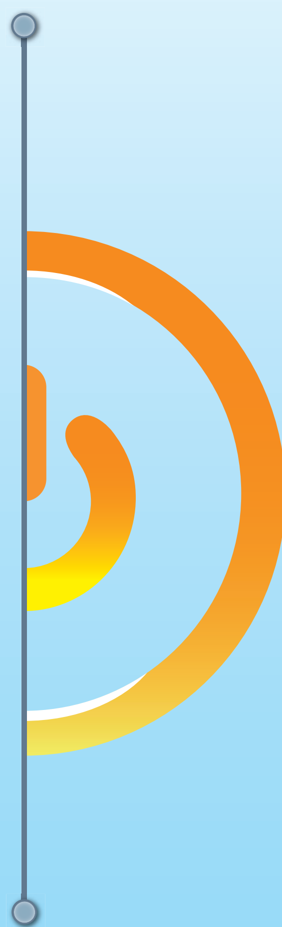
2010
FINANCIAL REPORT



MERSEN

MERSEN

2010 Financial Report

		page
1	General overview of the Group	3
2	Management report	17
3	Sustainable development	27
4	Consolidated financial statements	41
5	Parent company financial statements	95
6	Legal and financial information	117
7	General information about Mersen	161
8	Officer responsible for the reference document and auditors	165
9	Cross-referencing table	169

Chapters 2 to 9 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.

Detailed summaries are provided at the beginning of each chapter.

General overview of the Group

Message from the Chairman of the Supervisory Board 4

Message from the Chairman of the Management Board 5

Group's business profile and strategic priorities 6

Presentation and Group businesses in 2010 8

Key figures 12

Mersen and the stock market 13

Documents available to the public 16

1

Message from the Chairman of the Supervisory Board

During 2009, the global economy experienced an extremely severe crisis, which did not leave our Group unscathed. Nonetheless, last year I emphasized Mersen's encouraging resilience as a result of the structural measures taken in previous years and the bold action plan implemented by Management as soon as the crisis set in.

One year on, I am pleased to report that growth has returned and the Group performed very well during 2010. The Group took full advantage of what was a more favorable macroeconomic environment and its positioning in buoyant markets, such as solar energy, electronics and rail transportation, and in very fast-expanding regions of the world, such as Asia, enabled it to post growth of close to 13% on a like-for-like basis.

This growth went hand in hand with a very good earnings performance, with EBITDA rising by 39% compared with 2009 to reach 15.5% of sales. These achievements have already been warmly greeted by investors, since Mersen's share price gained 32% during the year, compared with a slight decrease in the benchmark SBF 120 index. What's more, we have been able to propose a significant increase in the dividend as a result of this performance.

The change in the Group's name and broader revamp of its corporate image were a key event of the year. The switchover from Carbone Lorraine to Mersen was the Group's way of marking a new century in its development. That said, our Group has not lost sight of its historical roots, which date back to the 1890s and are preserved to the present day through its large manufacturing base in France, but the name change reflects our forward-looking approach. Our goal was to find a name that mirrors our world leadership in 21st century technologies and our now global positions. We also wanted to stay in tune with our customers, nearly 90% of which are now located outside France. Lastly, our intention was to stay true to our objectives, which may ultimate mean that our business is split evenly between Europe, the Americas and Asia.

Our approach to the management of our Group is also resolutely contemporary, with a continuing emphasis on operational excellence and our Management's keen desire to value the men and women who work for it, while protecting the environment and striving for sustainable development.

Lastly, our corporate governance is fully compliant with the latest standards, and we intend to be exemplary in this field. The smooth operation of our dual system of corporate governance featuring a Supervisory Board and a Management Board, and, as I myself can testify, the very active participation of their members at meetings of these Boards and their committees are evidence of this.

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

Hervé Couffin

Message from the Chairman of the Management Board

2010 will be seen as a watershed year for the Group.

First and foremost, it marked a change in the Group's name, which was approved by shareholders at the Annual General Meeting in May 2010.

Carbone Lorraine has now changed its name to Mersen to stay in tune with its new business profile. This new profile is linked to the acceleration in the Group's transformation to focus on expanding markets and those linked to sustainable development (alternative energies, rail transportation, energy efficiency), which now account for over 40% of our sales.

This new corporate identity has been widely accepted, with Mersen's employees and its customers leading the way. I am certain that it will inject fresh impetus into the Group, which will be recognized as a leading industry player across all of its markets.

It was also a remarkable year in terms of the Group's business trends and the quality of its performance, after a year in 2009 that was very badly affected by the crisis.

- The Group achieved growth of close to 13% and derived from all geographical regions and all of our markets. Its positioning enabled Mersen to post sales totaling €741 million.
- Mersen's EBITDA stood at 15.4%. EBITDA has increased by 39% compared with 2009.
- Operating income before non-recurring items amounted to €78 million, with the operating margin reaching 10.5% of sales.
- Net income rose by 166% to over €40 million.

These results reflect our strategic positioning. During 2010, it notably enabled us to benefit from the more rapid growth in the solar energy market across all geographical regions. Capitalizing on this momentum, our sales in the energy market grew by nearly 40% on a reported basis compared with 2009. The electronics sector also enjoyed very strong momentum, while our traditional process industries market, which was badly affected during 2009, also made significant headway.

From a geographical standpoint, while all our regions were boosted by the recovery, growth in Asia was again the strongest at 19% on a like-for-like basis, particularly in China and South Korea, with sales there now contributing one-quarter of the Group's sales.

We also continued to pursue our policy of selective acquisitions during 2010. In particular, we purchased a 60% interest in Yantai Zhifu Graphite, one of the leading Chinese players in the tooling of graphite components for the photovoltaic industry, and an 85% stake in Boostec, which possesses unique expertise in the design and manufacture of components based on massive silicon carbide, an ultra-efficient material that can withstand the most aggressive processes. These acquisitions will enable the Group to extend its range of solutions dedicated to extreme environments and to offer equipment for new developments in strategic markets, such as solar energy and chemicals/ pharmaceuticals.

At the same time, the acquisition of M.Schneider, number four worldwide in DIN fuses and fuseholders, has enabled the Group to consolidate its positioning in Germany and Eastern Europe, as well as in what is a fast-developing standard establishing itself as the benchmark in emerging markets, especially in China.

From an operational standpoint, we continued to enhance our business processes right across the Group through a supply chain optimization program in order to respond to trends more rapidly and more effectively, as well as to control our working capital requirement and manage our cash tightly. In late 2010, one hundred or so managers out of the Group's total of 700 were given training in this area. And we will strive to make further progress in this field.

Lastly, we have strengthened our finances. Our debt burden increased only modestly in 2010 in spite of our acquisitions, our investments and the payment of the fine to the European for anti-trust practices over 10 years ago. Our net debt/EBITDA ratio improved to 1.85x and our gearing stood at 44% at year-end. Concurrently, we refinanced our syndicated loan in China this year to give us the financial resources to continue pursuing our rapid development there.

We should continue to benefit from this momentum in 2011, even though we remain cautious about international conditions amid the ongoing uncertainty. Our aim is to continue building the Group's future, and I firmly believe that our strategy and our responsiveness will give us the strength we need to adapt and rise to the challenges that await us.

Ernest Totino

Group's business profile and strategic priorities

In May 2010, Carbone Lorraine changed its name to Mersen to encapsulate its new business profile as shaped by the acceleration in its transformation to focus on expanding markets and the major challenges posed by sustainable development.

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, current collectors for urban mass transit systems, etc.

These two areas of expertise are geared to serving **markets** that have arisen from the challenges of sustainable development and demographic growth:

- **alternative energies** (solar, wind, nuclear, etc.) to tap into new sources of energy, to prepare for the post-oil era or at least complement conventional energies;
- **chemicals and pharmaceuticals** to help meet demand for food and health triggered by global demographic growth and higher living standards in emerging markets;
- **rail transportation** and **electronics** by providing solutions that help to curb energy consumption and/or to meet the growing demand for mobility.

It also helps the **process industries**, facilitating their transition towards greater **energy efficiency**.

Mersen currently boasts an efficient **manufacturing base** that has recently been bolstered through the addition of cutting-edge technologies. At the same time, the Group's policy of **selective acquisitions** enabled it to strengthen its positions in each of its business segments, while expanding its product range and geographical positions, notably in Asia, which represents a major engine of growth.

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.

Overview of business activities

Businesses	Divisional review	Main applications	Priorities
Advanced Materials and Technologies			
• World number one in graphite anticorrosion equipment. • World number two in high-temperature applications of isostatic graphite. • €325 million in sales. • 44% of total sales*. • Main competitors: - Toyo Tanso (Japan); - SGL Carbon (Germany).	• Isostatic graphite equipment, Carbon-carbon composites, rigid graphite 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.	• 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.).	• Develop high value-added applications employing isostatic graphite and other materials, notably for the solar energy and electronics industries. • Continue developing complete multi-material solutions for corrosive and hot chemicals and pharmaceuticals. • Develop solutions for the nuclear power market, notably in China. • Continue developing complete seawater desalination solutions. • Expand sales in Asia.

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

Businesses	Divisional review	Main applications	Priorities
Electrical Components and Technologies			
• World no. 1 in brushes and brushholders for industrial electric motors. • World no. 2 in industrial fuses. • €416 million in sales. • 56% of total sales*. • Main competitors: - Bussmann (US); - Morgan Crucible (UK); - Schunk (Germany).	• Industrial fuses, cooling devices and protection systems for motors, circuit-breakers, current collectors and other electrical and electronic equipment protecting property and people. • 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.	• Protection of motors and industrial electrical and electronic equipment against short circuits and voltage surges. • Thermal protection of industrial electronic equipment. • Protection of electricity distribution grids. • Electrical protection of property and people. • Protection of rail and mass transit power supply networks. • Full range of electrical components for wind turbines. • Solutions for rotating electrical machinery and sliding contacts used in industry (steel-making, mining, power plants, etc.) and transportation (railways, mass transit, aviation, aerospace), etc.	• 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.

** Continuing operations.*

Presentation and Group businesses in 2010

→ Renewed growth thanks to its positioning in expanding markets

In 2010, Mersen successfully took full advantage of the more favorable macroeconomic environment, which enabled it to build up fresh momentum, with its growth running at close to 13%*, ahead of its full-year targets.

This upturn in growth confirmed the relevance of the Group's strategic decisions over the past few years and notably its positioning in expanding markets linked to sustainable development and the imperatives created by population growth, i.e. energy, transportation, chemicals and pharmaceuticals, and electronics, as well as process industries, its traditional business segment, which it has been supporting as they strive for greater energy efficiency.

Energy

The fast-track development of alternative energies, the principal solution to the challenge posed by the unrelenting growth in energy demand given the depletion of fossil fuel reserves and climate change, makes the invention of technological advances enhancing their competitiveness an absolute imperative.

With a view to deriving one-third of its sales from the market, Mersen develops solutions that meet the needs of the principal forms of alternative energies.

In **solar energy**, Mersen offers a large range of products used throughout the solar cell manufacturing process. For example, the Group provides the requisite ultra-pure graphite electrodes required to manufacture polysilicon ingots, the principal component in photovoltaic cells; complex graphite components–resistors, crucibles, electrodes–kiln linings, insulation fibers and graphite-tooled components to manufacture polysilicon. 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 enjoyed very brisk demand throughout 2010, particularly in Asia and North America, where it notably contributed to the very strong growth in polysilicon and ingot production from which photovoltaic cells are manufactured.

Demand was also very strong in graphite equipment. The large graphite blocks manufactured by Mersen, as well as its graphite component linings and insulation products, represented a competitive advantage meeting the principal challenges in the segment, such as cost-cutting, longer-lasting consumables and greater energy efficiency of a process that consumes large amounts of energy.

The electrical protection solutions developed by the Group also benefited from the growth in solar energy because they protect against the highly specific risks inherent in this type of electrical equipment that require specialist expertise in current protection, especially since the electrical installation standards for this type of equipment have changed and are becoming increasingly demanding. Mersen's Helio Protection range specifically developed for photovoltaic installations gives the Group a competitive advantage.

In the **wind energy** market, the Group's numerous solutions, encompassing among others signal transmission products, brushes and brushholders, slip-ring assemblies, fuses and coolers, have established it as a key wind energy supplier, both in original equipment and replacement markets.

During 2010, the picture was more mixed. While the original-equipment market was depressed in Europe and North America by a dearth of new investment, sales remained brisk in the replacement market chiefly in North America owing to the quality of the Group's customized solutions and services, which have enabled it to win market share in this segment.

Mersen established itself in the nuclear power market in late 2009 through the acquisition of 2C Cellier, a French specialist in metallic equipment (heat exchangers, internal steam generation columns) used in nuclear power plants with expertise in the procedures and regulations specific to this energy in which French technology is regarded as the industry standard. Revenue enhancement and technological synergies are already being harnessed.

The energy market at large contributed 23% of Mersen's sales in 2010, which represents an increase of nearly 40% compared with 2009, and its outlook remains very bright indeed.

** On a like-for-like basis*

Chemicals and Pharmaceuticals

The influence of the chemicals industry is all-pervasive, ranging from delivering the fertilizer needed to meet the challenge of food production around the world, to satisfying steadily growing demand for everyday consumer goods. At the same time, higher living standards in emerging markets and population ageing is giving rise to new healthcare-related needs.

Mersen has positioned itself to equip these markets with an extensive range of customized equipment based on graphite and noble metals that can withstand high temperatures and highly corrosive fluids.

Performance during 2010 was depressed by the weak level of orders recorded during the economic crisis of 2009. Amid these inauspicious conditions, demand from phosphoric acid production units was driven by the expansion in the fertilizer market. 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 the establishment of a local workshop in Morocco in late 2009 to meet demand from Office Chérifien des Phosphates, one of the region's largest producers of fertilizers and phosphoric acid.

This market accounts for 13% of sales and recorded a slight contraction on a like-for-like basis during 2010 owing notably to an unfavorable cyclical effect. Even so, the order backlog remains firm for 2011.

Transportation

Faced with increasingly strong demand for mobility solutions, particularly in Asia, the only viable solution over the long term is the development of mass urban transit and rail systems that require electrical systems delivering higher performance and reliability.

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 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 remained brisk through the year. The Group's presence in China, which was strengthened in late 2009 by the opening of a cooler and high-power switch manufacturing workshop in the Shanghai region, enabled it to take full advantage of the stimulus plans and growth in demand for transportation, which is most evident in this region.

In Europe, the listing during 2010 of Mersen's current collection strips by a leading European railway operator represents a potential market share gain for the Group, which is expected to feed through over the next few years. As part of efforts to create an integrated European railway area, the European Union's decision to increase the interoperability of trans-European rail networks by stimulating investment in infrastructure is notably leading to the gradual replacement of metal collection strips by carbon bands

The transportation market contributed 14% of Mersen's 2010 sales, and its outlook is very bright, particularly in emerging markets.

Electronics

From microprocessors through to LEDs, semiconductors are constantly being used in new applications. With their increasing complexity, 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. The Electrical Components and Systems segment provides surge and current protection and cooling solutions.

Spurred on by the growth in production of LEDs driven by the current emphasis on energy efficiency and the imperative of harnessing energy savings and the development of power electronics, the electronics segment experienced dynamic growth during 2010 across all the Group's regions.

The electronics market, which enjoyed strong growth in 2010, accounted for 14% of the Group's sales in 2010.

Process industries

Process industries, the Group's traditional market comprising the steel, paper and glass production sectors, which still generates around 30% of its sales, must be supported with their transition towards greater energy efficiency through the continuous improvement of processes and energy savings.

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

This market grew very briskly in 2010, as a result of the recovery that kicked in from the first few months of the year onwards. First and foremost, Mersen reaped the benefit of inventory rebuilding, as well as a general round of equipment maintenance and upgrades in these industries, notably with a view to enhancing their energy efficiency.

Sales growth was facilitated by the Group's local presence in emerging markets, its knowledge of the sector's key challenges and its dedicated solutions.

2010 brought a large order in seawater desalination. Thanks to its ability to supply very large filters of up to 60 tons, complying with the highly exacting specifications, Mersen was chosen in January 2010 to provide equipment for the largest reverse osmosis seawater desalination plant in the southern hemisphere. This equipment was manufactured by the Group's production facilities in China.

Consistently value-creating selective acquisitions

During 2010, 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 they target a ROCE of 20% within a few years

Certain acquisitions enable the Group to bolster its positions in its markets. For example, the acquisition in 2010 of M.Schneider in fuses and fusegear helped to extend the Group's range of equipment in a fast-growing standard, which is widely used in China. In solar energy, Mersen acquired a 60% interest in Yantai Zhifu Graphite, one of the leaders in the Chinese market for graphite used by monocrystalline polysilicon wafer manufacturers, which have been making great strides in China.

Acquisitions also enable Mersen to extend its range of products and move into adjacent markets and products that are expanding. This notably applied to Boostec, in which the Group acquired an 85% interest during the year, with the remaining 15% held by Astrium. This company, which is one of the leading manufacturers of massive silicon carbide components, gives the Group another ultra-effective complementary material that can withstand the most aggressive of processes and will facilitate further expansion into strategic markets, such as solar energy, chemicals and pharmaceuticals, and into promising new segments, such as solar thermal.

The acquisitions completed in late 2009 in steel and special metal boilermaking components and assemblies (2C Cellier) and stirrers and mixers (Lumpp) also gave the Group a major boost in 2010, especially in the nuclear, fertilizer and water treatment sectors.

Innovation in order to meet new challenges

An integral part of Mersen's history and culture, innovation flows from its close relationship with customers, its knowledge of the challenges they face and its technology watch. It is stimulated by highly motivating events, such as development days and the Innovation Challenges arranged each year to reward the most promising initiatives in terms of the Group's future development. It is closely geared to serving the markets targeted by the Group. Accordingly, of the Group's 17 major Research and Development projects, half relate to alternative energies, energy efficiency and rail transportation.

These projects helped to foster innovations that translated into growth for Mersen during 2010.

This was notably the case for the largest isostatic graphite blocks in the world produced by Mersen, which boost yields for customers–a top priority in the solar energy sector. This represents a major competitive advantage, which has enabled the Group to win market share from its rivals.

In Electrical Components and Technologies, Mersen has patented surge protection devices, unique components that are able to protect electrical installations against excess electrical charges and notably anticipate the requirements to be introduced for the connection of photovoltaic panels. At present, these products are enjoying an exceptionally strong pace of growth.

The major innovations finalized during 2010 or still under development include numerous solutions based on massive silicon carbide. Following the acquisition during the first half of Boostec, a worldwide specialist in customized and large-sized silicon carbide components, the Group launched various development programs for niche high value-added applications in which silicon carbide delivers competitive advantages for the Group's customers:

- micro-reactors for the continuous production of pharmaceutical compounds;
- mechanical sealing joints of unrivalled size in the market;
- high volume receptors for concentrated solar energy power plants;
- heat exchangers for applications in the chemicals and pharmaceuticals sector.

And for the past few years, the Group has delivered innovations benefiting the photovoltaic industry in several ways:

- by regularly launching innovative new materials, with coatings in many cases, that enhance the yields of polysilicon manufacturers and silicon wafer manufacturers;
- by developing a large range of components and electrical systems securing, boosting the reliability of and protecting all types of photovoltaic installations (solar farms, as well as commercial, industrial and residential equipment).

