

MERSEN & YOU

Newsletter for Mersen shareholders

No.32

September 2014

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Dear Sir/Madam, Dear Shareholder,

Throughout the first half of the year, our Group was focused on two objectives: developing our market share in a very heterogeneous economic environment, and implementing our industrial optimization plan to ensure future competitiveness. This work has already begun to bear fruit.

Our activity has started to stage a recovery, with an organic Group growth of +2% compared to last year, if we exclude the chemical business which is currently experiencing a low point in its cycle. Taking into account chemicals, this evolution is -1.6%. Our energy and electronics businesses have shown very positive evolution in the last 6 months.

This confirms the soundness of our business model, based on several product ranges and promising markets. In addition, the operating margin before non-recurring items increased slightly this half compared to the first half of 2013, which is also encouraging.

The Group is in a sound financial position, which was confirmed by

the renegotiation of our syndicated loan with favourable terms leading to the extension of the maturity of our debt.

The second half's activity should improve compared to the first's, particularly thanks to the Americas, where we anticipate a more positive evolution, and the electronics business which should continue with the same dynamism. Our solar sales are also progressing compared to the first half of 2013. However, the chemical business has been at a low point of its cycle because of low investments since the end of 2013. Our activity in this market will therefore be sluggish in 2014 but appears to show a pick-up in 2015.

At the same time, the Transform plan has been deployed according to the timetable in each country, and I am confident that it will contribute to the improvement of the company and its competitiveness in the future.

Thank you for your support and your trust, which are a sign of your commitment to the values and strategy of the Group.



Luc Themelin

Chairman of the Management Board

Our energy and electronics businesses have shown very positive evolution in the last six months.

KEY FIGURES
H1 2014

362

million euros
in sales

47

million euros in EBITDA
i.e. 13.1%
of sales

12

million euros
Cash flow from operating
activities before capital
expenditures

merSEN

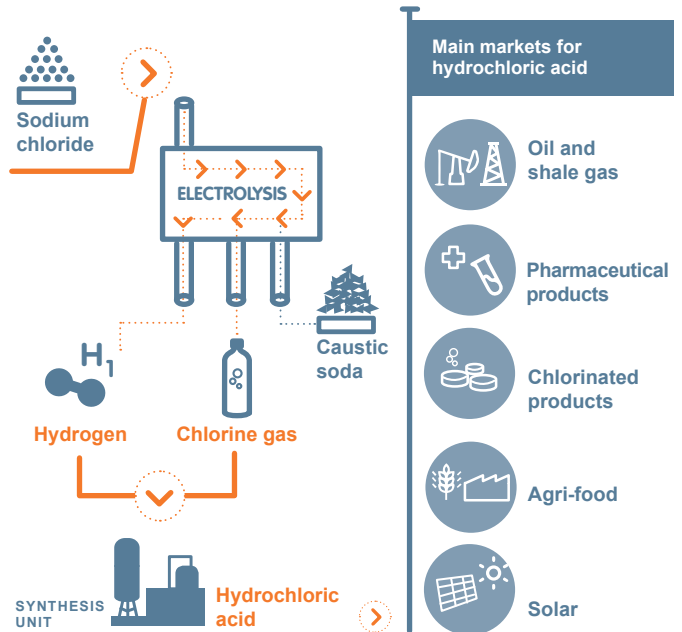
THE BIG PICTURE

Hydrochloric acid made in Mersen

With more than 600 references worldwide, Mersen is a recognized world leader in the design and manufacture of systems for hydrochloric acid synthesis.

Hydrochloric acid (HCl) is a chemical product commonly used as a reagent in the chemical industry and in a large number of industrial processes. It is used in underground extraction operations in the oil and gas industries, in the pharmaceutical industry, as well as in a number of agri-food processes. The primary metal industry applications are stripping (especially steel pickling to increase its corrosion resistance) and the production of polysilicon, an essential component of solar cells. Hydrochloric acid is obtained through the synthesis of chlorine and hydrogen, both co-products of the electrolysis of saline solution, a process also used to produce caustic soda. One of the main production techniques used in Europe is mercury-based electrolysis.

However, mercury-based electrolysis technology is set to be discontinued by 2020 to ensure compliance with European regulations. Plants will either have to close or invest in converting to membrane cell technology. Of the 80 European sites producing sodium chloride, 20 have yet to undertake the investment required to comply with regulations. This represents substantial potential for Mersen, which supplies the burners used to produce hydrochloric acid.



