and conducted tests of how these methods are applied on a test basis.

These assessments were made in the context of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed, which is expressed in the first part of this report.

Specific verifications and disclosures

We also performed the specific verifications required by law in accordance with the professional standards applicable in France.

We have no matters to report concerning the fair presentation and conformity with the financial statements of the information disclosed in the Management Board's management report and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

With regard to the disclosures provided in accordance with the provisions of Article L. 225-102-1 of the French Commercial Code on the compensation and benefits paid to corporate officers and on the commitments given to them, we verified their consistency with the financial statements and with the figures used to prepare these financial statements and, where appropriate, with the data gathered by the Company from companies controlling the Company or controlled by it. Based on these procedures, we certify the accuracy and fair presentation of this information.

In accordance with the law, we verified that the management report contains the appropriate disclosures as to shares and voting rights held by shareholders and their identity.

The Statutory Auditors

Paris La Défense, March 14, 2012	Neuilly-sur-Seine, March 14, 2012
KPMG Audit ID	Deloitte & Associés
Catherine Porta	Joël Assayah
Partner	*Partner*

Five-year financial summary

	2011	2010	2009	2008	2007
1. Share capital at year-end					
Capital *(€ 000s)*	40,577	39,886	39,291	28,595	28,562
Number of shares outstanding	20,288,354	19,942,777	19,645,409	14,297,213	14,280,735
Par value of shares *(€)*	2	2	2	2	2
2. Overall result of operations *(€ 000s)*					
Income before tax, depreciation, amortization, provisions and employee profit-sharing[(a)(b)]	(61,808)	18,560	(12,862)	17,580	10,259
Income tax	(1,887)	(1,140)	(641)	(7,376)	(3,379)
Employee profit-sharing	0	0	0	0	0
Net income after tax, depreciation, amortization and charges to provisions	29,810	14,624	11,641	12,770	8,310
Total earnings paid out	20,288	14,957	9,822	8,864	12,138
3. Overall result of operations per share *(€)*					
Net income after tax and employee profit-sharing, but before depreciation, amortization and provisions[(a)(b)]	(2.95)	0.95	(0.62)	1.75	0.95
Net income after tax, depreciation, amortization and provisions	1.47	0.73	0.59	0.89	0.58
Dividend paid on each share	1.00	0.75	0.50	0.62	0.85
4. Employees					
Average headcount	5	5	6	6	6
Total payroll costs *(€ 000s)*	2,072	1,400	2,967	2,145	1,693
Amount paid for welfare benefits *(€ 000s)*	627	418	700	565	329

(a) In 2011, earnings before tax, employee profit-sharing, depreciation, amortization and provisions were negative because they took into account an exceptional charge of €83,666 thousand for the cost of internal corporate restructuring. This charge was offset by the reversal of a provision for an equivalent amount, which is not included in the calculation of this earnings figure or in the calculation of earnings per share.

(b) Net income after tax and employee profit-sharing, but before depreciation, amortization and provisions was negative in 2009 because it reflected an exceptional charge linked to the disposal of the automobile division. This charge was offset by the reversal of a provision, which is not included in the calculation of this ratio.

ADDITIONAL INFORMATION

8

Documents available to the public

→ Documents available for download from the Company's web site: www.mersen.com

The web site provides in-depth information about Mersen's products and markets, together with all the regulated information required, in line with the European Directive on Transparency.

Available documents notably include:

- this registration document as filed with the Autorité des Marchés Financiers;
- the interim 2011 report;
- financial press releases.

→ List of the information published or made public since January 1, 2011

Pursuant to Article 222-7 of the General Regulation of the Autorité des Marchés Financiers, the following list presents the information published by Mersen since January 1, 2011.

Press releases

January 24, 2012: 2011 sales up close to 11%, in line with the Group's objectives

January 12, 2012: Mersen is awarded a contract with Siemens Energy for the North Sea green energies project

December 1, 2011: Successful USD100 million private placement

November 21, 2011: Mersen to acquire Eldre, strengthening its position as a global partner for power electronics

October 25, 2011: Organic growth of 11% for 2011 third quarter - Mersen confirms its 2011 objectives

September 28, 2011: Véronique Boca appointed Vice President Financial Communication

August 31, 2011: First-half operating margin before non-recurring items of 12.9%. Mersen revises up its guidance for 2011

August 25, 2011: Nomination of a new Management Board, Luc Themelin appointed as Chairman of the Management Board.