Asia

Asia has made an increasingly large contribution to Mersen's sales, generating close to a quarter of them in 2010. The Group has continued to strengthen its human presence and its industrial and commercial positions in China through internal ventures and acquisitions. The Group now has eight manufacturing facilities in China representing all of its business activities and the country accounts for over 20% of its headcount.

In Electrical Components and Technologies, the acquisition of control of M.Schneider, the leader in DIN-standard fuses and fuseholders, which are enjoying a strong pace of expansion in China, has enabled the Group to ramp up its growth. The distribution of new production ranges in this market has helped the Group to achieve significant successes in the development of power electronics, which has been spurred on by the development of the Chinese industry.

Mersen has continued to make commercial headway in the Advanced Materials and Technologies segment. South Korea continued to generate a healthy level of growth owing to the extension of the tooling workshop in 2009 to keep pace with the expansion in the electronics and solar energy markets. India also remains a market with great promise, and Mersen possesses some valuable strengths supporting the country's industrial take-off.

In China, the Group has continued to make progress on the strategic front and has bolstered its advanced technology tooling capacity. During June, Mersen acquired a 60% interest in Yantai Zhifu Graphite, which specializes in tooling graphite for the production of monocrystalline silicon dedicated to the photovoltaic industry. This approach will enable Mersen to deliver high value-added equipment and participate in the technical development of the solar segment. This acquisition in the downstream graphite segment (tooling) nicely complements the graphite block production facility built in Chongqing in 2007.

Chinese company Mersen Xianda, which was acquired in 2008, also enabled Mersen to step up the pace of its development in Asian markets. The Group has had to extend this production facility located close to Shanghai in order to meet orders for solar energy systems and in fertilizers, acetic acid, pharmaceuticals, nuclear power and water treatment. Inaugurated in September, the Xianda plant extension has a surface area of 100,000 m2 and has a substantial production capacity in line with international standards.

Lastly, the Group still holds strong positions in Japan, especially in electrical protection and anticorrosion equipment.

Priorities

During 2010, the Group proved the efficacy of its business model based on a positioning in markets linked to sustainable development-related priorities. During 2011 and in future years, Mersen intends to continue pursuing this strategy.

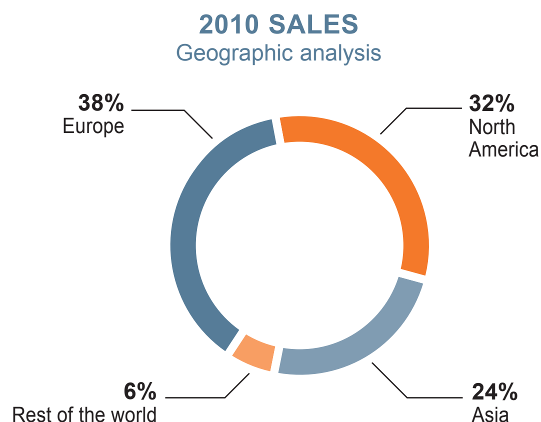
The Group now boasts a restructured, modernized and efficient manufacturing base spanning five continents, a balanced business portfolio, expanding markets, a healthy financial structure and a team of experts in close touch with their markets.

In Advanced Materials and Technologies, Mersen will harness further growth in solar energy and electronics and the recovery in chemicals and pharmaceuticals. Reinforcement of its product range will be facilitated by a greater emphasis on innovation in the development of niche applications.

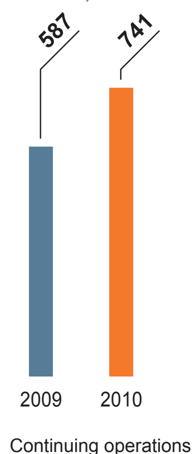
In Electrical Components and Technologies, the Group intends to consolidate its development in power electronics, transportation and Asia. This strategy is predicated on a policy of innovation and selective acquisitions.

KEY FIGURES

2010 SALES
Geographic analysis

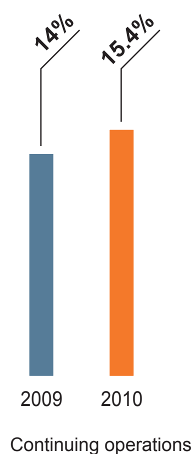


2010 SALES
(In millions of euros)



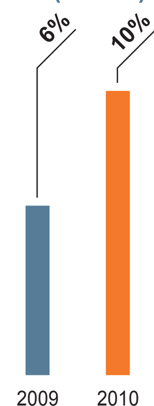
Continuing operations

EBITDA MARGIN
(In %)



Continuing operations

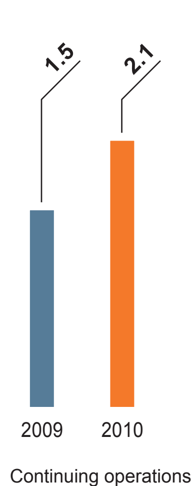
RETURN ON CAPITAL EMPLOYED (ROCE)*



Continuing operations

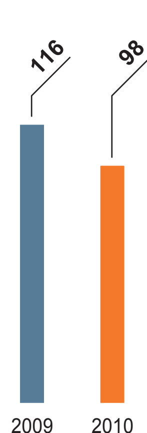
* IFRS operating income/average capital employed (net non-current assets including goodwill + working capital requirement) - including payment of the fine to the European Union in 2010

EARNING PER SHARE
(In euros)



Continuing operations

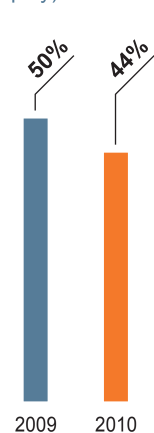
CASH FLOW*
(In millions of euros)



Continuing operations

* After tax and the working capital requirement and before investments

DEBT-TO-EQUITY RATIO
(net debt/equity)



Mersen and the stock market

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

After a year when performance was depressed by the economic crisis, Mersen's share price enjoyed a strong rally in 2010, climbing 32%, while the SBF 120 index suffered a slight decline. This success reflects the markets' recognition of the pertinence of the Group's strategy.

Share-related data

- Listing: Euronext Paris.
- Market: Eurolist Compartment B.
- Indices: CAC Allshares, CAC Mid 100, Next 150, SBF 120*.
- SRI Europe index of socially responsible companies.
- Eligible for deferred settlement and for inclusion in French PEA savings plans.
- ISIN code: FR0000039620.

Share price[(1)]

- at December 31, 2010*: €34.30.
- 2010 high: €35.38.
- 2010 low: €23.35.

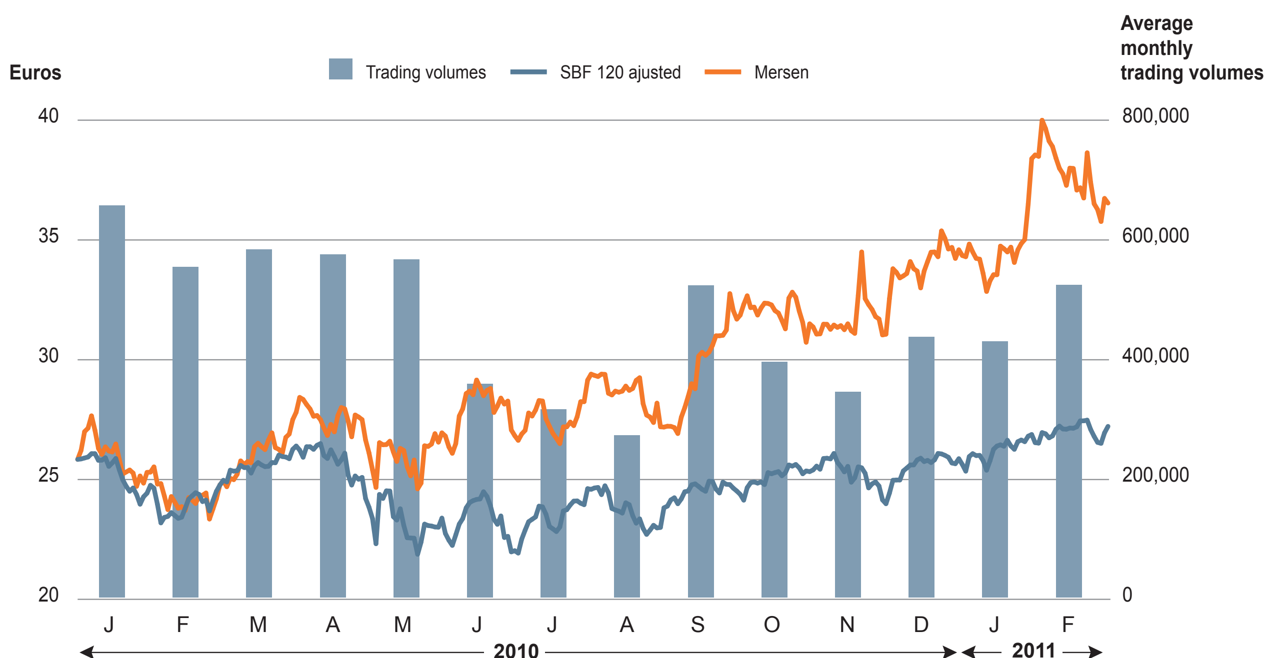
(1) At the close of the market.

Trading

- Average monthly trading volume in 2010: 463,202 (2009 average monthly trading volume: 1,117,469).
- Average daily trading volume in 2010: 21,544.

** Prior to the reorganization of the French market indices effective March 21, 2011.*

→ Share price performance and trading volumes



Source: Euronext data.

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:

- presentations in Europe and North America to institutional investors;
- meetings and seminars on specific themes for investment analysts and business and financial journalists
- information and question-and-answer sessions with individual shareholders in France, backed up by a half-yearly newsletter. During 2011, the Group will innovate by adding a teaching workshop in conjunction with the French stock market education unit to this slate of shareholder events.

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

Market data

(Share price)	February 2011	January 2011	2010	2009 [1]	2008
High	40.00	38.55	35.38	28.07	48.76
Low	35.55	32.64	23.21	14.47	16.46
Average	37.71	34.82	28.45	20.31	32.50
At end of period	36.54	38.49	34.30	25.40	17.80
Number of shares at end of period	19,942,777	19,942,777	19,942,777	19,645,409	14,297,213
Market capitalization at end of period *(in millions of euros)*	728	767	684	498	254
Average number of shares traded (monthly for 2008, 2009 and 2010, daily for January/February 2011)	26,071	20,352	463,202	1,117,469	2,185,780

(1) Data adjusted following the capital increase.

Dividend per share

(In euros)	2010	2009	2008	2007	2006
	0.75	0.50	0.62	0.85	0.85

Ownership of the share capital at December 31, 2010

Individual shareholders	16.9%
Employee shareholders	1.3%
French institutional investors	39.6%
International institutional investors	42.1%
Mersen	0.1%

Key events in the 2010 investor relations calendar

Sales reports

Fourth-quarter 2009 sales - January 28

First-quarter 2010 sales - April 21

Second-quarter 2010 sales - July 21

Third-quarter 2010 sales - October 20

Earnings reports

Full-year 2009 results - March 23

Interim 2010 results - August 30

Meetings for institutional investors

In Europe and North America - Throughout the year

Annual General Meeting

Paris - May 20

Presentations for individual shareholders

Marseille – October 11

Key events in the 2011 investor relations calendar

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

Earnings reports

Full-year 2010 results - March 16

Interim 2011 results - August 31

Meetings for institutional investors

In Europe and North America - Throughout the year

Annual General Meeting

Paris - May 19

Presentations for individual shareholders

Toulouse – May 25

Lyon – December 15

Educational workshop for individual shareholders

Versailles – June 14: Decipher economic trends to gain a better understanding of the stock market

Documents available to the public

Documents available for download from the Company's web site: www.mersen.com

The web site provides a valuable source of in-depth information about the Group's business activities. In line with the European Directive on Transparency, all the documents published and press releases issued by the Group are available online.

Available documents notably include:

- this reference document filed as an annual report with the Autorité des Marchés Financiers;
- the interim 2010 report;
- financial press releases.

List of the information published or made public since January 1, 2010

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, 2010.

Press releases

January 25, 2011: Sales growth of 15% during the fourth quarter 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

October 20, 2010: Sales growth of 21% in the third quarter of 2010

September 15, 2010: Forecasts for 2010: double-digit organic growth and an operating margin before non-recurring items at least equal to the H1 2010 level

August 30, 2010: Confirmation of the upswing, 19% increase in operating income before non-recurring items

July 21, 2010: Confirmation of the upswing during the second quarter of 2010

June 18, 2010: Acquisition of a majority stake in Yantai Zhifu Graphite

June 14, 2010: Opening of the alternative simplified exchange offer for the redeemable stock warrants ("BSAR warrants") issued by the Company in November 2007

May 28, 2010: Mersen shares (formerly Carbone Lorraine)

May 24, 2010: Proposed simplified exchange offer for the redeemable stock warrants ("BSAR warrants") issued by the Company in November 2007

April 21, 2010: First-quarter 2010 sales

April 14, 2010: A new name for Carbone Lorraine

April 12, 2010: Acquisition of M.Schneider

April 2, 2010: Acquisition of Boostec

March 23, 2010: Healthy earnings resilience in spite of the economic crisis

March 19, 2010: Thomas Baumgartner named Chief Financial Officer

February 4, 2010: FSI to be represented on the Supervisory Board

January 28, 2010: Fourth-quarter 2009 sales

January 20, 2010: Appointment at Carbone Lorraine

January 7, 2010: Major new contract for anticorrosion equipment in the water treatment sector

January 5, 2010: Carbone Lorraine buys all remaining shares in Calcarb

Other news

September 15, 2010: Theme-based seminar for analysts: Mersen's Identity and Strategy

June 14, 2010: Securities note concerning the Mersen redeemable stock warrants (AMF visa no. 10-06-2010)

May 21, 2010: Draft information memo: Simplified public exchange offer for the Mersen redeemable stock warrants

March 23, 2010: Presentation of 2009 full-year results to analysts

For further information, please contact:

Investor Relations department
Mersen,
Immeuble La Fayette
2 place des Vosges
La Défense 5
92400 Courbevoie
dri@mersen.com
Tel.: + 33(1) 46 91 54 19

Management report

Introduction	18
Segment trends	19
Consolidated financial statements	20
Investment policy	21
Financing policy	22
Research policy	22
Cash and debt	23
Parent company financial statements	23
Relations between the parent company and its subsidiaries	24
Operations outside France	24
IFRS	25
Recent trends and outlook for 2011	25
Other disclosures in the management report included in the annual report	26

Introduction

2010 brought an economic recovery following the severe global crisis that struck during 2009.

The change in the Group's business profile was accompanied during 2010 by a change in its name from Carbone Lorraine to Mersen. This new profile is linked to the acceleration in the Group's transformation to focus on expanding markets, such as those linked to sustainable development (alternative energies, rail transportation, energy efficiency), which now account for over 40% of its sales.

Thanks to this new positioning, the Group was able to reap the full benefit of the recovery, posting 2010 sales of €741 million up 12.7% on a like-for-like basis and up 26.2% on a reported basis. The Group benefited from a positive currency effect exceeding €30 million owing to trends in the US dollar and certain Asian currencies. Changes in scope had a full-year impact of €45 million owing to the first-time consolidation of Lumpp, Mingrong, Boostec, 2C Cellier, M.Schneider and Yantai.

A substantial sales increase was recorded in energy markets, particularly solar energy. Mersen has established itself in this dynamic segment since 2007, and it is now capitalizing to the full on the booming photovoltaic industry. The situation was more mixed in wind energy, with firm performance in the replacement market in which the Group maintained its quality-focused efforts in support of operators. On the other hand, the original equipment market was sluggish in Europe and the United States. In the nuclear sector, Mersen strengthened its positions by acquiring 2C Cellier in 2009. All in all, alternative energies contributed 16% of its consolidated sales.

Sales in the electronics segment were also very brisk across all the Group's geographical regions. They were driven by the ramp-up in production of light-emitting diodes and growing demand for power electronics protection systems.

Rail transportation sales were underpinned by the impact of stimulus plans in Asia. Growth was not as brisk during the second half, but orders remained firm.

After holding up well during 2009, sales to the chemicals/pharmaceuticals remained almost stable. Even so, new orders are gradually picking up, notably in Asia and in phosphoric acid markets.

Business trends were dynamic in process industries, albeit without reverting to their pre-crisis heights.

During 2010, Mersen benefited from the effectiveness of its growth drivers, i.e. alternative energies and sustainable development, Asia, acquisitions and innovation.

With an EBITDA margin of 15.4% and an operating margin before non-recurring items of 10.5% of sales, Mersen beat its full-year targets as a result of its business volumes.

Lastly, the Group strengthened its financial position. In spite of acquisitions, an unfavorable translation effect and the payment of the fine handed down by the European Union in 2003 and confirmed at appeal, the Group's net debt remained almost stable. Mersen reaped the benefit of the action plans drawn up as part of its supply chain inventory optimization program. As a result, its net debt-to-equity and net debt/EBITDA ratios improved.

SEGMENT TRENDS

The **Advanced Materials and Technologies** segment recorded sales of €325 million, up 13.6% on a like-for-like basis.

Growth in sales of graphite equipment was driven first and foremost by strong demand in the solar energy and electronics sectors. The upswing in the process industries also contributed to the segment's growth. Growth was also boosted by a major contract (€9 million) in seawater desalination, leading to the first sales in this segment. In graphite equipment and noble metals for the chemicals/pharmaceuticals industries, sales were less robust owing notably to an unfavorable cyclical effect. Nonetheless, the order backlog is now moving in the right direction.

During 2010, the Group continued to invest in acquisitions yielding synergies:

- Mersen acquired an 85% interest in Boostec. This company, which is one of the leading manufacturers of massive silicon carbide components, gives the Group another ultra-effective complementary material that can withstand the most aggressive of processes and will facilitate further expansion into strategic markets, such as solar energy, chemicals and pharmaceuticals, and into promising new segments, such as solar thermal.
- Also in solar energy, Mersen acquired a 60% interest in Yantai Zhifu Graphite, one of the leaders in the Chinese market for the tooled graphite used by monocrystalline polysilicon ingot manufacturers, which have been developing in China.
- The acquisitions completed in late 2009 in steel and special metal boilermaking components and assemblies (2C Cellier) and stirrers and mixers (Lumpp) also gave the Group a major boost in 2010, especially in the nuclear and fertilizer sectors.

The Advanced Materials and Technologies segment's EBITDA margin came to 19.7% compared with 19.4% in 2009. This increase derives from a significant increase in volumes. Nonetheless, the rise was tempered by pricing pressures in graphite equipment during the first half of 2010, a phenomenon that stabilized during the year. The operating margin before non-recurring items recorded by the Advanced Materials and Technologies segment stood at 12.2% compared with 11.1% in 2009. The difference between the EBITDA margin and the operating margin before non-recurring items reflects depreciation expense resulting from the active policy of investing in future growth.

The **Electrical Components and Technologies** segment recorded sales of €416 million. Sales advanced by 12% on a like-for-like basis during 2010.

A generally high level of sales was recorded across all the Group's markets, particularly in process industries and in solar energy. Sales in the wind energy segment were held back in Europe by the absence of any recovery in original-equipment. Even so, this effect was offset by momentum in the replacement market, particularly in North America. Sales to rail transportation industry were boosted by the impact of stimulus plans, primarily during the first half of the year. Lastly, sales to distributors of electrical protection equipment in North America were very brisk.