MARKETS SCAN

Every market has its own culture and unique features

Present in 35 countries, Mersen relies on the expertise and field knowledge of its teams to effectively support the leading manufacturers in each segment, because business approaches are not the same from one country to another, from one continent to another or from an emerging market to a mature market. What our teams on the ground say!



CANADA

Marc Charlebois • Managing Director
Mersen Canada Dn Ltd.

"Canada isn't the United States – the business culture isn't the same and price isn't everything. On the contrary, local support is essential, especially in a country with two official languages that don't coexist very well, five time zones and nearly 6,000 km from one coast to the other. You can imagine the real challenges that have to be met every day in the supply chain and the selling process."



BRAZIL

Silvana Machado • Managing Director,
Mersen do Brasil

"Mersen has been in Brazil since 1939, so we know all the ins and outs, which means that we can avoid a lot of red tape. You also have to take into account the importance of local production for publicly financed projects. This encourages the purchase of locally manufactured equipment and components, which validates our approach. In exchange, our customers really appreciate direct contact and a local presence, which is why it's important to have a nationwide sales force."

MERSEN 101

ANNIVERSARY

Centenary celebration at historic Group site

The Gennevilliers plant just outside Paris (France) celebrates its centenary this year. The imposing building in the centre of Gennevilliers represents the Group's historic heartland, with the Pagny-sur-Moselle (France) facility.

Working with very-high-temperature furnaces and the most advanced machines, the men and women of Mersen design and produce custom products, prized for their quality and high performance. These products are supplied to growth markets throughout the world.

Mersen will mark the 100-year anniversary with a special day of celebration for all employees at the site to honor all those who played a part in growing our company.



CONTRACT

ABB-Mersen framework agreement



In the first half of the year, Mersen signed a global framework agreement with ABB for the supply of a complete solution combining a slip-ring, brush-holder and graphite brush, specially designed for ABB's new range of generators employing brush technology.

The new ABB generator is suitable for use in the vast majority of wind turbine models currently sold worldwide. A stand-out feature of Mersen's comprehensive solution is the reduced need for maintenance on the most critical part of the wind turbine generator. Mersen's global presence was a competitive advantage, enabling it to manufacture identical products at several points around the world close to the end customer.



EUROPE

Massimo Neri • Supervisor, Europe

"As a market, Europe is an extremely diverse region, with segments varying in maturity depending on the country. You just have to deal with it. We have to meet a very broad spectrum of demand, while complying with widely varying standards and extreme cultural differences from one country to the next. The secret of our success? We know how to adapt to the local culture without losing either our identity as an international corporation or our commitment to the highest standards, quality and compliance."



SOUTH AFRICA

Eben Hattingh • Managing Director, Mersen South Africa

"Mersen has been in South Africa for 60 years and enjoy a well-established reputation for quality. Our skills are in high demand, especially in the mining industry. Also, a lot of companies underestimate the major influence of BB-BEE*, which is designed to encourage the hiring of black people at every level of an organization. There's no way you can ever hope to do business in South Africa without a serious empowerment process in place."

*Broad-Based Black Economic Empowerment



CHINA

Benson Zhang • sales Manager, Mersen Kunshan, China

"China is a very peculiar market where customer relationships are sometimes as important as product expertise or price. The sales teams therefore have a critical role to play in day-to-day business, by building and nurturing customer relationships, and by staying in contact with local and national authorities. In fifteen years here, Mersen has forged a good reputation with Chinese manufacturers, particularly in the photovoltaic, optical fiber and die-casting sectors."

FINANCIAL BRIEFING

Beginnings of a recovery excluding the chemical business

In the first half of 2014, Mersen consolidated sales amounted to 362.1 million euros, down 1.6% on the first half of 2013 at constant scope and exchange rate. Excluding the chemical business, currently experiencing a low point in its cycle, sales increased by nearly 2% thanks to a good performance by other Group businesses.

Group operating income before non-recurring items¹ amounted to €29.8 million, close to the June 2013 level. The current operating margin is 8.2% of sales, a slight increase compared to the first half of 2013 (8.1%).

Net income attributable to Group equity holders amounted to €0.2 million for the period compared with €11.5 million for the same period in 2013. It was affected in particular by the Transform plan, a global industrial reorganization plan announced by the Group last January.

Cash flow from operating activities before capital expenditures for this half is 12 million euros, compared to 17 million euros in the first half of 2013, and taking into account a temporary increase in the Group's need for working capital requirements. The Group is in a sound financial position: net debt/EBITDA leverage was 2.3² versus 2.1 at the end of 2013. The net debt to equity ratio was 49%² versus 45% at the end of 2013.