July 20, 2011: Growth of 20% on a reported basis and organic growth of 16% during the first half of 2011

June 7, 2011: Mersen announces agreement with Corning SAS to serve the chemicals/pharmaceuticals market

May 30, 2011: Mersen acquires the remainder of Zhejiang Mingrong Electrical Protection's capital

May 17, 2011: Mersen's finance department lands the Trophée d'Or award in the Industry category

May 9, 2011: Mersen participates in the 1st international symposium on innovation and technology in the phosphate industry

May 2, 2011: Mersen attends the main US wind energy trade fair

April 28, 2011: Strategic progress achieved by Mersen in the Chinese energy market

April 20, 2011: 14% organic growth in the first quarter of 2011

April 11, 2011: FSI is increasing its shareholding in Mersen's capital

March 16, 2011: Net income up 67%

January 25, 2011: Sales growth of 15% during the fourth quarter of 2010 and 13% over the full year

January 18, 2011: One of the Mersen group's principal facilities is the first industrial plant in France to secure EN 16001 certification

Presentations

March 16, 2011: Presentation of 2010 full-year results to the financial markets

Information included by reference

The following information is included by reference in this annual report:

Fiscal 2010

Included in annual report no. D-11-0133 submitted to the Autorité des Marchés Financiers on March 15, 2011 are:

- the 2010 consolidated financial statements prepared in accordance with the international accounting standards in force in 2010 on pages 42 to 92;
- an analysis of the 2010 results on pages 18 to 25;
- the Statutory Auditors' report on the consolidated financial statements on page 93.

Fiscal 2009

Included in annual report no. D-10-0134 filed with the Autorité des Marchés Financiers on March 22, 2010:

- the 2009 consolidated financial statements prepared in accordance with the international accounting standards in force in 2009 on pages 37 to 87;
- an analysis of the 2009 results on pages 16 to 23;
- the Statutory Auditors' report on the consolidated financial statements on page 88.

Officer responsible for the registration document

Luc Themelin, Chairman of the Management Board

Mersen
Immeuble La Fayette, 2 place des Vosges
92400 Courbevoie La Défense 5
Tel.: + 33 (0)1 46 91 54 19

Statement by the officer

I certify that, having taken all reasonable care to ensure that such is the case, the information contained in this document is, to the best of my knowledge, in accordance with the facts and contains no omission likely to affect its import.

I certify that, to the best of my knowledge, these financial statements have been prepared in accordance with the relevant accounting standards and give a true and fair value of the assets and liabilities, financial position and the results of operations of the Company and of all the entities included in the consolidation, and that the management report on pages 85 to 98 presents a faithful picture of the business trends, earnings and financial position of the Company and of all the entities included in the consolidation, as well as a description of the principal risks and uncertainties they are facing.

I obtained an end-of-assignment letter from the statutory auditors, Deloitte & Associés and KPMG Audit ID, stating that they have completed their verification of the information related to the financial position and financial statements provided in the annual report, and their reading of this entire report.

Luc Themelin

Auditors and fees

Statutory Auditors

Deloitte & Associés
183, avenue Charles-de-Gaulle
92200 Neuilly-sur-Seine

Date of first term: 1986

Date of last renewal: 2010

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2015)

Represented by: Joël Assayah

KPMG Audit ID
Immeuble Le Palatin - 3, cours du Triangle
92939 La Défense Cedex

Date of first term: 2004

Date of last renewal: 2010

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2015)

Represented by: Catherine Porta

Alternate Auditors

BEAS
7-9, villa Houssay
92524 Neuilly-sur-Seine Cedex

Date of first term: 2004

Date of last renewal: 2010

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2015)

KPMG Audit ID
Immeuble Le Palatin - 3, cours du Triangle
92939 La Défense Cedex

Date of first term: 2010

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2015)

Fees paid to the Statutory Auditors and members of their networks by the Group

	2011				2010			
	Deloitte		KPMG		Deloitte		KPMG	
(€ 000s)	Amount	%	Amount	%	Amount	%	Amount	%
Audit								
- Statutory audit, certification, review of the individual and consolidated financial statements	810	75%	621	83%	770	73%	544	80%
- Other accessory and audit assignments	103	10%	85	11%	96	9%	123	18%
SUB-TOTAL	**913**	**85%**	**706**	**94%**	**866**	**82%**	**667**	**99%**
Other services, etc.								
- Legal, tax law, labor law	77	7%	0	0%	128	12%	0	0%
- Other (state if > 10% of audit fees)	88	8%	43	6%	57	5%	9	1%
SUB-TOTAL	**165**	**15%**	**43**	**6%**	**185**	**18%**	**9**	**1%**
TOTAL	**1,078**	**100%**	**749**	**100%**	**1,051**	**100%**	**676**	**100%**

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2, place des Vosges
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