The segment consolidated its positions in Germany through the acquisition of M.Schneider. Through this acquisition, Mersen became the number two player in DIN fuses and fusegear, a standard that has been developing strongly and has established itself as the benchmark in emerging markets, particularly in China.

The Electrical Components and Technologies segment's EBITDA margin moved up to 15.3% in 2010 from 13.8% in 2009. This firm level was predicated on past plans to boost profitability and the volume recovery.

The operating margin before non-recurring items came to 12.4%, vs. 10.8% in 2009.

CONSOLIDATED FINANCIAL STATEMENTS

Sales

During fiscal 2010, Mersen posted sales of €741 million, representing an increase of 26.2% on a reported basis and 12.7% on a like-for-like basis compared with 2009. The Group benefited from a positive currency effect exceeding €30 million owing to trends in the US dollar and certain Asian currencies. Changes in the scope of consolidation had a full-year impact of €45 million owing to the consolidation of Lumpp, Mingrong, Boostec, 2C Cellier, M.Schneider and Yantai.

On a like-for-like basis, Asia posted growth of 19.4%, Europe 10.2% and North America 11.1%. In the Rest of the world, growth ran at 11.9%.

The Group was underpinned by growth across all its markets, except for Chemicals/ Pharmaceuticals, which was hit by an unfavorable cyclical effect.

EBITDA and operating income

EBITDA[1] came to €114.2 million in 2010, up from €82.4 million in 2009. The EBITDA margin stood at 15.4%. The Group's operating income before non-recurring items [2] totalled €77.6 million in 2010. This represented a rise of 54% compared with 2009. The operating margin before non-recurring items came to 10.5%, up close to two points by comparison with 2009. This performance was powered by both of the Group's business segments. The key driver was volume growth, which largely offset the unfavorable price effects in the first half of the year in Advanced Materials and Technologies and the weaker margins attributable to recently acquired companies. The Group's operating income came to €73.6 million in 2010. This figure reflects €3.1 million in non-recurring expenses linked notably to restructuring measures, acquisitions and the change in corporate identity, as well as €0.9 million in amortization attributable to acquisition-related intangibles.

Net finance costs

Mersen's net finance costs came to €10.8 million in 2010, up slightly from €10.4 million in 2009. This stability was attributable to a reduction in average debt between 2009 and 2010, which was offset by a negative currency effect.

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

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

Income before tax and non-recurring items

Income before tax and non-recurring items came to €62.8 million, up 78% from €35.2 million in 2009. The Group's effective tax rate stood at 32% in 2010.

Net income from continuing operations

Net income from continuing operations totaled €42.9 million, compared with €25.7 million in 2009.

Net income from operations sold or discontinued

The loss recorded by assets held for sale and discontinued operations stood at €3.1 million. This loss reflects the results arising from the outsourcing of automobile business (a contract set to expire during the first half of 2011), as well as the resolution of a dispute with the previous owner of a subsidiary now sold.

Net income attributable to Mersen's shareholders

Net income attributable to Mersen's shareholders came to €39.8 million in 2010, down from €14.9 million in 2009. This represented an increase of 166%.

Dividend

The Supervisory Board will propose payment of a dividend of €0.75 per share at the Annual General Meeting of the shareholders. If approved, this would lead to a total payout of €14.9 million, representing 38% of net income attributable to Mersen's shareholders and 35% 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.

Investment policy

Investments made during the past two fiscal years

During 2009, investments in continuing operations amounted to €48.4 million. This spending was largely devoted to equipment intended to increase the Group's production capacity of graphite blocks, as well as its finishing capacity (ultra-fine tooling and ceramic coatings, for example). The Group also added more production capacity for specialty fuses and for electrical components intended for wind energy equipment.

Spending on acquisitions came to €26.2 million in 2009. The principal transactions involved the following companies: 2C Cellier, which specializes in the design and manufacture of advanced technology boilermaking equipment predominantly for the nuclear power industry, and Lumpp, which specializes in engineering solutions plus stirrers and mixers used primarily in the chemicals and pharmaceuticals markets. Mersen also exercised during 2009 the option it held on the 40% of Calcarb and the 49% of Lenoir Elec that it did not already own.

During 2010, Mersen maintained its investment spending with a view to making further inroads into expanding segments and regions, such as alternative energies, Asia, chemicals and pharmaceuticals. Total investments came to €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 totalled around €17.0 million. These included the purchase of the M.Schneider group, the leader in the German 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 tooling for the production of monocrystalline silicon for the photovoltaic industry.

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. Accordingly, of the investments completed during 2010 and the firm commitments given by the Group's Management Board, the acquisition of the M.Schneider group and the investments in the extension of the graphite block production capacity in North America were approved by the Supervisory Board.

	Continuing operations	
(in millions of euros)	**2010**	**2009**
Increase in intangible assets	(0.2)	(0.9)
Increase in property, plant and equipment	(36.3)	(42.5)
Increase in financial assets	(1.2)	(0.5)
Other changes in cash generated/(used) by investing activities	4.8	(5.9)
Non-recurring property disposals	4.0	-
SUB-TOTAL	**(28.9)**	**(49.8)**
Investments linked to acquisitions	(17.0)	(26.2)
Investments linked to asset disposals	0.3	1.7
TOTAL	**(45.6)**	**(74.3)**

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.

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

Research policy

The Group's research and development activities principally consist in developing materials, manufacturing processes, products, systems and applications with a view to:

- maintaining the Group's profitable growth by developing an innovative range of solutions;
- cutting manufacturing costs.

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 2010, as in previous years, innovation focused on two principal areas:

- developing 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 17 principal innovation projects pursued in 2010, eight related to sustainable development markets in solar energy, wind energy, energy efficiency and rail transportation, while the other nine 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.

Cash and debt

Cash generated by continuing operating activities after the change in the working capital requirement and after tax came to €98.4 million, down from €115.5 million in 2009.

This cash generation, which was notably achieved through an action plan to reduce inventories, helped to finance €45.6 million in net investments, including €16.7 million associated with changes in the scope of consolidation.

In spite of an unfavorable translation effect of €9.8 million and the €29.1 million fine paid to the European Union after a ruling in 2003 subsequently confirmed at appeal in late 2009, consolidated net debt recorded a very modest increase. At December 31, 2010, it stood at €220.1 million compared with €214.9 million at year-end 2009.

As a result, the Group improved its financing ratios (net debt/EBITDA and net debt/equity) and bolstered its financial structure, enabling it to capitalize to the full on the economic recovery.

	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Total net debt *(in millions of euros)*	220.1	214.9	305.9	191.8
Net debt/equity	0.44	0.50	0.93	0.62
Net debt/EBITDA	1.86	2.52	2.73	2.07

Parent company financial statements

Parent company's financial position

The sales and other revenues recorded by the parent company, Mersen SA, amounted to €2.7 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.

It recorded an operating loss of €3.6 million, which was smaller than in 2009. This loss reflected the holding company's operating expenses.

Net financial income remained almost stable at €18.0 million compared with €17.0 million in 2009.

The parent company's income before tax and non-recurring items came to €14.7 million. The parent company posted an exceptional loss of €1.2 million, compared with a loss of €1.3 million in fiscal 2009.

The parent company recorded a tax benefit of €1.1 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 €14.6 million, up from €11.6 million in 2009.

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, 2010 comprised €0.6 million in amounts payable within less than 30 days and €0.2 million in amounts payable between 30 and 45 days.

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 98 consolidated and unconsolidated companies in 39 countries. The Group's largest manufacturing facilities are located in France, the United States, China and Mexico.

The Mersen group is organized in two business segments, namely Advanced Materials and Technologies, and Electrical Components and Technologies. Both the segments are supervised by a member of the Management Board.

In some cases, the members of the Management Board hold directorships in companies belonging to their segment.

Operations outside France

In 2010, 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 2010, around 84% of the Group's capital expenditures were devoted to international markets. The Group notably continued to increase its production capacity for graphite blocks and tooling in North America and Asia and invested in new facilities in Asia to pursue its expansion in the nuclear and pharmaceutical markets.

The Group also strengthened its strategic positioning in Asia, its leadership position in expanding markets and its drive to refocus on alternative energies through the acquisition of a majority shareholding in Chinese company Yantai.

In 2010, the Group derived 89%* 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 contribution made by the Group's consolidated subsidiaries outside France came to €566 million, up 11% compared with 2009 on a like-for-like basis.

While sales enjoyed strong growth in North America (up 11% on a like-for-like basis) and in Europe (up 10% on a like-for-like basis), business actually grew most rapidly in the Asia-Pacific region (up 19% on a like-for-like basis). The latter region now contributes around 24% of the Group's consolidated sales.

** Continuing operations.*

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.

Recent trends and outlook for 2011

During 2009, the global economy experienced an extremely severe crisis, which did not leave Mersen unscathed. Even so, the Group's business model ensured that its operating margin before non-recurring items held up well at close to 9%. During 2010, the Group took advantage of a more favorable macroeconomic environment and its positioning in expanding markets and regions, such as solar energy, electronics, rail transportation and Asia, enabling it to deliver sales growth of 12.7% on a like-for-like basis, together with an operating margin before non-recurring items of 10.5%.

Sales have remained brisk during early 2011. Mersen is expected to continue to benefit from its positioning in expanding markets, particularly solar energy and electronics. Given the prospect of structural growth in these two markets and its saturated production capacity on certain graphite equipment production lines, the Group plans to increase its investment spending. Barring any major changes or specific expectations in these markets, the Group's investment-related cash consumption is likely to be between €45 million and €55 million.

The Group is also set to benefit during 2011 from its positions in Asia and a more favorable environment in its chemicals/pharmaceuticals markets.

Our sales in the solar energy market are expected to continue growing, and Mersen aims to achieve sales of between €90 million and €100 million in this market. Taking these factors into account, the Group's objective set for 2011 would be organic sales growth of over 5% and an operating margin before non-recurring items of over 11%.

OTHER DISCLOSURES IN THE MANAGEMENT REPORT INCLUDED IN THE ANNUAL REPORT

The other disclosures required by the legislation and regulations are included in the following chapters of the annual financial report:

- Information about the Company's share capital is disclosed in chapters 6 and 7 of the annual report;
- Information about employees' ownership of the Company's share capital is disclosed in Chapter 6 of the annual report;
- Information about Management Board members and their compensation and benefits is disclosed in Chapter 6 of the annual report, as well as in the Chairman of the Supervisory Board's report on the preparation and organization of the Board's work and on internal control procedures, which is also presented in Chapter 6;
- Information about how the social and environmental consequences of business activities are taken into account is presented in Chapter 3 of the annual report;
- Information about the principal risk factors facing the Group is provided in Chapter 6 of the annual report on risk management;
- A table showing the Group's results over the past five fiscal years is presented in Chapter 5 of the annual report in the parent company financial statements section.

Sustainable development

Corporate social responsibility	28
Environmental responsibility	35

Corporate social responsibility

Thanks to the human qualities of its employees, their diversity, their expertise, their motivation and their entrepreneurial spirit, Mersen was able to deliver further growth and development during 2010. Its teams are the driving force behind this expansion.

The Group's workforce

Close customer relationships represent a major pillar of the strategy pursued by Mersen, which has built a large industrial presence in international markets. The Group has established itself on five continents, with over 60% of its employees located outside Europe. Its largest units in terms of the size of its workforce are France, the United States, China and Tunisia.

Geographical analysis of the workforce (at December 31, 2010)

Country	2010	2010	2009*	2008**
Europe (including Tunisia)	40%	2,802	2,451	2,380
• o/w France	22%	1,527	1,399	1,440
North America (including Mexico)	29%	2,024	1,682	2,043
Asia-Pacific	28%	1,949	1,251	1,151
Rest of the world	3%	249	233	274
Total	100%	7,024	5,616	5,848

New entities consolidated for the first time in 2010: M.Schneider – Mersen Yantai – Mersen Shanghai Co. Ltd - Zhejiang Mingrong Electrical Protection - Boostec - Mersen France Gresy (formerly 2C Cellier), Lumpp

Diversity, a source of creativity and innovation

Diversity

Innovating means breaking with the habits of the past and striking out in a new direction. The diverse origins, educational and cultural backgrounds, and ways of thinking of the Group's teams represent major advantages stimulating its creativity. It recognizes the development potential and performance contribution of each individual employee.

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

To secure and reinforce the diversity initiative, the Group announced the launch of a Mersen Diversity program at the executive meeting held in June.

During October 2010, Mersen signed the **French corporate diversity** charter. The Group has undertaken to combat all forms of discrimination by guaranteeing respect and promoting diversity. HR managers at the French facilities attended a one-day training course educating them about the theme of diversity.

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.

Gender balance 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 momentum in this area. The proportion of women managers went up from 13% at year-end 2008 to 18% by year-end 2010. The Group's objective is for 20% of its managers to be women by 2013.

The issue of **seniors** is strategically important for the Group for two reasons:

- it is a matter of social responsibility,
- it affects the future of the Group, its development and future performance. The skills, experience and expertise senior employees have gained are invaluable and will help to secure the Group's ability to move forward and innovate to maintain its leadership.

An action plan for senior employees was finalized in 2009 that will be implemented gradually, with adjustments to the labor rules applicable in the various different countries. This plan, which is currently being rolled out, aims to prepare for retirements as effectively as possible, as well as giving senior employees the option of continuing to pursue a motivating professional activity. It strengthens relationships between the generations and ensures the smooth transfer of technical expertise.

Mersen wants its management structures to reflect the cultural diversity of its teams. To this end, the Group continued to implement measures to **hire managers from diverse backgrounds** in order enable its non-French employees to gain positions of responsibility.

Mersen's success is predicated on a balanced **international mobility policy** and the joint development of local talent. The Group has thus made adjustments to its international mobility policy in order to tailor it to its mission statement and its objectives. It reflects Mersen's values, namely a human dimension, local relationships right around the world, operational excellence, responsibility and profitable growth.

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.

To encourage international mobility and develop international profiles, Mersen introduced a framework during 2010 for geographical mobility projects. Mobility charters will provide a different vision by developing a pool of multi-cultural employees who will ultimately go on to enrich the Group's senior management teams.

Employment and integration of disabled workers

The outsourcing of work to ESATs (French organizations that help disabled people back into work) and measures already implemented at French facilities to promote the employment of disabled workers helped to reduce the disabled levy paid by the Group. 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. Thanks to this initiative, several disabled interns spent a few months with the Group during 2010. Bringing on board young people helps the Group to detect high-potential individuals with a view to recruiting them in the future. It also helps to change the attitudes of Mersen's employees to disabilities, while encouraging creativity and open-mindedness.

Relations with labor bodies

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 at company level. These committees both met once during 2010.

Furthermore, numerous study and negotiation meetings were held during 2010 on topics such as the prevention of psycho-social risks and well-being in the workplace, labor dialog and healthcare costs.

The agreement concerning the **employment of seniors** (i.e. those aged 50 or over) is currently 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 roll out a bold approach underpinned by concrete measures as part of an integrated human resources policy. This agreement covers the intersection between three key aspects of the Group's human resources policy, that is diversity and equal opportunities, occupational health and working conditions, and forward jobs and skills planning. The agreement contains a stated objective that employees aged 55 and over will continue to make up 15% of the workforce. Concrete measures have been implemented to keep seniors in their jobs, structured around the following four pillars:

- the reinforcement of individual reviews: an experience interview was created for employees over 58 in certain countries in order to identify the expertise that needs to be passed on to other employees and to make arrangements for the latter stages of their working life taking their wishes into account;
- development of a training policy for seniors;
- introduction of tutoring and other forms of passing on knowledge;
- tools to improve working conditions and occupational safety.

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 top-up pension arrangements, complementing the statutory regimes, reflect the Group's enduring commitment to help each of its employees to plan ahead for retirement. They also represent a major attraction for potential future 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 employer contributions that are highly advantageous for employees whose ability to save is the weakest. 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.

→ Expertise specific to each of the Group's business lines

Developing know-how and innovation is a priority for the Group's competency management policy.

Innovation and project management

Innovation lies at the heart of the Group's strategy. It facilitates growth and helps to position the Group in solutions that are less exposed to competition because they are distinctive. The Group has two aims in this area:

- 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 measures implemented from the end of 2008 onwards came to fruition in 2010. For example:

- An internal database was set up online listing experts (by materials, by physical and chemical phenomena and by industrial processes) and special equipment at all of the Group's facilities;
- Research, development and technology watch priorities were laid down formally for the divisions and the Group, while ensuring that they remain consistent with its growth objectives in certain key markets, such as solar and wind energy;
- The **Innovation Challenge** was extended to include a third competition for support functions, in addition to the existing Creativity and Growth Plus prizes. As a result, the three ideas creating the most value-added were rewarded in 2010. These challenges will be held again in 2011.

More generally, 2010 saw the development of 17 cross-functional projects that will accelerate the process of sharing experiences and harnessing synergies at Group level. Half of these projects relate to alternative energies, energy efficiency and rail transportation.

Forward skills planning

The Group's forward skills planning initiative continued during 2010. Each facility drew up a projection of the skills that it will need over the coming years in view of its priorities and those of the Group. This forecast was reviewed and discussed by the Executive Committee. The forward skills planning initiative represents one of the four key pillars of the 2011-2015 HR plan drawn up in 2010.

Identifying **key positions** for the Group helps to prepare its existing teams for the acquisition of the relevant expertise. Planning ahead for departures linked to demographic trends in the Group's workforce is another key aspect of the Group's policy of forward human resource planning.

The "Management of senior employees and Group culture" work group drew up an action plan that is gradually being deployed outside France. It aims 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 identifying the key competencies at major industrial facilities initiated in 2009 continued into 2010.

A succession plan was drawn up for each employee whose competencies are considered as crucial. This plan draws on the career committee reports and manager databases, which are used to identify key and/or high-potential employees. The transfer of skills is recorded formally through an experience interview held by managers with each of their employees when they turn 58. While this age may vary from country to country depending on the legislation and local practices, it is important to hold the interview two or three years before the relevant employee retires. During 2010, the Group selected service providers that could support it with this project. During 2011, all the various participants in the process, i.e. senior employees, managers and HR managers, will receive training to gain a clearer grasp of the benefits. Two pilot projects were completed in 2010 to prepare for this interview with seniors, which will be rolled out across the board in 2011.

The process of **hiring new managers** has now been extended to all Group companies. It harmonizes recruitment practices in a bid to enhance professional standards and technical expertise. It is due to be adapted during 2011 to bring it perfectly into line with the diversity-related objectives.

The preparation of a welcome booklet distributed within the Group has enriched the integration of new hires. An **e-induction** program available on Mersen's intranet provides new employees with all the information they need during their first few weeks with the Group.

The **annual review** is one of the key aspects of the competency development process implemented within the Group. Annual reviews, a special time for dialog and discussions between the employee and his/her direct management superior, help to assess individual performance over the previous year and set objectives for the following year. 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 on the Group's intranet handles the online management of forms and facilitates the organization of annual reviews.

Training in how to implement performance reviews was delivered to plant managers in various countries (France, Rest of Europe, etc.).

In France, the competency development process was reinforced by: an agreement on forward skills and job planning, and an agreement on the management of senior employees. The professional milestone review complements annual reviews for all employees when they reach 45 years old. It aims to prepare for the second part of employees' careers as effectively as possible, based on their aspirations and competencies and the Group's current and forecast needs in terms of employees and skills.