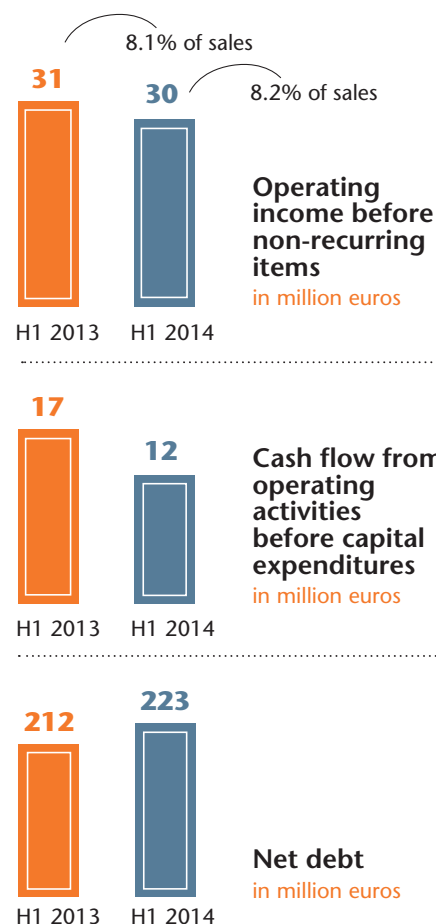
¹As per the definition given in 2009.R.03 of the CNC (Accounting Standards Commission).

²Ratio calculated according to the method of private investments 100MUSD given in November 2011 and syndicated loan of July 2012.

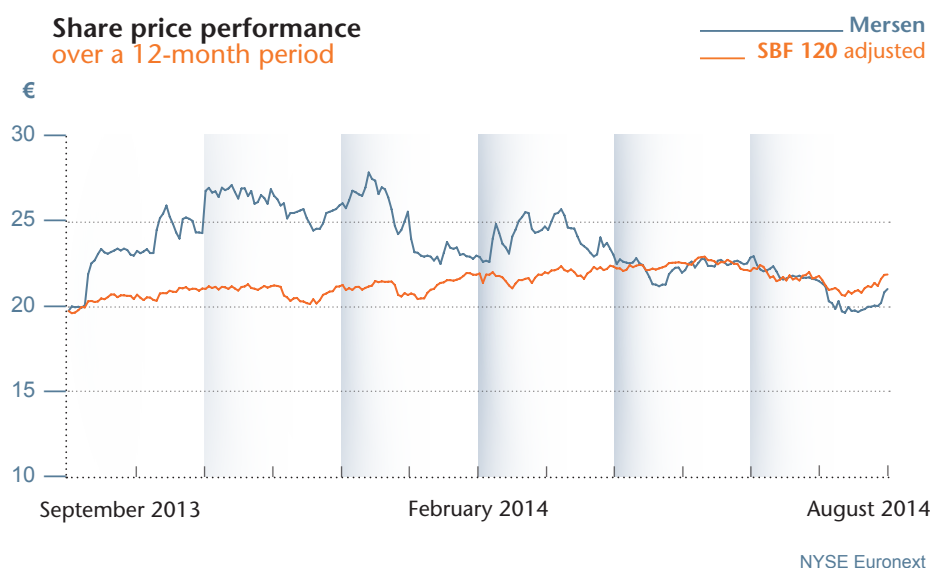
Outlook

Mersen still expects the second half of the year to be better than the first: the Americas are expected to enjoy more positive conditions and the electronics business to continue growing; in addition, sales for the solar market are expected to be higher than those from last year, as expected. However, the Group must also take into account the fact that the chemicals business is unlikely to recover by the end of the year, given the low level of orders registered in the first half. As a result, Mersen believes that its targets for the year, namely slight growth in sales at constant scope and exchange rates and in operating margin before non-recurring items are achievable but more challenging.

The Group also continues to roll out Transform, in line with the initial plan. The estimated cost of this plan is about €30 million over the full year; ultimately, it should improve the Group's operational efficiency and competitiveness prompting an increase in its operating margin before non-recurring items of about 1.5 points (on a business level comparable with 2013).



Share price performance over a 12-month period



October 29, 2014
after the market closes
Third quarter 2014 sales

December 16, 2014
Shareholders' Meeting
in Marseille

DIARY DATES*
January 29, 2015
after the market closes
Fourth quarter 2014 sales

March 11, 2015
2014 Annual results

* Indicative schedule

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Listing

Compartment B of
NYSE Euronext Paris

ISIN code

FR0000039620

Ticker

MRN

Number of shares

20,616,814