In addition, **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. Mersen's global dimension provides employees with genuine career development opportunities. The Group has displayed its determination to promote discussions between the various business units, divisions and geographical regions. The priority placed on internal recruitment helps to breathe life into the mobility drive and to boost the international diversity of the Group's managers.

A **mapping of reference jobs** initiative has identified 60 or so positions in a dozen or so functions (management, sales and marketing, R&D, purchasing, etc.). This has helped to refine recruitment policy, makes for greater consistency in the management of employees as a function of their contribution and facilitates competency development.

Training and competency development

To help them progress and to prepare for future responsibilities, 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.

In 2010, training efforts focused in particular on two priority areas:

- facilitating Mersen's transformation into a growth company;
- achieving operational excellence in safety and man management, in line with the key tenets of the Quality and Continuous Improvement program and the HR plan.

All in all, the Group devoted 1.5% of its total payroll during 2010 to training, i.e. an average of 10 hours of training per employee.

Training at Mersen

Training*	2010	2009	2008
As a % of total payroll costs			
Group total	1.5%	1%	1.1%
• o/w France	2.0%	2%	2%
Average number of hours per employee			
Group total	10	13	14
• o/w France	17	15	13

**Excl. India, M.Schneider facilities (Germany, Austria, Czech Republic)*

In 2010, one of the training courses proposed worldwide related to the Supply Chain. One hundred or so employees from five continents attended the course in order to meet the demands of this function and the Group constraints as effectively as possible. The Group training courses also help to strengthen the common culture.

Employee motivation and involvement

Internal communications

Sharing information is a key aspect of employee motivation. Mersen endeavors to communicate internally concerning 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 internal newsletter, which has been renamed **Inside Mersen**, continues to be available in seven languages, i.e. French, English, German, Spanish, Italian, Chinese and Portuguese. It is circulated to all the Group's employees and made available on the intranet in interactive electronic format. Information is also passed on using complementary theme-based Inside Mersen publications concerning the latest news and the **Infos Sites**, which focus on local information. Discussions between management and employees take place on a monthly basis at most facilities.

The Group's **intranet** now bears Mersen's new colors. Accessible in real time right around the world, it represents a user-friendly way of sharing information and tools. Its contents are constantly enriched through active contributions by the numerous section managers. Its functionality and ease of use help to foster discussions and information-sharing.

Incentives

Fostering the personal and collective commitment of employees and encouraging them to meet 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 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 or divisional level.

Managers' bonuses are calculated both on the margin 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.

A continuous improvement program mobilizing the entire workforce

The Quality and Continuous Improvement (QPC) program is now a well-entrenched part of the Group's culture. Its priority objective is to drive Mersen on towards excellence in customer service, in terms of the quality of both its products and services. To achieve this goal, numerous programs were rolled out at all the Group's facilities in order to optimize delivery times and the quality of products. The measures implemented over the past few years have led to major improvements in the organization of production and product flows, paving the way for shorter lead times for customers. The **5S program** is a critical component of this approach. The introduction of order, tidiness, cleanliness and discipline rules helps to enhance productivity, working conditions, safety and quality. By increasing the reliability of all corporate processes, both functional and operational, the 5S program makes a specific contribution to the improvement in business performance.

First launched in 2004, the World 5S Challenge continues to attract as many entries from the Group's sites. Two **5S entries** are awarded each year, one for the best workshop and the other for the best office.

Unwavering emphasis on health and safety

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 ultimate objective remains **Excellence** in health and safety.

The Group has continued to introduce training programs, notably at recently acquired units. It also stepped up the program of safety audits by developing cross-audits organized by geographical region. These audits, which are now well established in the Group's various functions, such as internal control, for example, reinforce its safety-oriented culture through exchanges between plants concerning best practices. Working in regions also facilitates exchanges between business units with similar cultures, thereby promoting understanding and implementation of the proposed solutions.

The Group mapped its safety risks, which represented a significant driver of improvement during 2010. The information gathered will facilitate the implementation of action plans during 2011 to reduce or eliminate the risks detected. These action plans, which are to be rolled out at all the Group's units, should help to raise Mersen's safety performance.

During 2010, the Group also reorganized its health and safety function. It has been transferred to 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 safety and the management of industrial risks, and secondly by introducing internal control methods as part of the safety policy. This new department is backed up by a Group Safety Committee comprising a member of the Management Board, the Group's Human Resources division and divisional directors. It also draws on a network of regional correspondents. Their role is to perform cross-audits in the region, conduct more detailed audits at units showing the weakest performance and implement the Group safety policy formulated by the Group Safety Committee.

At the same time, Mersen continued to pursue its safety emphasis policy. For the second time, the Group held Safety Excellence Awards at three plants in Brazil, the United Kingdom and Tunisia. These awards are given to facilities with first-rate management of safety issues combined with a very high level of safety performance.

The Group is also currently implementing targeted tools to improve the relevance of its audits and pragmatically enrich guidelines concerning the most sensitive or most frequent risks.

Lastly, the Group initiated a study program to improve the prevention of psycho-social risks at its facilities in France. Together with the management of these facilities, the aim of this study program is to draw up an action plan in order to enhance the well-being in the workplace of the entire workforce.

In spite of these initiatives, 2010 was marked by a fatal accident at the Gennevilliers plant caused by the explosion of a kiln. Following this accident, the Group decided to take all the kilns using the same technology out of service. In spite of this terrible accident, the Group's safety indicators improved significantly compared with 2009 and also, with the exception of the TF1 rate (see below), compared with 2008. The improvement in indicators compared with 2008 would be even more significant on a like-for-like basis. This is because 2009 and 2010 include Chinese companies Mingrong and Xandia, which were acquired during 2008 and have safety indicators above the Group's average. Special action plans have been drawn up for these facilities to bring them into line with the safety standards achieved at the Group's other plants

NUMBER OF LOST-TIME OCCUPATIONAL ACCIDENTS PER MILLION MAN-HOURS (TF1)

2010	2009	2008
3.2	4.4	2.7

NUMBER OF OCCUPATIONAL ACCIDENTS WITH OR WITHOUT LOST TIME PER MILLION MAN-HOURS (TF2)

2010	2009	2008
10.3	12.4	11.8

NUMBER OF WORKING DAYS LOST TO OCCUPATIONAL ACCIDENTS PER THOUSAND MAN-HOURS (TG)

2010	2009	2008
0.16	0.23	0.20

A socially responsible Group

An innovative local project

A large-scale project was launched at Mersen's plant in Amiens, France.

The EMC division (automobile and household electrical appliance brushes), which had long faced economic difficulties, could no longer continue to pursue its business activities sustainably and profitably. A decision was made to transfer them to other Group production facilities.

Aware of its responsibility to its employees and to ensure its long-term survival, the facility implemented an innovative and ground-breaking project, with the support of the union organizations and of the local authorities.

The project consists in training, reskilling and retraining the employees who used to work for the EMC division (since renamed AVO Carbon) to the facility's other activities in order to curb the social impact of the restructuring plan.

In 2010, 32 months after the program was first launched, an employment solution had already been found for 95% of the 134 former EMC division's employees affected, several months ahead of schedule based on the undertakings given to employees. An ambitious training plan representing close to 30,000 hours was launched. It is also worth noting that Mersen Amiens helped 25 employees to pursue their own personal ventures.

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.

With regard to information systems, 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.

Actions in society

Mersen's **Pagny-sur-Moselle** facility is involved in a humanitarian program in Burkina Faso and a 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. 2010 saw the completion of an IT room with a broadband internet connection. During 2011, the partnership will give rise to the creation of a qualification in IT maintenance.

The same plant also sponsored a student association in early 2010 to participate in the Student Challenge. This humanitarian trip aims to boost the economic activity of an ailing Moroccan village. Over the past two years, Student Challenge teams have been traveling to Bani Moussi by car to plant palm and date palm trees and to contribute to the development of the village's irrigation system. The dates produced are resold by the villagers in the market, which generates income for them. The Student Challenge helps to cultivate the values of sustainable development and human commitment. The teams offset their CO_2 emissions via the Yann Arthus Bertrand foundation. Mersen helped to cover their fuel costs and to purchase the eco-points needed to buy the palm and date palm trees.

The Mersen facility in **Amiens** has participated in back-to-work initiatives. During 2010, it played host to young interns from disadvantaged areas as part of the Club Espoir Banlieues Somme program, as well as AFDE interns (association helping to train jobseekers).

Other initiatives of this type are pursued by the Group outside France.

In China, the Mersen plant in **Kunshan** joined the Xianghe foundation in June 2010 to help workers who do not have health insurance. This foundation helps affected families' children to attend school while covering hospital expenses. Other initiatives are intended to help meet basic needs and to launch projects providing social protection.

At the **Boonton** facility in the United States, employees and the Group carried out a collection for those affected by the earthquake in Haiti.

With a firm belief in the imperative of participating in initiatives that go beyond its sector of activity, the Group intends to step up its backing for this type of action.

Outsourcing

The Group partially outsources the manufacture of its products. As in 2010, outsourcing costs amounted to €15 million, with assembly operations accounting for the bulk of this figure. Furthermore, metallic component cutting and stamping operations, as well as the manufacture of plastic components, were outsourced at a cost of around €26 million. These services accounted for around 20% of the Group's total purchases.

Social data (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

	2010	2009	2008
Workforce	1,527	1,399	1,664
• - o/w fixed-term contracts	14	8	21

RECRUITMENT

	2010	2009	2008
Recruitment	105	70	93
• - o/w fixed-term contracts	39	16	37

TEMPORARY WORKERS

	2010	2009	2008
Average headcount	193	103	171
• % of the headcount	13%	7%	10%

OVERTIME

	2010	2009	2008
Overtime	46,830	27,357	43,716
• % of hours worked	1.96%	1.1%	1.2%

The increase in overtime hours worked derived from the business recovery in 2010.

ABSENTEEISM

	2010	2009	2008
Absenteeism rate	4.82%	5.16%	4.55%
• - o/w illness	3.51%	3.86%	3.24%

During 2010, a total of 2,757 hours were lost to strikes, representing 0.12% of hours worked.

Organization of working hours

The working hours of engineers and managers are calculated based on an annual total of 217 work days, which gives them an average of 12 days of additional leave per year.

In 2010, 96 employees worked on a part-time basis.

Environmental responsibility

Mersen lives up to its environmental responsibilities both through its increasingly strong positions in renewable energies and through its own commitment to pursue a commitment to profitable growth that is respectful of the environment and socially responsible. Protecting the planet represents a genuine value for the Group. 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.

→ Concrete undertakings

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 to 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** to promote 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.

→ 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.

One of the aims of this policy is to reduce or treat gas, liquid and solid pollutant discharges. Other nuisances may also be minimized. The Group also prioritizes measures to reduce CO_2 emissions.

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

During the year, the Group registered products, chiefly graphite-based, under the **REACH regulations**. It has worked actively with certain key suppliers to monitor the progress of their work and the registration of certain products that it buys. The purpose is to monitor the efforts made by certain suppliers in relation to the REACH regulations to avoid a situation arising in which a product that is strategically important for the Group is banned from sale. It also monitors products likely to 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 2010. However, it may use some of them in its manufacturing processes. To be able to guarantee the continuity of its supply chain, it is essential 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 has 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 rates. 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 was used to determine sources of potential savings and was genuinely useful ahead of the general roll-out of the program to the Group's other facilities.

Following the carbon footprint assessments, implementation of **concrete measures** commenced. When production machinery, and kilns in particular, is renewed, energy consumption and CO_2 emissions will be monitored particularly closely. The logistics and material transportation chain also represents an avenue of improvement. Research and development is a third source of potential advances, notably through adjustments to manufacturing processes.

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.

During 2010, 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.

The Group also continued to monitor closely the risks arising from **soil pollution**, notably through in-depth audits. During these reviews, a modest soil pollution issue was detected at a plant that has been active for a century. This pollution incident was caused by the use of processes and products dating back more than 20 years, before the site was acquired by the Group. The relevant processes have since been modernized and are under control. The products used at the time of the incident were replaced many years ago. All the products used by the Group have for many years been subject to constant monitoring, not only by the local authorities, but also by Mersen's employees, who are trained in these areas.

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.

A program to develop **sustainable relationships with suppliers** was also introduced. The goal is to encourage the implementation of joint measures yielding environmental benefits.

The **ISO 14001 certification** approach was also continued. All the Group's main plants are now 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 achieved the new European EN 16001 accreditation concerning energy management systems and in so doing became the first industrial plant in France to secure this certification. The measures implement help to raise employee awareness, enabling them to develop good habits that lead to energy savings and lower energy bills as a result.

→ Risk management

All the Group's senior managers, irrespective of whether they have operational or functional responsibilities, incorporate risk to an increasing extent in their work. 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.

While the third risk mapping survey completed in 2008 did not identify any major risk, implementation of the corresponding action plans continued during 2010. They cover all of the Group's risk factors, irrespective of whether they relate to industrial, strategic, financial or information management issues. This risk mapping survey was updated in 2010, as the Supervisory Board has requested annual updates from now on. The major risk scenarios were partially reviewed in 2010, as well as the corresponding action plans. Measures to secure all the Group's kilns around the world were studied carefully. None of the Group's plants is classified under the Seveso Directive.

An action plan addressing the management of supplier risks was implemented. In particular, it covers certain issues associated with the REACH regulations.

A human safety risk mapping assessment was conducted covering all the Group's facilities. Action plans will be prepared based on the results during 2011.

→ More effective production using eco-design strategies

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

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 Decree no. 2002-221 of February 20, 2002 in application of Article L. 225-102-1 of the French Commercial Code.

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
- Americas: Mersen USA (Saint Mary's, Bay City, Boonton, Newburyport, Oxnard), Mersen Canada Toronto, Mersen de Mexico Juarez, Mersen do Brasil;
- Asia: Mersen India Bommasandra, Mersen Chongqing, Mersen Xiandia Shanghai, Mingrong Electrical Protection Yueqing, Mersen Corea Ssangam.

The following indicators reflect the new scope. The plants included in the Group scope account for around 90% of the Group's sales.

KEY INDICATORS

	Unit	2008 Group total	2009 Group total	2010 Group total	% chg. Group total (%)	2008 France	2009 France	2010 France	% chg. France (%)
Water consumption	m³	591,235	563,816	644,283	14%	343,080	289,385	273,856	-5%
Energy consumption									
Electricity	MWh	142,898	133,565	161,014	20%	47,824	40,070	42,952	7%
Gas	MWh	191,683	140,613	150,428	7%	62,286	47,093	46,591	-1%
Fuel	tons	-	720	937	30%	-	641	686	7%
Consumption of raw materials and metals									
Timber	tons	1,998	1,072	1,474	37%	662	550	496	-10%
Cardboard	tons	946	945	1,080	14%	599	516	474	-8%
Copper	tons	2,196	1,675	2,302	37%	1,097	763	622	-18%
Waste									
100% recycled timber	tons	622	484	642	32%	427	304	298	-2%
Recycled cardboard	tons	369	250	350	40%	187	181	171	-0.5%
Non-hazardous waste	tons	7,986	5,613	7,325	30%	1,209	820	912	11%
Discharges									
Wastewater	m³	533,349	505,332	586,672	16%	355,538	289,385	273,856	-5%

N.B.
The trend in these indicators during 2010 should be interpreted in the context of the Group's growth of 21% at constant exchange rates.
The sharp increase in fuel consumption during 2010 was caused by the use of this fuel to remedy a one-off failure of the gas supply at certain Group facilities.
The increase in timber, cardboard and waste consumption was linked to expansion in the business, primarily in the Advanced Materials and Technologies segment.
The rise in copper consumption was chiefly attributable to growth in the electrical protection business in North America.

Local initiatives

As part of the Group's environmental program, plants continued their efforts to mitigate environmental impacts. Numerous local initiatives were implemented, representing a plethora of improvements during 2010.

The examples referred to below were taken from a number of major sites, which generate a total of 45% of the Group's sales.

Amiens, France

- Renewal of ISO 14001 certification;
- Completion of the carbon footprint assessment;
- Adjustment to planning of the graphitation cycles, in order to reduce the electrical power required;
- Elimination of the final PCB (pyralene) transformers (dioxin risk in the event of a fire);
- Closure of the final air-cooling tower (salmonella risk).

Gennevilliers, France

- Renewal of ISO 14001 certification;
- Launch of process improvements, the results of which will be perceptible in 2011: shorter cycles, cooling improvements, capacity reductions leading to lower consumption, etc.
- Implementation of a flow/pH measuring device at plants to check liquid discharges.

Pagny-sur-Moselle, France

- Completion of the carbon footprint assessment;
- Drafting of a guide to best practices to reduce CO_2 emissions at the site;
- Eco-behavior education program for employees;
- Program to reduce energy consumption, leading to a saving of 16% in gas consumption from one year to the next: replacement of a centralized boiler with local boiler rooms, recovery of energy from post-combustion, use of renewable energies, enhanced energy yield from firing processes, etc.

Saint-Bonnet de Mure, France

- Completion of the carbon footprint assessment;
- Certification in the new EN 16001 norm concerning energy efficiency, the first industrial facility in France to gain this accreditation;
- Implementation of a waste recovery and waste-to-energy system with a recycling rate of 75%;
- 7% reduction in electricity consumption compared with 2008 (reference year, because it had a comparable level of business), thanks to the optimization of lighting and compressed air production, as well as eco-behavior education programs for employees;
- 25% reduction in paper consumption compared with 2008.

Lisengericht and Frankfurt, Germany

- Agreement with several local energy suppliers for the exclusive use of energy from renewable sources, which signifies plants without any CO_2 emissions. This energy costs the same as conventional energy, which is already negotiated down to the lowest possible kWh price. This agreement was made possible by a long-term partnership with energy suppliers, which are looking to develop this type of use of renewable energy in industry;
- Installation of solar panels on roof arrays;
- CO_2 emissions limited to 130g per km for all vehicles in the motor fleet.

Patrica, Italy

- Renewal of ISO 14001 certification;
- Concentration of a maximum number of production activities in a short period, in order to shut down kilns for longer periods. Electricity consumption was reduced by 10% in 2010;
- The quantity of recycled materials, notably copper, was increased by around 30% in 2010.

St Mary's, United States

- 30% reduction in gas consumption in kilns through a redesign of equipment;
- Greater use of recycled materials: around 100 tons p.a. of new materials, 200 tons of graphite, in addition to 1,000 tons p.a. of materials already recycled;
- Resale of recycled materials that cannot be reused by the plant, i.e. around 20 to 30 tons p.a.;
- Lower emissions of SOx and CO_2 from kilns;
- Introduction of a cardboard recycling program.

Newburyport, United States

- Award received from the State of Massachusetts for its efforts to eliminate toxic waste;
- Tangible reduction in consumption over 5 years. Water consumption declined by 70%, while gas consumption was cut by 40%.
- Ramp-up in the cardboard recycling program, which doubled in five years.

Chongqing, China

- Demonstration of the feasibility of reusing waste in production: all broken graphite blocks and dust recovered were recycled;
- Changes in the process yielding major energy and material savings. The two-day reduction in the firing cycle helped pave the way for a 10% reduction in gas consumption;
- Design improvements for products, yielding savings of up to 20% in consumption of untreated materials for certain ranges.

Sao Paulo, Brazil

- Launch of the “Do more with less” program in various areas, including water and electricity;
- Rainwater was systematically recovered and used for cleaning and gardening purposes. Water consumption declined by 24% in 2010;
- With electricity, the goal is to minimize consumption and to schedule certain processes outside peak periods. Initial results during 2010 paved the way for a 21.5% reduction in electricity costs.

Juarez, Mexico

- Renewal of ISO 14001 certification;
- A consumption reduction program was implemented. The use of the hot air emitted by the compressors helped to eliminate the need for a boiler to heat the workshop, yielding a saving of 7,700m^3 in gas over the year and 3,709 kg in CO_2 emissions.
- Recycling was expanded in 2010: 1,120 kg in packaging plastic, 425 kg in foam, 2,457 plastic pallets, 96 tons of cardboard.

Consolidated financial statements

Scope of consolidation at December 31, 2010	42
List of consolidated companies	43
Changes in the scope of consolidation during the past two years	45
Consolidated income statement	46
Statement of financial position	48
Consolidated statement of changes in equity	50
Consolidated statement of cash flows	51
Notes to the consolidated financial statements	52
Statutory Auditors’ report on the consolidated financial statements	93

4

SCOPE OF CONSOLIDATION AT DECEMBER 31, 2010

MERSEN

- MERSEN Yantai Co, China — 60%
- MERSEN Shanghai Co Ltd, China — 100%
- FERRAZ SHAWMUT (Kunshan) Co, China — 100%
- MERSEN Xianda Shanghai Co Ltd, China — 100%
- MERSEN Chongqing Co Ltd, China — 100%
- CARBONE LORRAINE Components Kunshan, China — 100%
- MERSEN Kunshan Co Ltd, China — 93.3%
- MERSEN Pudong Co Ltd, China — 100%
- SHANGHAI CL CHEMICAL EQUIPMENT, China — 100%
- MERSEN France Cevins S.A.S, France — 100%

- MERSEN China Holding Co Ltd, China — 100%
- CARBONE LORRAINE MAURITIUS, Mauritius — 100%
- MERSEN Ibérica BCN, SA, Spain — 100%
- MERSEN Benelux BV, Netherlands — 100%
- CARBONE DANMARK A/S, Denmark — 100%
- MERSEN Nordic AB, Sweden — 100%
- MERSEN Korea Co Ltd, South Korea — 100%
- MERSEN do Brasil Ltda, Brazil — 100%
- MERSEN Ibérica, SA, Spain — 50.01%
- MERSEN India Pvt Ltd, India — 100%
- SCI Carbon Brushes Pvt Ltd, India — 100%
- UGIMAG SA, France — 100%
- MERSEN France Gennevilliers SAS, France — 100%
- MERSEN France Amiens SAS, France — 100%
- MERSEN France Py SAS, France — 100%
- MERSEN France Grésy SA, France — 100%
- Boostec, France — 85%
- MERSEN Mexico Monterrey, S. de RL de CV, Mexico — 100%
  - 51 %: CLISA, Mexico (49%)

- MERSEN Scot. Holding Ltd, United Kingdom — 100%
  - 100%: MERSEN Scotland Holytown Ltd, United Kingdom
- MERSEN France SB SAS, France — 100%
  - 91.3%: MERSEN FMA Japan, Japan (8.7%)
    - 100%: MERSEN Japan KK, Japan
  - 100%: MIRO Holding SAS, France
    - 100%: FUSES & SWITCH GEAR, Hong Kong
      - 51%: ZHEIJANG MINGRONG ELECTRICAL PROTECTION Co, China
  - 100%: MERSEN Tunisie SARL, Tunisia
  - 100%: M. Schneider Österreich Wien, Austria
  - 100%: M. Schneider CC S.R.O., Czech Republic
  - 100%: M. Schneider Hungaria Kft, Hungary
  - 100%: MERSEN France Gorcy SAS, France
  - 100%: MERSEN France La Mûre SAS, France
- MERSEN Deutschland Jestetten GmbH, Germany — 100%
- MERSEN Canada Dn Ltée / Ltd, Canada — 100%
  - 81%: MERSEN Canada Toronto Inc., Canada (19%)
- MERSEN Deutschland Holding GmbH & Co KG, Germany — 100%
  - 90%: MERSEN Deutschland FFM AG, Germany (10%)
  - 100%: MERSEN Deutschland Linsengericht GmbH, Germany
  - 100%: MERSEN Deutschland Suhl GmbH, Germany
  - 100%: MERSEN Deutschland Eggolsheim GmbH, Germany
    - 100%: M. Schneider GmbH, Germany
  - 100%: Kalinova GmbH, Germany
  - 100%: Belanova GmbH, Germany
  - 100%: DIETRICH AG, Switzerland
  - 100%: MERSEN Österreich Hittisau Ges.m.b.H, Austria
- LE CARBONE (Holdings) Ltd, United Kingdom
  - 100 %: MERSEN UK Holdings Ltd, United Kingdom (100%)
    - 100%: MERSEN UK Teesside Ltd, United Kingdom
    - 100 %: MERSEN UK Portslade Ltd, United Kingdom
      - 14,7 %: MERSEN South Africa (Pty) Ltd, South Africa (54.7%)
        - 100%: DUSTRIA INVESTMENT, South Africa
        - 100%: STATCOR ELECTRICAL, South Africa
- MERSEN Italia Spa., Italy — 100%
- MERSEN Oceania, Pty Ltd, Australia — 100%
- MERSEN Corporate Services SAS, France — 100%
- MERSEN USA Bn Corp, United States — 100%
  - 49%: CLISA, Mexico
  - 51%: MERSEN USA Gonzales-LA Llc, United States
  - 100%: MERSEN USA Holding Corp., United States
    - 100%: MERSEN USA Greenville-MI Corp., United States
    - 100%: MERSEN USA Oxnard-CA Inc., United States
    - 100%: MERSEN USA Midland-MI Inc., United States
    - 100%: MERSEN USA St Marys-PA Corp., United States
  - 100%: UGIMAGNET Corp., United States
    - 100%: MERSEN USA Newburyport-MA Llc, United States
      - 100%: MERSEN de México Juarez, SA de CV, Mexico

LIST OF CONSOLIDATED COMPANIES

	Method of consolidation FC: Full consolidation	% of voting rights held by the Group	% of the share capital owned by the Group
1. **Mersen** (France)	FC	100	100
2. **Mersen France Amiens SAS** (France)	FC	100	100
3. **Mersen France Gennevilliers SAS** (France)	FC	100	100
4. **Mersen France Py SAS** (France)	FC	100	100
5. **Mersen Corporate Services SAS** (France)	FC	100	100
6. **Mersen France SB SAS** (France)	FC	100	100
- Mersen France La Mure SAS	FC	100	100
7. **Miro Holding SAS** (France)	FC	100	100
8. **Mersen France Gorcy SAS** (France)	FC	100	100
9. **Ugimag SA** (France)	FC	100	100
10. **Mersen France Cevins SAS** (France)	FC	100	100
11. **Mersen France Grésy SAS** (France)	FC	100	100
12. **Boostec** (France)	FC	85	85
13. **Mersen Deutschland Holding GmbH & Co. KG** (Germany)	FC	100	100
- Mersen Deutschland FFM AG	FC	100	100
- Belanova-Kalbach GmbH	FC	100	100
- Kalinova-Kalbach GmbH	FC	100	100
- Mersen Deutschland Lisengericht GmbH	FC	100	100
- Mersen Deutschland Suhl GmbH	FC	100	100
14. **Mersen Deutschland Eggolsheim GmbH** (Germany)	FC	100	100
15. **M.Schneider GmbH** (Germany)	FC	100	100
16. **Mersen Deutschland Jestetten GmbH** (Germany)	FC	100	100
17. **Dietrich AG** (Switzerland)	FC	100	100
18. Mersen Österreich Hittisau GmbH (Austria)	FC	100	100
19. **M.Schneider Österreich Wien GmbH** (Austria)	FC	100	100
20. **Mersen Ibérica SA** (Spain)	FC	50	50
21. **Mersen Ibérica BCN SA**	FC	100	100
22. **Mersen UK Holdings Ltd**	FC	100	100
- Mersen UK Portslade Ltd	FC	100	100
- Le Carbone (Holdings) Ltd	FC	100	100
- Mersen UK Teesside Ltd	FC	100	100
23. **Mersen Scot. Holding Ltd** (UK)	FC	100	100
24. **Mersen Scotland Holytown Ltd** (UK)	FC	100	100
25. **Mersen Italia SpA** (Italy)	FC	100	100
26. **Mersen Benelux BV** (Netherlands)	FC	100	100
27. **Mersen Nordic AB** (Sweden)	FC	100	100
- Carbone Danmark A/S (Denmark)	FC	100	100
28. **Mersen Canada Dn Ltée/Ltd (Canada)**	FC	100	100
29. **M.Schneider CZ SRO** (Czech Republic)	FC	100	100
30. **M.Schneider Hungaria Kft** (Hungary)	FC	100	100

	Method of consolidation FC: Full consolidation	% of voting rights held by the Group	% of the share capital owned by the Group
31. Mersen Canada Toronto Inc.	FC	100	100
32. Mersen USA Bn Corp. (US)	FC	100	100
- Mersen USA Gonzales-SA LLC	FC	51	51
- Mersen USA Holding Corp.	FC	100	100
- Ugimagnet Corp.	FC	100	100
33. Mersen USA St Marys-PA Corp.	FC	100	100
34. Mersen USA Oxnard-CA Inc. (US)	FC	100	100
35. Mersen USA Midland-MI Inc. (US)	FC	100	100
36. Mersen USA Greenville-MI Corp. (US)	FC	100	100
37. Mersen USA Newburyport-MA LLC (US)	FC	100	100
- Mersen de México Juarez, SA DE. CV (Mexico)	FC	100	100
38. Mersen México Monterrey, S de RL de CV	FC	100	100
- Carbone Lorraine Inmobiliaria SA	FC	100	100
39. Mersen Oceania, Pty Ltd.	FC	100	100
40. Mersen FMA Japan KK (Japan)	FC	100	100
41. Mersen Japan KK	FC	100	100
42. Mersen Korea Co. Ltd	FC	100	100
43. Mersen India Pvt. Ltd	FC	100	100
44. SCI Carbon Brushes Pvt. Ltd	FC	100	100
45. Carbone Lorraine Mauritius (Mauritius)	FC	100	100
46. Mersen China Holding Co. Ltd (China)	FC	100	100
47. Mersen Pudong Co. Ltd (China)	FC	100	100
48. Mersen Chongqing Co. Ltd (China)	FC	100	100
49. Carbone Lorraine Components Kunshan Co. Ltd (China)	FC	100	100
50. Mersen Kunshan Co. Ltd (China)	FC	93	93
51. Shanghai Carbone Lorraine Chemical Equipment Co. Ltd (China)	FC	100	100
52. Mersen Xianda Shanghai Co. Ltd (China)	FC	100	100
53. Mersen Shanghai Co. Ltd	FC	100	100
- Ferraz Shawmut (Kunshan) Company	FC	100	100
54. Zhejiang Mingrong Electrical Protection Company	FC	51	51
55. Mersen Yantai Co. (China)	FC	60	60
56. Mersen South Africa PTY Ltd (South Africa)	FC	69	69
- Statcor Electrical	FC	69	69
- Dustria Investment	FC	69	69
57. Mersen do Brasil Ltda (Brazil)	FC	100	100
58. Mersen Tunisie SARL (Tunisia)	FC	100	100
59. Fuses & Switchgear (Hong Kong)	FC	100	100

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

Changes in the scope of consolidation during the past two years

The principal changes that affected the consolidated financial statements in 2009 and 2010 are presented below:

- during fiscal 2009:
  - UK company Calcarb Limited, which was acquired in December 2008, was consolidated for the first time from January 1, 2009,
  - Carbone Lorraine Products de Mexico and Carbone Lorraine Inmobiliaria SA were consolidated for the first time from March 1, 2009,
  - the sale of the "Automobile and household electrical appliance brushes" division was finalized on May 1, 2009 and the Group's financial statements at December 31, 2009 reflect the disposal of the division (see Note 5).
- during fiscal 2010:
  - Lumpp, a company that merged into and with 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.

CONSOLIDATED INCOME STATEMENT

in millions of euros	Note	2010	2009
CONTINUING OPERATIONS			
Consolidated sales	18	741.2	587.3
Cost of sales		(510.1)	(412.5)
Gross income		**231.1**	**174.8**
Selling and marketing costs		(73.6)	(60.3)
Administrative and research costs		(74.5)	(61.3)
Other operating costs		(5.4)	(2.3)
Operating income before non-recurring items		**77.6**	**50.9**
Non-recurring charges	17	(6.3)	(6.5)
Non-recurring income	17	3.2	2.0
Amortization of revalued intangible assets		(0.9)	(0.8)
Operating income	**18/20**	**73.6**	**45.6**
Finance costs		(10.8)	(10.4)
Net finance costs		**(10.8)**	**(10.4)**
Income before tax and non-recurring items		**62.8**	**35.2**
Current and deferred income tax	22	(19.9)	(9.5)
Net income from continuing operations		**42.9**	**25.7**
Net income from assets held for sale or discontinued operations	5	(3.1)	(10.8)
Net income for the year		**39.8**	**14.9**
Attributable to:			
- Mersen's shareholders		38.4	**14.6**
- Minority interests		1.4	0.3
NET INCOME FOR THE YEAR		**39.8**	**14.9**
Earnings per share	**23**		
Basic earnings per share *(€)*		1.94	0.89
Diluted earnings per share *(€)*		1.88	0.85
Earnings per share from continuing operations	**23**		
Basic earnings per share *(€)*		2.10	1.55
Diluted earnings per share *(€)*		2.03	1.48

in millions of euros	Note	2010	2009
CONDENSED STATEMENT OF COMPREHENSIVE INCOME			
NET INCOME FOR THE YEAR		**39.8**	**14.9**
Change in fair value of hedging derivatives	21	(1.7)	1.4
Change in balance sheet items at year-end exchange rate		24.4	(3.8)
Tax on income recognized in equity	21	0.7	(0.6)
INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY		**23.4**	**(3.0)**
TOTAL INCOME AND EXPENSE RECOGNIZED DURING THE PERIOD		**63.2**	**11.9**
Attributable to:			
- Mersen's shareholders		61.5	11.5
- Minority interests		1.7	0.4
TOTAL INCOME AND EXPENSE RECOGNIZED DURING THE PERIOD		**62.2**	**11.9**

Statement of financial position

ASSETS

in millions of euros	Note	Dec. 31, 2010	Dec. 31, 2009
NON-CURRENT ASSETS			
Intangible assets			
- Goodwill	6	260.8	231.3
- Other intangible assets	8	37.1	31.0
Property, plant and equipment			
- Land		29.5	32.1
- Buildings		51.1	47.8
- Plant, equipment and other assets	8	172.5	146.2
- Assets in progress		34.1	37.6
Non-current financial assets			
- Investments	9	6.2	21.8
- Non-current derivatives			0.0
- Other financial assets	3/15	9.7	9.4
Non-current tax assets			
- Deferred tax assets	22	25.5	20.0
- Non-current income tax assets		1.1	0.1
TOTAL NON-CURRENT ASSETS		**627.6**	**577.3**
CURRENT ASSETS			
- Inventories	10	168.0	138.5
- Trade receivables	11	117.7	92.0
- Other receivables		17.8	15.8
- Current income tax assets		4.3	7.6
- Other current assets		0.4	1.7
- Current financial assets	15	4.6	6.0
- Current derivatives	3	0.7	0.5
- Financial assets	15	0.3	1.2
- Cash and cash equivalents	15	48.3	32.9
- Assets held for sale and discontinued operations	5	0.0	1.3
TOTAL CURRENT ASSETS		**362.1**	**297.5**
TOTAL ASSETS		**989.7**	**874.8**

LIABILITIES AND EQUITY

In millions of euros	Note	Dec. 31, 2010	Dec. 31, 2009
EQUITY			
- Share capital	12	39.9	39.3
- Premiums and retained earnings		432.2	420.5
- Net income for the year		38.4	14.6
- Cumulative translation adjustments		(29.7)	(53.8)
EQUITY ATTRIBUTABLE TO MERSEN'S SHAREHOLDERS		**480.8**	**420.6**
- Minority interests		12.9	4.3
EQUITY		**497.7**	**424.9**
NON-CURRENT LIABILITIES			
- Non-current provisions	13	0.5	0.4
- Employee benefits	14	36.7	34.2
- Deferred tax liabilities	22	22.4	15.6
- Borrowings	15	227.1	192.7
- Non-current derivatives	3	1.5	1.2
TOTAL NON-CURRENT LIABILITIES		**288.2**	**244.1**
CURRENT LIABILITIES			
- Trade payables		71.6	53.7
- Other payables		66.8	51.4
- Current provisions	13	4.1	0.6
- Current income tax liabilities		8.4	2.0
- Other liabilities	13	8.6	33.6
- Other current financial liabilities	15	35.0	29.4
- Current derivatives	3	2.1	0.1
- Current advances	15	4.3	1.9
- Bank overdrafts	15	6.9	31.0
- Liabilities related to assets held for sale and disc. op.	5	0.0	2.1
TOTAL CURRENT LIABILITIES		**207.8**	**205.8**
TOTAL LIABILITIES AND EQUITY		**989.7**	**874.8**

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	Minority interests	Equity
EQUITY AT DEC. 31, 2008	**28.6**	**313.4**	**29.1**	**(49.9)**	**321.2**	**4.0**	**325.2**
Prior period net income		29.1	(29.1)		0.0		0.0
Net income for the year			14.6		14.6	0.3	14.9
Change in fair value of hedging derivatives, net of taxes		0.8			0.8		0.8
Cumulative translation adjustment				(3.9)	(3.9)	0.1	(3.8)
TOTAL OTHER COMPREHENSIVE INCOME	**0.0**	**0.8**	**0.0**	**(3.9)**	**(3.1)**	**0.1**	**(3.0)**
COMPREHENSIVE INCOME FOR THE YEAR	**0.0**	**0.8**	**14.6**	**(3.9)**	**11.5**	**0.4**	**11.9**
Dividends paid		(8.9)			(8.9)	(0.1)	(9.0)
Issue of new shares	10.7	83.4			94.1		94.1
Expenses on issue of new shares		(2.4)			(2.4)		(2.4)
Treasury shares		0.5			0.5		0.5
Other items		4.6			4.6		4.6
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**

(*) The change in minority interests relates primarily to the first-time consolidation of Zheijang Mingrong Electrical Protection (49% minority interests), Boostec (15% minority interests) and Mersen Yantai Co. (40% minority interests)

Consolidated statement of cash flows

In millions of euros	2010	2009
Income before tax	62.8	35.2
Depreciation and amortization	36.6	31.4
Additions to/(write-backs from) provisions	0.3	(3.9)
Finance costs, net	10.8	10.4
Capital gains/(losses) on asset disposals		2.3
Other items	0.5	1.8
Cash generated by operating activities before change in the WCR	**111.0**	**77.2**
Change in the working capital requirement	(2.6)	43.1
Income tax paid	(10.0)	(4.8)
Net cash generated by continuing operations	**98.4**	**115.5**
Cash generated by discontinued operations	**(0.9)**	**(20.2)**
Net cash generated by operating activities	**97.5**	**95.3**
Investing activities		
Increase in intangible assets	(0.2)	(0.9)
Increase in property, plant and equipment	(36.3)	(42.5)
Increase in financial assets	(1.2)	(0.5)
Impact of changes in the scope of consolidation	(16.7)	(24.5)
Other changes in cash generated/(used) by investing activities	8.8	(5.9)
Cash generated/(used) by investing activities from continuing operations	**(45.6)**	**(74.3)**
Cash generated/(used) by investing activities from discontinued operations		2.2
Cash generated/(used) by investing activities	**(45.6)**	**(72.1)**
Cash generated/(used) by operating and investing activities	**51.9**	**23.2**
Non-recurring cash outflow (EU fine)	**(29.1)**	
Proceeds from issue of new shares and other increases in equity	0.3	87.6
Net dividends paid to shareholders and minority interests	(3.5)	(2.5)
Interest payments	(9.6)	(10.5)
Change in debt (Note 15)	1.1	(111.0)
Cash generated/(used) by financing activities	**(11.1)**	**(36.4)**
Change in cash	**8.0**	**(13.2)**
Cash at beginning of fiscal year (Note 15)	34.1	50.1
Cash at end of fiscal year (Note 15)	48.6	34.1
Impact of changes in the scope of consolidation	(1.6)	(1.5)
Impact of currency fluctuations	(1.8)	4.3
CHANGE IN CASH	**11.1**	**(13.2)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1	Statement of conformity	53
Note 2	Accounting policies and principles of consolidation	53
Note 3	Financial risk management	62
Note 4	Business combinations	66
Note 5	Sale of the automobile and household electrical appliance brush division	68
Note 6	Goodwill	69
Note 7	Asset impairment tests	69
Note 8	Property, plant and equipment and intangible assets	70
Note 9	Investments	71
Note 10	Inventories	71
Note 11	Trade receivables	72
Note 12	Equity	73
Note 13	Provisions, contingent liabilities and other liabilities	74
Note 14	Employee benefits	75
Note 15	Net debt	78
Note 16	Fair value	81
Note 17	Other non-recurring income and expense	82
Note 18	Segment reporting	83
Note 19	Staff costs and headcount	85
Note 20	Operating income	86
Note 21	Financial income and costs	86
Note 22	Income tax	87
Note 23	Earnings per share	88
Note 24	Dividends	89
Note 25	Leases	89
Note 26	Related party disclosures	90
Note 27	Commitments and contingencies	91
Note 28	Subsequent events	92
Note 29	Approval of the financial statements	92

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, 2010 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, 2010 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, 2010 include data for fiscal 2009 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

With the exception of the points described below, the accounting methods adopted by the Group are identical to those used in the consolidated financial statements for the fiscal year ended December 31, 2009.

CHANGE IN ACCOUNTING POLICIES AND PRINCIPLES OF CONSOLIDATION

Accounting for business combinations

Since January 1, 2010, the Group has applied IFRS 3 "Business Combinations" (2008) to account for business combinations.

For acquisitions occurring on or after January 1, 2010, 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.

Acquisition costs, other than those linked to the issuance of debt or equity instruments, arising from a business combination are expensed as incurred.

When rights to receive share-based payment (replacement rights) have to be given in exchange for the rights held by the acquiree's employees (rights in the acquiree) and are attributable to past service, all or part of the acquirer's replacement rights are included in the measurement of the consideration transferred as part of the business combination. When measuring this amount, the Group compares the values based on the market at the acquisition date of the replacement rights and the rights awarded by the acquiree and determines the proportion of benefits provided at the date of the business combination relative to the outstanding benefits.

Any contingent consideration is recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured, and its settlement is recognized in equity. Conversely, for consideration classified as debt, subsequent changes in the fair value of the contingent consideration are recognized in income.

Note 4 describes the effects on the financial statements of business combinations during the fiscal year.

Accounting for acquisitions of non-controlling interests

Since January 1, 2010, the Group has applied IAS 27 - Consolidated and separate financial statements (2008) to account for acquisitions of non-controlling interests. The change in accounting method did not have any impact on earnings per share for the period.

Since January 1, 2010, acquisitions of non-controlling interests must be recognized as transactions with owners acting in this capacity and, as such, no goodwill is recognized. Previously, goodwill was recognized upon the acquisition of a non-controlling interest in a subsidiary at the excess amount of the cost of the additional investment over the carrying amount of the interests in the net assets acquired at the transaction date.

The Group did not make any acquisitions of non-controlling interests during the period.

Accounting methods applicable to new events and transactions

Distributions in kind to shareholders

Since January 1, 2010, the Group has applied IFRIC 17 Distributions of non-cash assets to owners to the recognition of distributions in kind to shareholders. This new accounting method did not have any impact on the Group's financial statements.

A - Basis of consolidation

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

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

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

All intra-Group transactions and balances have been eliminated.

The consolidated financial statements have been prepared in euros.

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

B - Presentation of the financial statements

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

B1 Statement of comprehensive income

Given customary practice and the nature of its business activities, the Group has opted for the by function of expense format of the income statement, which consists 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 components of comprehensive income.

B2 Statement of financial position

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

B3 Statement of cash flows

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

The indirect method consists 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.

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.

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.

E - Hedging

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

E1 Currency and commodity hedges

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

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

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

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

E2 Interest-rate hedging

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

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

F - Intangible assets

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

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

The Group's intangible assets primarily comprise goodwill.

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

F1 Goodwill

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

On a transaction by transaction basis, the Group may choose to measure at the acquisition date any non-controlling interest either at fair value or at the 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 for the relevant CGU;
- determining a value in use using a method comparable to any business valuation by discounting cash flows at the segment's weighted average cost of capital (WACC);
- comparing this value in use with the carrying amount of the relevant assets to determine whether or not an impairment loss needs to be recognized.

Value in use is determined based on free cash flow projections discounted over a period of five years and a terminal value. The discount rate used for these calculations is the weighted average cost of capital 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 deriving from development costs will flow to the entity;
- the cost of the asset can be measured reliably;
- and the manner in which the intangible asset will probably generate future economic benefits.

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: disclosures and presentation and IFRS 7 - Financial instruments: 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 contract via several subsidiaries. If the outcome of a construction contracts 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);
- 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

A number of new standards, norms and interpretations will enter force in the fiscal year beginning on or after January 1, 2010 and were not applied in the preparation of these consolidated financial statements. None of these standards and interpretations are expected to have a material impact on the Group's consolidated financial statements, with the exception of 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;
- commodity risk;
- currency risk;
- credit risk.

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

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

Capital management is presented in Note 12.

Liquidity risk

Mersen has credit lines and confirmed borrowings at its disposal representing a total amount of €407 million with an average maturity of 2.9 years, of which 61% was drawn down at December 31, 2010.

Mersen has four major financing agreements:

- 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 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;
- 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, 2010	% drawn down at December 31, 2010	Maturities		
				less than 1 year	between 1 and 5 years	Over 5 years
Group syndicated loan	261.9	107.1	41%	0.0	261.9	0.0
Confirmed credit lines, China	56.7	52.9	93%	0.0	56.7	0.0
US private placements	35.8	35.8	100%	9.9	25.9	0.0
OBSAAR bonds	39.5	39.5	100%	0.0	39.5	0.0
Confirmed credit lines, UK	7.8	7.8	100%	4.4	1.2	2.2
Other	5.2	5.2	100%	0.3	4.9	0.0
TOTAL	**406.9**	**248.3**	**61%**	**Average maturity (year) =**		**2.9**

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

In millions of euros DRAW-DOWNS	Drawn down at Dec. 31, 2010	Expected cash flows	Maturities		
			1-6 months	6-12 months	Over 1 year
Group syndicated loan	107.1	107.3	107.3		
Confirmed credit lines, China	52.9	59.1	14.4	1.2	43.5
US private placements, Tranche A	20.8	22.5	7.5	0.4	14.6
US private placements, Tranche B	15.0	17.3	3.5	0.4	13.4
OBSAAR bonds	39.5	42.6	0.5	0.5	41.6
Confirmed credit lines, UK	7.8	9.0	4.2	0.3	4.5
Other	5.2	5.8	0.3	0.2	5.3
TOTAL	**248.3**	**263.6**	**137.7**	**3.0**	**122.9**

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, 2010, the nominal amount stood at GBP3.2 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.

Since Mersen considered that interest rates were at low levels by historic standards in late 2009, it decided to fix part of its cost of debt. Accordingly, in December 2009, the Group 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 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.

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%	0.0	39.0	0.0
USD swap	22.5	1-month USD Libor+ margin	1.175%	22.5	0.0	0.0
GBP swap	23.2	1-month GBP Libor + margin	1.58%	23.2	0.0	0.0
GBP swap	3.8	1-month GBP Libor + margin	5.38%	0.3	1.3	2.2

In millions of euros *SWAP*	MTM*	Expected cash flows	Maturities less than 1 year	between 1 and 5 years	Over 5 years
Assets	0.0	1.0	0.7	0.3	0.0
Liabilities	(2.1)	(3.8)	(2.0)	(1.4)	(0.4)

**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 change in interest rates would lead to a change in equity of €0.8 million (vs. €1.3 million in 2009).

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 €20 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 90% of copper price exposure and silver price exposure can be covered through bank hedging.

At year-end 2010, with regard to the quantities anticipated in 2011, around 33% of the hedgable copper was covered through hedging. To date, the Mersen group has opted not to hedge all or part of its anticipated quantities of silver during 2011.

Impact of commodity hedging

In millions of euros	2010 balance sheet impact	2010 income statement impact
Copper	0.7	0.4
Silver	0.0	0.1

Currency risk

Fluctuations in the principal currencies used by the Group

	JPY	USD	KRW	GBP	RMB
Average exchange rate from Jan. 1, 2009 through Dec. 31, 2009[1]	130.23	1.3933	1,772.80	0.8911	9.5174
Closing exchange rate at Dec. 31, 2009[2]	133.16	1.4406	1,666.97	0.8881	9.8350
Average exchange rate from Jan. 1, 2010 through Dec. 31, 2010[1]	116.46	1.3257	1,532.51	0.8582	8.9805
Closing exchange rate at Dec. 31, 2010[2]	108.65	1.3362	1,499.06	0.8608	8.8220

(1) Exchange rates used to convert the statement of cash flows and the income statement
(2) 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 2010 would have had a translation impact of negative €4.3 million on the Group's operating income before non-recurring items. This 10% decline in the US dollar compared with the average exchange rate from January to December 2010 would have had a translation impact of negative €4.5 million on the Group's net debt at December 31, 2010.

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)*	JPY	USD	KRW	GBP	RMB
Amounts due to the Group	2.9	8.1	0.3	0.7	3.0
Amounts payable by the Group	0.1	5.7	0.0	2.0	2.2
Balance sheet position	2.8	2.4	0.3	(1.3)	0.8
Potential 2011 exposure	5.0	2.3	1.0	(4.8)	3.6
Hedges at December 31, 2010	(6.9)	(8.4)	0.0	3.0	0.0
Net position	0.9	(3.7)	1.3	(3.1)	4.4
Impact in euros of a 5% fall in the euro*	0.0	(0.2)	0.1	(0.2)	0.2

**Sensitivities were calculated based on exchange rates at December 31, 2010.*

USD/foreign currency risks

Risks *(stated in millions of euros)*	JPY	KRW	GBP	RMB
Amounts due to the Group	1.2	0.8	0.1	4.8
Amounts payable by the Group	0.0	0.0	2.6	3.3
Balance sheet position	1.2	0.8	(2.5)	1.5
Potential 2011 exposure	2.0	9.8	(10.7)	3.0
Hedges at December 31, 2010	(2.2)	(3.0)	5.9	(1.6)
Net position	1.0	7.6	(7.3)	2.9
Impact in euros of a 5% fall in the USD*	0.1	0.4	(0.4)	0.2

**Sensitivities were calculated based on exchange rates at December 31, 2010.*

Recognition at year-end 2010 of currency transactions

MTM* *(stated in millions of euros)*		December 31, 2010
Marking to market value of currency hedges	Equity	(0.7)
	Other financial components of operating income	(0.8)

**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, 2010, would have led to an increase/(decrease) in equity and net income of the amounts stated below as a result of the currency hedges.

Impact *(in millions of euros)* **at Dec. 31, 2010**	Increase in the euro against other currencies		Decrease in the euro against other currencies	
	Equity	Gains or losses	Equity	Gains or losses
USD (change of 5%)	0.1	0.2	(0.1)	(0.2)
GBP (change of 5%)	0.2	0.1	(0.2)	(0.1)
JPY (change of 5%)	(0.1)	(0.1)	0.1	0.1

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.

Future impact on income of currency transactions recognized at year-end 2010

(Stated in millions of euros) CURRENCY	Marking to market of currency derivatives in equity	Impact on income	
		Less than 6 months	Over 6 months
Assets	0.3	0.3	0.0
Liabilities	(1.0)	(0.8)	(0.2)

Future cash flows on currency transactions recognized at December 31, 2010

CURRENCY *(in millions of euros)*	MTM	Expected cash flows
Assets	0.3	0.0
Liabilities	(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 2010

Zhejiang Mingrong Electrical Protection

During July 2008, Mersen took control of Zhejiang Mingrong Electrical Protection, a Chinese company ranking among the leaders in the fuse and fusegear market.

The purchase price and goodwill are based on the synergies generated by this combination, in particular:

- Mersen's development in the Chinese fuse and fusegear market,
- The worldwide strengthening of the Group's commercial presence through the tight fit between Mersen's and Zhejiang Mingrong Electrical Protection's product ranges.

This acquisition of a majority 51% shareholding fitted perfectly with Mersen's strategy of profitable growth, which is notably predicated on strengthening its positions in Asia and establishing strong leadership in its markets.

The allocation of the acquisition price was completed and €4.1 million in intangible assets were identified and measured primarily in respect of customer relationships.

The Group opted to measure minority interests at their proportionate share of identifiable net assets.

Lumpp

During September 2009, Mersen acquired French company Lumpp, a well-known player in the chemicals market, especially for industrial stirrers and mixers.

The purchase price and goodwill are based on the synergies generated by this combination, in particular:

- the complementary nature of its anticorrosion products with the addition of stirrers to its range of reactors to provide an integrated solution and consolidate its leadership position in the phosphoric and acetic acid markets.
- the strengthening of its technical sales presence in North Africa, the Middle East and China, notably with phosphoric acid producers.

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

When allocation of the acquisition cost was completed, no significant intangible asset had been identified.

Mersen France Grésy

During September 2009, Mersen acquired French company 2C Cellier (renamed Mersen France Grésy during 2010), a specialist in the design and manufacture of advanced technology equipment for the nuclear power market.

The purchase price and goodwill are based on the synergies generated by this combination, in particular:

- the complementary nature of its expertise in the design and manufacture of noble metal and special metal equipment,
- the opening-up of the Chinese market to Mersen France Grésy's specific know-how, which is widely recognized by the leading players in the nuclear segment, as a result of Mersen's industrial fabric in China.

This acquisition fits perfectly with the Group's profitable growth strategy, which is notably founded on bolstering its positions in Asia and refocusing on alternative energies.

The allocation of the acquisition price was completed and €0.7 million in intangible assets were identified and measured primarily in respect of the technology it acquired.

Boostec

At the end of March 2010, Mersen has acquired an 85% interest in French company Boostec, an advanced technology group developing innovative ceramics products primarily for space applications.

The purchase price and goodwill are based on the synergies generated by this combination, in particular:

- the extension of the existing product range into solutions for extreme environments offered by the Group,
- the possibility of further developments in Boostec's unique expertise in the design and manufacture of massive silicon carbide (SiC) components in strategic markets, such as solar energy and chemicals/pharmaceuticals, as well as new markets, such as solar thermal.

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

The fair value of assets and liabilities from this acquisition is currently being measured. The initial allocation of goodwill will be carried out prior to the close of the first half of 2011.

The Group opted to measure minority interests at their proportionate share of identifiable net assets.

M.Schneider

During April 2010, Mersen acquired the M.Schneider group, the German-speaking market leader in DIN fuses and fuseholders, a fast-developing standard that is establishing itself as the benchmark in emerging markets, particularly in China.

Based in Vienna, M.Schneider's manufacturing base is primarily located in Germany and the Czech Republic, and it also owns a joint venture in China.

The purchase price and goodwill are based on the synergies generated by this combination, in particular:

- the strengthening of Mersen's positioning in Germany and Eastern Europe,
- the injection of momentum into M.Schneider's international sales,
- the consolidation of the Group's positioning in the Chinese energy sector

This acquisition fits perfectly with the Group's growth strategy, which is notably predicated on strengthening its leadership position in its expanding markets.

The fair value of assets and liabilities from this acquisition is currently being measured. The initial allocation of goodwill will be carried out prior to the close of the first half of 2011.

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

Total acquisitions

In millions of euros	Net assets at acquisition date	Fair value adjustments	Allocation of the acquisition cost	Fair value of net assets
Non-current assets	10.7	(0.3)	4.8	15.2
Cash acquired	2.2			2.2
Other assets	18.6	0.3	0.0	18.9
Non-current liabilities	(1.4)	(0.1)	(0.7)	(2.2)
Current liabilities	(20.6)	0.9	0.0	(19.7)
Net assets	**9.5**	**0.8**	**4.1**	**14.4**
Goodwill				18.9
Minority interests				5.4
Consideration transferred				27.9
o/w unpaid consideration transferred				2.0

The contribution described above made by these companies to the consolidated financial statements does not take into account any revenue or earnings enhancement synergies realized by the Group's other units:

	Actual 2010 contribution		Estimated 2010 full-year contribution	
In millions of euros	Sales	Net income	Sales	Net income
	38.9	0.4	48.1	1.0

The acquisition costs for these companies, which were expensed, amounted to €0.6 million.

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.

Pursuant to the standard, the assets and liabilities held for sale and discontinued operations were shown on a separate line of the Group's balance sheet.

During fiscal 2009 and 2010, the financial statements for activities held for sale and discontinued operations included operations temporarily maintained, but closely related to the sale and intended to be discontinued–notably under short-term services and outsourcing agreements.

IFRS 5 balance sheet of operations sold or discontinued

ASSETS

In millions of euros	Total at Dec. 31, 2010	Total at Dec. 31, 2009
- Plant, equipment and other assets		0.7
- Other financial assets		
- Inventories		0.1
- Trade receivables		0.5
- Other receivables		
Assets held for sale and disc. op.	0.0	1.3

LIABILITIES

In millions of euros	Total at Dec. 31, 2010	Total at Dec. 31, 2009
- Non-current provisions		
- Employee benefits		0.4
- Trade payables		0.1
- Other payables		1.6
- Other liabilities		
Liabilities related to assets held for sale or and disc. op.	0.0	2.1
Net assets in process of being sold or disc. op.	0.0	(0.8)

IFRS 5 income statement for operations sold or discontinued

In millions of euros	2010	2009
Sales	1.7	17.6
Cost of sales	(1.8)	(22.6)
Gross income	**(0.1)**	**(5.0)**
Selling and marketing costs	(0.3)	(1.5)
Administrative and research costs	(0.9)	(2.9)
Other operating costs	(0.3)	1.8
Operating income before non-recurring items	**(1.6)**	**(7.6)**
Non-recurring income and expense	(1.5)	(9.3)
Loss on disposal/impairment		(2.5)
Operating income	**(3.1)**	**(19.4)**
Finance costs, net		0.0
Income before tax and non-recurring items	**(3.1)**	**(19.4)**
Current and deferred income tax		8.6
Net income from assets held for sale/discontinued operations	**(3.1)**	**(10.8)**
Net income per share from assets held for sale and discontinued operations:		
- Basic earnings per share *(€)*	(0.16)	(0.66)
- Diluted earnings per share *(€)*	(0.15)	(0.63)

Note 6 Goodwill

In millions of euros	Dec. 31, 2010	Dec. 31, 2009
Carrying amount at end of period	231.3	181.2
Acquisitions	23.3	62.1
Other movements	(4.1)	(10.4)
Translation adjustments	10.3	(1.6)
Carrying amount at end of period	260.8	231.3
Gross value at end of period	260.8	231.3
Total impairment losses at end of period	**0.0**	**0.0**

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

	Dec. 31, 2009	Movements during 2010			Dec. 31, 2010
In millions of euros	Carrying amount	Acquisitions	Other movements	Cumulative translation adjustment	Carrying amount
Anticorrosion Equipment	62.0	4.4	(0.7)	3.4	69.1
High-Temperature Applications	85.4	4.2		1.9	91.5
Electrical Applications	12.3			0.6	12.9
Electrical Protection	71.6	14.7	(3.4)	4.4	87.3
TOTAL	**231.3**	**23.3**	**(4.1)**	**10.3**	**260.8**

Acquisitions reflect the goodwill attributable to Mingrong, Lumpp, Grésy, Boostec and M.Schneider.

Other movements relate to the allocation of the acquisition cost of Mingrong and Grésy. (see Note 4)

Note 7 Asset impairment tests

Impairment tests were conducted for each of the cash-generating units when the balance sheet at December 31, 2010 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 2011 budget and projections for the following four fiscal years
- a discount rate after tax of 8% 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. - 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 18% for the Electrical Applications CGU
- around 20% for the Electrical Protection CGU
- around 13% for the Anticorrosion Equipment CGU
- and around 16% 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, 2009	**8.2**	**30.9**	**39.2**	**135.8**	**29.1**	**235.0**
Acquisitions	1.2	0.1	4.0	14.6	25.0	43.7
Retirements and disposals				(0.6)	0.6	0.0
Depreciation and amortization	(1.2)		(2.9)	(28.4)		(31.3)
Translation adjustments		0.3	(0.2)	(0.8)	(0.6)	(1.3)
Impact of changes in the scope of consolidation	(0.2)	1.7	6.1	9.9	1.1	18.8
Assets held for sale and discontinued operations		(0.3)	(0.1)	(0.3)		(0.7)
Other movements	23.0	(0.6)	1.7	16.0	(17.6)	(0.5)
Carrying amount at December 31, 2009	**31.0**	**32.1**	**47.8**	**146.2**	**37.6**	**263.7**
Gross value at December 31, 2009	54.0	32.9	95.0	362.2	37.6	527.7
Total depreciation at December 31, 2009	(23.0)	(0.8)	(47.2)	(216.0)		(264.0)
Total impairment losses at December 31, 2009						0.0
Carrying amount at January 1, 2010	**31.0**	**32.1**	**47.8**	**146.2**	**37.6**	**263.7**
Acquisitions	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
Assets held for sale and discontinued operations						0.0
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 AT DECEMBER 31, 2010	**(24.8)**	**(0.6)**	**(47.5)**	**(262.0)**		**(310.1)**
TOTAL IMPAIRMENT LOSSES AT DECEMBER 31, 2010						**0.0**

The €4.8 million increase in “Other movements” of intangible assets primarily reflects the definitive allocation of the acquisition cost of Mingrong (€4.1 million, including €3.4 million related to customer relationships) and Grésy (€0.7 million related to technology).

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, 2010, 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, 2010	Dec. 31, 2009
Gross value	15.2	30.6
Impairment losses	(9.0)	(8.8)
CARRYING AMOUNT	**6.2**	**21.8**

The reduction in investments derived primarily from the first-time consolidation of Fuses & Switchgear, the parent company of Mingrong Electrical Protection, Mersen Shanghai Co. Ltd, Ferraz Shawmut Kunshan, Lumpp and Mersen France Grésy SAS.

The impairment losses recognized on investments at December 31, 2010 primarily affected units in Turkey, Argentina, Singapore 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 Sanayi Urünleri (Turkey)	100%	5.0	1.0
Mersen Argentina	100%	3.7	0.8
M.Schneider China	50%	0.8	0.8
Mersen Maroc SARL	100%	0.7	0.7
Nortroll	34%	0.8	0.5
Mersen Russia	100%	0.3	0.3
Mersen Chile Ltd	100%	0.2	0.2
GMI	25%	0.2	0.2
Carbone Lorraine Singapore Holding Pte Ltd	100%	1.1	0.1
Mersen Hellas SA	100%	0.6	0.0
Investments in other companies		0.5	0.3
TOTAL		**15.2**	**6.2**

Note 10 Inventories

In millions of euros	Dec. 31, 2010	Dec. 31, 2009
Raw materials and other supplies	75.3	64.2
Work in progress	62.0	51.8
Finished goods	41.2	31.9
Carrying amount of inventories	**178.5**	**147.9**
Valuation allowances	(10.5)	(9.4)
CARRYING AMOUNT OF INVENTORIES	**168.0**	**138.5**

Inventories increased by €29.5 million in fiscal 2010, with an increase of €14.0 million attributable to changes in the scope of consolidation and an increase of €8.4 million to currency effects. On a like-for-like basis, inventories grew by 5.3% to €7.1 million.

Note 11 Trade receivables

In millions of euros	Dec. 31, 2010	Dec. 31, 2009
Gross trade receivables	120.9	95.1
Valuation allowances	(3.2)	(3.1)
NET TRADE RECEIVABLES	**117.7**	**92.0**

Net trade receivables grew by €25.7 million in fiscal 2010, with an increase of €10.8 million attributable to changes in the scope of consolidation and a rise of €6.8 million to currency effects. On a like-for-like basis, trade receivables grew by €8.1 million or 8.7%.

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, 2010, the outstanding amount was €15.6 million vs. €15.4 million at December 31, 2009.

At year-end 2010, late payments accounted for 10.6% of trade receivables compared with 8.8% at year-end 2009. The increase was attributable to companies acquired during the second half of 2010.

Overdue trade receivables broke down as follows at December 31:

In millions of euros	Dec. 31, 2010		Dec. 31, 2009	
	Gross	Impairment	Gross	Impairment
Receivables not yet due	105.9	(0.7)	84.5	(0.6)
Receivables 0-30 days past due	6.7	(0.1)	3.0	(0.2)
Receivables 31-120 days past due	4.2	(0.3)	4.1	(0.3)
Receivables 121 days to 1 year past due	1.9	(0.3)	0.9	(0.4)
Receivables more than 1 year past due	2.2	(1.8)	2.6	(1.6)
NET TRADE RECEIVABLES	**120.9**	**(3.2)**	**95.1**	**(3.1)**

The movements related to valuation allowances on trade receivables were as follows:

In millions of euros	Dec. 31, 2010	Dec. 31, 2009
Impairment losses at January 1	(3.1)	(3.4)
Allowance/reversal during the fiscal year	(0.1)	0.3
IMPAIRMENT LOSSES AT DECEMBER 31	**(3.2)**	**(3.1)**

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 stated otherwise)	**Ordinary shares**
Number of shares at January 1, 2010	19,645,409
Issue of new shares *(in millions of euros)*	0.6
Number of shares at December 31, 2010	19,942,777
Number of shares in issue and fully paid-up	297,368
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	26,434

Capital management

At December 31, 2010, Mersen's share capital amounted to €39,885,554, divided into 19,942,777 shares each with a par value of €2. The number of voting rights stood at 19,942,777. 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: 39.6%
- International institutional investors: 42.1%
- Individual shareholders: 16.9%
- Employee shareholders: 1.3%
- Treasury shares: 0.1%

In December 2008, the Group issued 2,500,000 share issuance rights (BEAs) to Société Générale under a PACEO equity line program approved by the Extraordinary General Meeting on December 12, 2008. The BEAs were subscribed by Société Générale on December 17, 2008. The rights may be exercised at Mersen's request during a period of two years in tranches, representing a maximum number of 400,000 shares per tranche. The total number of shares that may be issued after two years may not exceed 2.5 million or 17.5% of the share capital prior to any issues. For each tranche, the issue price would be set based on the share price at the time less a discount of no more than 10%. During May and June 2009, the Company drew three successive tranches of 400,000 shares. These three tranches were issued respectively at a price per share of €20.35 for the first, €19.66 for the second and €17.62 for the third. All in all, the Company issued 1,200,000 new shares during fiscal 2009, representing 8.4% of its initial share capital and raising a total of €22.3 million. Since January 1, 2010 and through to the end of the aforementioned 2-year period on December 17, 2010, the Company did not use the authorization of December 12, 2008 and did not issue any new shares.

Since shareholders decided at the Annual General Meeting on May 20, 2010 to offer each shareholder individually the option to receive payment of the entire dividend related to the shares he or she owns in new shares of the Company, the Management Board approved the issue price for the new shares of €23.60, which corresponded to 90% of the average opening price of the Company's shares on Euronext in the twenty trading sessions preceding the date of the Annual General Meeting less the amount of the dividend. On July 2, 2010, at the end of the period during which the option was available, the Management Board formally noted that 13,740,074 rights were reinvested in the new shares of the Company and decided to issue 294,921 new shares each with a par value of €2.

At December 31, 2010, 26,434 shares representing 0.14% of the share capital were held under a liquidity agreement approved by the Autorité des Marchés Financiers and entrusted to independent services provider Exane.

At December 31, 2010, the Group's employees owned 257,912 shares representing 1.29% of the share capital, plus 583,263 stock options that, if exercised in full, would represent 2.92% of the current share capital. The stock option plans set up by the Group are based on an exercise price determined without any discount, since exercise of the options is subject to conditions linked to the Group's future performance. Using this method, the Group ensures that the interests of its managers are aligned with those of its shareholders.

The Group has also implemented a policy of allotting bonus shares to secure the loyalty of its up-and-coming managers. The allottees of the bonus shares are not the same as the beneficiaries of the stock options. Definitive allotment of the shares is contingent upon employees' presence on the Group's payroll at the end of the vesting period. At December 31, 2010, a total of 71,908 bonus shares (taking cancellations into account), representing 0.36% of the current share capital, had been allotted.

To date, the Group has not pursued stock repurchases because it uses its cash for its policy of selective acquisitions.

In fiscal 2010, the Group did not alter its capital management policy.

Neither the Company, nor its subsidiaries are subject to specific capital constraints under external rules.

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	2007 plan Stock options	2008 plan Bonus share allot-ments	2009 plan Stock options	2009 plan Bonus share allotments
Allotment date	July 25, 2007	February 26, 2008	February 11, 2009	February 11, 2009
Availability date	July 25, 2011	March 1, 2011	February 11, 2013	February 11, 2013
Expiration date	July 25, 2017	March 1, 2013	February 11, 2019	February 11, 2014
Adjusted exercise price *(€)*	€53.10	N/A	€17.53	N/A
Adjusted share price at allotment date	€52.35	€27.48	€17.95	€17.95
Estimated life *(number of years)*	5.5	3	8	4
Volatility	30.90%	N/A	38.10%	N/A
Dividend per share *(as a % of share price)*	1.90%	2.30%	2.50%	2.50%
Risk-free interest rate	4.44%	N/A	3.26%	N/A
Exercise period *(number of years)*	4	3	4	4
Lock-up period *(number of years)*	0	2	0	0
Number of options/adjusted share allotments	177,876	21,567	366,581	53,900
Estimated annual cancellation rate		1.50%	7.00%	2.50%
% of shares/options acquired following satisfaction of the performance condition	100%	100%	100%	100%
Estimated number of options at end of vesting period	167,442	20,611	274,222	48,708
Valuation of options/shares	€15.58	€25.67	€6.11	€16.24
Valuation as a % of the share price at grant	29.80%	93.40%	34.10%	90.50%

Expense of €1.4 million was recognized in the income statement in respect of these equity-settled plans compared with €1.4 million in fiscal 2009.

Premiums and retained earnings

A tax receivable of €3.2 million related to a request for repayment of withholding tax was recognized in equity. The risks associated with this receivable were transferred with no recourse to a banking institution through the issue of a conditional redemption debenture. As a result, the assets and liabilities were deconsolidated during the first half of 2009.

Note 13 Provisions, contingent liabilities and other liabilities

	Dec. 31, 2010		Dec. 31, 2009	
(€ m)	Non-current	Current	Non-current	Current
- provision for restructuring	0.4	0.5	0.2	0.1
- provision for litigation		0.2	0.0	0.3
- other provisions	0.1	3.4	0.2	0.2
TOTAL	**0.5**	**4.1**	**0.4**	**0.6**

Provisions amounted to €4.6 million at December 31, 2010 (€1 million at December 31, 2009) and comprise primarily:

- a €2 million provision for decontamination as a result of the processes and products used by a manufacturing facility before it joined the Group;
- the settlement for €0.8 million of a dispute with the former owner of a subsidiary that has now been sold.

Other liabilities (€8.6 million at December 31, 2010) now chiefly comprise liabilities related to property, plant and equipment.

At December 31, 2009, the €33.6 million in other liabilities chiefly comprised the €29.1 million EU fine still to be paid, including €5.8 million in interest.

In a decision handed down on November 12, 2009, the European Court of Justice dismissed the appeal lodged by Mersen and confirmed the amount of the €43 million fine issued by the European Commission in 2003. A partial payment of €20 million was made in 2005. Accordingly, the provision at December 31, 2009, was written back and the balance reclassified under "Other liabilities". During 2010, the Group paid out €29.1 million.

The customers who opted out of the US class action lawsuit in 2009 initiated proceedings in the United Kingdom before the CAT (Competition Administrative Tribunal). Since the Group considers that there is no basis for this legal action, no provision was set aside.

In December 2010, the Deutsche Bahn group announced that it was taking legal action against Morgan, SGL, Schunk and Mersen in the CAT (Competition Administrative Tribunal), together with other European rail companies. Through these new proceedings in the UK, the plaintiffs are attempting to secure redress before 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 was informed of these new proceedings during February 2011. The Group does not possess sufficient information to estimate the risk linked to these proceedings, and no provision was thus set aside.

No other material contingent liabilities were identified at December 31, 2010.

Note 14 Employee benefits

The Mersen group's principal pension plans are defined benefit plans and are located in the US (36% of obligations), the UK (22% of obligations), France (16% of obligations) and Germany (11% of obligations).

The Group's obligations were measured at December 31, 2010 with the assistance of independent actuaries in accordance with IAS 19. The rates used for the principal countries are summarized below:

2009	Discount rate	Return on plan assets	Average rate of salary increases	Inflation rate
France	4.75%	4.0%/4.25%	2.5%	2.0%
Germany	4.75%	Not applicable	2.5%	2.0%
United States	5.75%	5.25%/6.25%	Not applicable	Not applicable
United Kingdom	5.75%	6.75%	3.75%	3.5%

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%

Reconciliation between assets and liabilities recognized

	Dec. 31, 2010	Dec. 31, 2009
Actuarial obligation	114.6	98.8
Fair value of plan assets	(59.5)	(47.4)
Unrecognized actuarial gains and losses	(16.3)	(15.3)
Unrecognized past service cost (rights not vested)	(2.7)	(1.9)
PROVISION BEFORE THE LIMIT ON ASSETS	36.1	34.2
Surplus management reserve	0.6	
PROVISION AFTER THE LIMIT ON ASSETS	36.7	34.2

Breakdown of the Group's net obligations at December 31, 2010 by geographical area

	France	Germany	United States	United Kingdom	Rest of the world	Total at December 31, 2010
Actuarial obligation	17.9	12.8	40.9	24.7	18.3	114.6
Fair value of plan assets	(0.4)		(24.8)	(25.3)	(9.0)	(59.5)
Unrecognized actuarial gains and losses	(1.7)	(0.4)	(9.4)	(0.3)	(4.5)	(16.3)
Unrecognized past service cost (rights not vested)	(2.4)		(0.2)		(0.1)	(2.7)
Surplus management reserve				0.6		0.6
Net amount recognized	13.4	12.4	6.5	(0.3)	4.7	36.7

Movements in the Group's obligations

	France	Germany	United States	United Kingdom	Rest of the world	Total
December 31, 2009	**16.5**	**12.9**	**29.0**	**26.0**	**14.4**	**98.8**
Payments	(1.8)	(0.9)	(1.0)	(0.8)	(0.7)	(5.2)
Expense charged to income	1.6	0.6	4.2	1.7	1.6	9.7
Translation adjustment			2.6	0.8	1.9	5.3
Actuarial gains and losses	0.4	0.3	1.5	(3.2)	1.4	0.4
Other movements	1.2	(0.1)	4.6	0.2	(0.3)	5.6
DECEMBER 31, 2010	17.9	12.8	40.9	24.7	18.3	114.6

Other movements derive from the reclassification of employee benefits previously stated on the "discontinued operations" balance sheet in a net amount of €0.4 million.

Change in plan assets

	France	Germany	United States	United Kingdom	Rest of the world	Total
December 31, 2009	**0.7**		**16.4**	**22.4**	**7.9**	**47.4**
Return on plan assets			2.4	2.0	0.4	4.8
Employer contribution	1.1	0.9	2.0	0.8	0.8	5.6
Employee contribution				0.2	0.1	0.3
Payment of benefits	(0.3)	(0.9)	(1.0)	(0.8)	(0.4)	(3.4)
Translation adjustment			1.5	0.7	1.1	3.3
OTHER MOVEMENTS	(1.1)		3.5		(0.9)	1.5
DECEMBER 31, 2010	0.4	0.0	24.8	25.3	9.0	59.5

UK plan assets account for 42% of total plan assets, with 64% invested in equities and 36% in government bonds.

US plan assets account for 42% of total plan assets, with 53% invested in equities and 42% in bonds.

The charge recognized at December 31, 2010 in respect of these plans was €7.3 million, compared with €6.1 million in 2009, which breaks down as follows:

	France	Germany	United States	United Kingdom	Rest of the world	Total at December 31, 2010	Total at December 31, 2009
Current service cost	0.8		2.1	0.2	0.8	3.9	3.4
Interest cost	0.8	0.6	2.1	1.5	0.8	5.8	4.9
Expected return on plan assets			(1.9)	(1.6)	(0.5)	(4.0)	(3.0)
Amortization of actuarial gains and losses	0.1		0.6		0.2	0.9	0.7
Impact of the limit on assets				0.6	0.1	0.7	
Other movements	0.3			(0.5)	0.2	0.0	0.1
TOTAL CHARGE FOR THE PERIOD	2.0	0.6	2.9	0.2	1.6	7.3	6.1

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, 2010	Total at Dec. 31, 2009
Adjustments linked to changes in assumptions	0.3	0.3	1.8	(1.4)	0.9	1.9	6.9
Experience adjustments to obligations	0.1	(0.1)	(0.2)	(1.9)	0.6	(1.5)	(0.2)
Experience adjustments to plan assets			3.9	3.1	1.1	8.1	3.3
ACTUARIAL GAINS AND LOSSES	0.4	0.2	5.5	(0.2)	2.6	8.5	10.0

An increase of 0.25 points in discount rates would lead to a reduction of €3.7 million in the estimated actuarial obligation, breaking down as follows:

France	(0.4)
Germany	(0.3)
United Kingdom	(1.1)
United States	(1.5)
Rest of the world	(0.4)
TOTAL	(3.7)

Note 15 Net debt

Analysis of total net debt at December 31, 2010

In millions of euros	Dec. 31, 2010	Dec. 31, 2009
Borrowings	227.1	192.7
Current financial liabilities	35.0	29.4
Current advances	4.3	1.9
Bank overdrafts	6.9	31.0
TOTAL GROSS DEBT	**273.3**	**255.0**
Including use of confirmed credit lines	*248.3*	*237.0*
Current financial assets	**(4.6)**	**(6.0)**
Financial assets	(0.3)	(1.2)
Cash and cash equivalents	(48.3)	(32.9)
Cash	**(48.6)**	**(34.1)**
TOTAL NET DEBT	**220.1**	**214.9**

Total consolidated net debt at December 31, 2010 rose to €220.1 million from €214.9 million at year-end 2009.

Of the €273.3 million in total gross debt, €248.3 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, 2010	Dec. 31, 2009
Total net debt	220.1	214.9
Net debt/equity	0.44	0.50

Net debt amounted to 44% of equity at December 31, 2010, compared with 50% at December 31, 2009.

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

In millions of euros	Dec. 31, 2010	Dec. 31, 2009
Prior year debt	**214.9**	**305.9**
Cash generated by operating and investing activities after tax	(70.4)	(68.7)
Cash used by restructurings	0.9	3.0
Net cash inflows/(outflows) attributable to changes in the scope of consolidation	16.7	24.5
Cash generated by the operating and investing activities of continuing operations	(52.8)	(41.2)
Cash generated by the operating and investing activities of assets held for sale and discontinued operations	**0.9**	**18.0**
Non-recurring cash outflow (EU fine)	**29.1**	
Proceeds from issuance of new shares	(0.3)	(87.6)
Dividends paid	3.5	2.5
Interest payments	9.6	10.5
Translation adjustments and other	9.7	(1.6)
Impact of changes in the scope of consolidation	5.8	7.3
Other changes	(0.3)	1.1
DEBT AT YEAR-END	**220.1**	**214.9**

Financial covenants at December 31, 2010

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* (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	-
US private placement	< 3.35	< 1.3	> 3
OBSAAR bonds	-	< 1.35	-
Syndicated loan, China		< 1.35	
Actual ratios at December 31, 2010			
Group syndicated loan	1.86	0.44	-
US private placement	1.86	0.44	12.24
OBSAAR bonds		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	
Actual ratios at December 31, 2008			
Group syndicated loan	2.73	0.93	
US private placement	2.73	0.93	12.07
OBSAAR bonds		0.93	
Syndicated loan, China		0.93	

**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.*

At December 31, 2010, 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, 2010

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	61.2	9.9	51.3	0.0
Borrowings in EUR	75.7	0.3	75.4	0.0
Borrowings in GBP	58.5	4.4	51.9	2.2
Borrowings in RMB	52.9	0.0	52.9	0.0
TOTAL	**248.3**	**14.6**	**231.5**	**2.2**
Amortization of issuance costs at the EIR*	-1.0			
Fair value of interest-rate derivatives	1.2			
TOTAL	**248.5**			

**Effective interest rate*

Of the €231.5 million in debt due to mature in between one and five years' time, €19.8 million had a maturity of over three years at December 31, 2010.

Analysis of total net debt at December 31, 2010

By currency	%
EUR	34.8
USD	24.7
RMB	17.5
GBP	25.1
Other*	-2.1

**Net financial surplus on other currencies.*

By interest rate	%
Fixed	58.8
Floating	41.2

In millions of euros	Total	o/w maturity < 5 years	o/w maturity > 5 years
Long-term debt	273.3	271.1	2.2
Financial assets	(53.2)	(53.2)	0.0
Net position before hedging	**220.1**	**217.9**	**2.2**
Fixed-rate debt	129.4	127.2	2.2
Net position after hedging	**90.7**	**90.7**	**0.0**

Assuming Mersen's debt and exchange rates remain unchanged at their December 31, 2010 level and taking into account the swaps held in the portfolio, an increase of 100 basis points in floating interest rates would increase the Group's annual interest costs by around €1.4 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, 2010 Balance sheet accounts and instrument categories	Note	Accounting categories: 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	15	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)

Fair value hierarchy

	Fair value of the asset class at Dec. 31, 2010	Listed price Level 1	Internal model with observable inputs Level 2	Internal model with non-observable inputs Level 3
Investments (see Note 2, J1)	6.2			6.2
Derivatives held as assets	0.7		0.7	
Financial assets	0.3	0.3		
Cash	48.3	48.3		
Derivatives held as liabilities	(3.6)		(3.6)	

Dec. 31, 2009		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			21.8			21.8	21.8
Other non-current financial assets and derivatives held as assets	3/15				9.4		9.4	9.4
Non-current financial assets		**0.0**	**0.0**	**21.8**	**9.4**	**0.0**	**31.2**	**31.2**
Trade receivables	**11**				**92.0**		**92.0**	**92.0**
Current financial assets	15				6.0		6.0	6.0
Other assets					1.7		1.7	1.7
Financial assets	15			1.2			1.2	1.2
Current financial assets		**0.0**	**0.0**	**1.2**	**7.7**	**0.0**	**8.9**	**8.9**
Cash and cash equivalents	**15**	**32.9**					**32.9**	**32.9**
Bank borrowings	15					(192.7)	(192.7)	(192.7)
Current advances	15					(1.9)	(1.9)	(1.9)
Bank overdrafts	15					(31.0)	(31.0)	(31.0)
Current financial liabilities	15					(29.4)	(29.4)	(29.4)
Borrowings		**0.0**	**0.0**	**0.0**	**0.0**	**(255.0)**	**(255.0)**	**(255.0)**
Trade payables						**(53.7)**	**(53.7)**	**(53.7)**
Carrying amount per category		**32.9**	**0.0**	**23.0**	**109.1**	**(308.7)**	**(143.7)**	**(143.7)**

Note 17 Other non-recurring income and expense

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

In millions of euros	2010	2009
Real estate disposals	3.2	
Transfers/Restructuring	(2.9)	(4.4)
Prior period losses of newly consolidated companies and acquisition costs	(1.2)	
Other	(2.2)	(0.1)
TOTAL	**(3.1)**	**(4.5)**

At December 31, 2010, non-recurring income and expense amounted to a net charge of €3.1 million. This primarily reflected the cost of reorganizing production facilities in the AMT segment and charges linked to acquisitions (prior period losses and acquisition costs). The real estate disposals relate to Brazil and France (Evreux). 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".

During fiscal 2009, non-recurring income and expense represented a charge of €4.5 million, primarily comprising the €4.4 million cost of transferring non-current assets and other expenses arising from the reorganization of certain facilities.

Note 18 Segment reporting

Operating income

In millions of euros	Advanced Materials and Technologies (AMT)		Electrical Components and Technologies (ECS)		Total for continuing operations	
Sales	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Sales to third parties	324.8	256.0	416.4	331.3	741.2	587.3
Breakdown of sales	43.8%	43.6%	56.2%	56.4%	100.0%	100.0%
Segment operating income before non-recurring items	**39.5**	**28.5**	**51.6**	**35.7**	**91.1**	**64.2**
Segment operating margin before non-recurring items*	12.2%	11.1%	12.4%	10.8%		
Segment non-recurring income and expense	(1.8)	(2.9)	(0.3)	(0.6)	(2.1)	(3.5)
Amortization of revalued intangible assets	(0.7)	(0.8)	(0.2)		(0.9)	(0.8)
Segment operating income	**37.0**	**24.8**	**51.1**	**35.1**	**88.1**	**59.9**
Segment operating margin[1]	11.4%	9.7%	12.3%	10.6%		
EBITDA margin[2]	19.7%	19.4%	15.3%	13.8%		
Recurring unallocated costs					(13.5)	(13.3)
Non-recurring unallocated costs					(1.0)	(1.0)
Operating income from continuing operations					**73.6**	**45.6**
Operating margin from continuing operations					9.9%	7.8%
Finance costs, net					(10.8)	(10.4)
Current and deferred income tax					(19.9)	(9.5)
Net income from continuing operations					**42.9**	**25.7**

(1) Segment operating margin = Operating income/Segment sales to third parties.
(2) 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	2010	%	2009	%
France	84.6	11.4%	62.2	10.6%
Rest of Europe	197.0	26.6%	167.0	28.4%
North America	236.9	32.0%	199.0	33.9%
Asia	178.7	24.1%	129.2	22.0%
Rest of the world	44.0	5.9%	29.9	5.1%
TOTAL	**741.2**	**100.0%**	**587.3**	**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.

Breakdown of depreciation and amortization recognized by segment

In millions of euros	2010				2009			
	AMT	ECS	Unal-located	Total	AMT	ECS	Unal-located	Total
TOTAL	**(24.4)**	**(12.0)**	**(0.2)**	**(36.6)**	**(21.3)**	**(9.9)**	**(0.2)**	**(31.4)**

Segment assets

In millions of euros	AMT	ECS	TOTAL	Intra-Group transactions eliminated	Total at December 31, 2010
Non-current assets, net (excluding investments)	398.6	196.2	594.8		594.8
Inventories	90.4	77.6	168.0		168.0
Trade receivables	82.8	85	167.8	(50.1)	117.7
Other receivables	19.2	8.4	27.6	(9.8)	17.8
TOTAL SEGMENT ASSETS	**591.0**	**367.2**	**898.3**	**(59.9)**	**898.3**
Investments					6.2
Deferred tax assets					25.5
Non-current income tax assets					1.1
Current income tax assets					4.3
Other current assets					0.4
Current financial assets					4.6
Current derivatives					0.7
Financial assets					0.3
Cash and cash equivalents					48.3
TOTAL UNALLOCATED ASSETS					**91.4**
TOTAL					**989.7**

Segment liabilities

In millions of euros	AMT	ECS	TOTAL	Intra-Group transactions eliminated	Total at December 31, 2010
Trade payables	66.3	55.4	121.7	(50.1)	71.6
Other payables and other liabilities	42.1	43.1	85.2	(9.8)	75.4
Non-current and current provisions	0.8	3.8	4.6		4.6
Employee benefits	11.9	24.8	36.7		36.7
TOTAL SEGMENT LIABILITIES	**121.1**	**127.1**	**248.2**	**(59.9)**	**188.3**
Deferred tax liabilities					22.4
Borrowings					227.1
Non-current derivatives					1.5
Current income tax liabilities					8.4
Other current financial liabilities					35.0
Current derivatives					2.1
Current advances					4.3
Bank overdrafts					6.9
TOTAL UNALLOCATED LIABILITIES					**307.7**
TOTAL					**496.0**

Note 19 Staff costs and headcount

Group payroll costs (including social security contributions, provisions for pension obligations and retirement indemnities) came to €231.7 million in fiscal 2010 compared with €195.2 million in fiscal 2009.

On a like-for-like basis, staff costs increased by 9%.

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

Geographical area	Dec. 31, 2010	%	Dec. 31, 2009	%
France	1,527	22%	1,399	25%
Rest of Europe (+Tunisia)	1,275	18%	1,052	19%
North America (+Mexico)	2,024	29%	1,682	30%
Asia	1,949	28%	1,251	22%
Rest of the world	249	3%	233	4%
TOTAL	7,024	100%	5,617	100%

Headcount of consolidated companies at end of period (continuing operations) broken down by category

Categories	Dec. 31, 2010	%	Dec. 31, 2009	%
Engineers and managers	916	13%	768	14%
Technicians and supervisors	797	11%	742	13%
Employees	894	13%	726	13%
Blue-collar workers	4,417	63%	3,381	60%
TOTAL	7,024	100%	5,617	100%

At comparable scope, the average headcount rose by 502 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	2010	2009
Product sales	716.9	567.7
Trading sales	24.3	19.6
TOTAL SALES	**741.2**	**587.3**
Other operating revenues	6.7	6.3
Cost of trading sales	(17.1)	(13.7)
Raw material costs	(190.6)	(153.4)
Costs on other operating revenues	(0.6)	(1.1)
Manufacturing costs	(128.3)	(98.4)
Salary costs	(226.1)	(192.8)
Employee incentives and profit-sharing	(5.6)	(2.4)
Other expenses	(65.9)	(52.4)
Financial components of operating income	(3.3)	(2.4)
Depreciation and amortization	(36.6)	(31.4)
Provisions	(3.4)	
Impairment losses		
Gains/(losses) on asset disposals	3.2	
OPERATING INCOME	**73.6**	**45.6**

Note 21 Financial income and costs

Recognized on the income statement **In millions of euros**	**2010**	**2009**
Amortization of bond issuance costs	(0.4)	(0.4)
Interest paid on debt	(9.9)	(9.9)
Short-term financial expense		
Commission on debt	(0.6)	(0.3)
Ineffective portion of interest-rate hedges		
Interest income from bank deposits	0.1	0.2
Finance costs, net	**(10.8)**	**(10.4)**

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	(10.9)	(10.6)
Total interest income from financial liabilities	0.1	0.2
Finance costs, net	**(10.8)**	**(10.4)**

Recognized directly in equity *In millions of euros*	2010	2009
Change in fair value of currency hedges	(0.8)	0.0
Change in fair value of interest-rate hedges	(1.5)	(0.6)
Change in fair value of commodity hedges	0.6	2.0
Impact on changes recognized in equity	0.7	(0.6)
Net finance costs recognized directly in equity, net of tax	**(1.0)**	**0.8**

Note 22 Income tax

In millions of euros	2010	2009
Current income tax	(15.3)	(8.6)
Deferred income tax	(4.6)	(0.7)
Withholding tax		(0.2)
TOTAL TAX EXPENSE	**(19.9)**	**(9.5)**

The Group has:

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

The Group's effective tax rate came to 32% in fiscal 2010 compared with 27% in fiscal 2009.

Analysis of income tax expense

In millions of euros	2010
NET INCOME	**39.8**
Income tax expense/(benefit) on continuing operations	(19.9)
TOTAL INCOME TAX EXPENSE/(BENEFIT)	**(19.9)**
TAXABLE INCOME	**59.7**
Current tax rate in France	34.4%
Theoretical tax benefit/(expense) (taxable income x current income tax rate in France)	(20.6)
Difference between income tax rate in France and other jurisdictions	(2.1)
Transactions qualifying for a reduced rate of taxation	
Permanent timing differences	(0.1)
Impact of limiting deferred tax assets	2.1
Other	0.8
ACTUAL INCOME TAX BENEFIT/(EXPENSE) RECOGNIZED	**(19.9)**

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

In millions of euros	2010	2009
Deferred tax assets	25.5	20.0
Deferred tax liabilities	(22.4)	(15.6)
Net position	**3.1**	**4.4**

Deferred tax movements during fiscal 2010 were as follows:

*In millions of euros**	Dec. 31, 2009	Net income for the year	Other	Cumulative translation adjustment	Dec. 31, 2010
Employee benefit obligations	7.4	0.3	0.4	0.1	8.2
Depreciation of non-current assets	(17.0)	(2.4)		(1.3)	(20.7)
Tax-regulated provisions	(3.3)	(0.1)	0.1	(0.1)	(3.4)
Impact of tax losses	23.3	(2.7)	3.7	(0.1)	24.2
Impairment losses	(0.2)		0.4		0.2
Other	(5.8)	0.3	(0.6)	0.7	(5.4)
DEFERRED TAX ON THE BALANCE SHEET – NET POSITION	**4.4**	**(4.6)**	**4.0**	**(0.7)**	**3.1**

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 have not been capitalized as deferred taxes. These losses are principally located in China (€3.2 million) and France (€2.9 million).

Note 23 Earnings per share

Basic and diluted earnings per share are presented below:

Continuing operations and assets held for sale	2010	2009
Numerator: Net income used to compute basic earnings per share (net income for the period in millions of euros).	38.4	14.6
Denominator: Weighted average number of ordinary shares used to compute basic earnings per share	19,768,883	16,456,243
Adjustment for dilutive potential ordinary shares: - unexercised options	655,144	790,032
Weighted average number of ordinary shares used to compute diluted earnings per share	20,424,027	17,246,275
Basic earnings per share *(€)*	1.94	0.89
Diluted earnings per share *(€)*	1.88	0.85

Continuing operations	2010	2009
Numerator: Net income used to compute basic earnings per share (net income for the period in millions of euros).	41.5	25.4
Denominator: Weighted average number of ordinary shares used to compute basic earnings per share	19,768,883	16,456,243
Adjustment for dilutive potential ordinary shares: - unexercised options	655,144	790,032
Weighted average number of ordinary shares used to compute diluted earnings per share	20,424,027	17,246,275
Basic earnings per share *(€)*	2.10	1.55
Diluted earnings per share *(€)*	2.03	1.48

Note 24 Dividends

A dividend of €0.50 per share representing a total payment of €9.8 million was decided by the General Meeting in respect of fiscal 2009. Following the decision made at the Annual General Meeting of May 20, 2010, allowing shareholders to opt for payment of dividends in new shares and the Management Board's decision on July 2 in the light of shareholders' decision to reinvest 13,740,074 rights in new shares, a €7 million capital increase (294,921 new shares) was completed in July 2010 and the Group made a cash payment of €2.8 million in respect of the dividend.

The dividend proposed in respect of fiscal 2010 stands at €0.75 per share, representing an aggregate amount of €14.9 million.

Note 25 Leases

1 - Finance leases

Carrying amount by asset category

In millions of euros	Dec. 31, 2010	Dec. 31, 2009
Buildings	0	0

2 - The Group is the lessee (operating lease)

Schedule of minimum payments

In millions of euros	Total at Dec. 31, 2010	< 1 year	> 1 year	5 years or more
Minimum payments	53.6	5.7	47.9	28.3

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 increase in minimum lease payments by comparison with December 31, 2009 (€32.9 million) was attributable primarily to the future lease payments related to the extension of the Mersen Shanghai Xianda (China) plant.

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 98 consolidated and unconsolidated companies in 39 countries.

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

1 - Relations with unconsolidated subsidiaries and associates

Group sales to unconsolidated subsidiaries amounted to €7.4 million in fiscal 2010, compared with €9.9 million in fiscal 2009.

In fiscal 2010, the management and administrative fees charged to unconsolidated subsidiaries by the Group (deducted from administrative costs) amounted to €0.3 million, stable compared with the €0.2 million in fiscal 2009.

The amounts receivable by the Group from its unconsolidated subsidiaries came to €2.4 million at December 31, 2010, while amounts payable were zero.

Shareholders' advances made to unconsolidated subsidiaries by Mersen amounted to €0.5 million (vs. €1.5 million in fiscal 2009) at December 31, 2010.

2 - Disclosure of compensation paid to key management personnel (including the Chairman of the Management Board and Executive Committee until June 30, 2010)

In millions of euros	2010	2009
Salaries, bonuses, benefits in kind and attendance fees	1.3	2.7
Top-up pension plan payments [1]	0.2	0.8
Other long-term employee benefits		0.0
TOTAL [2]	**1.5**	**3.5**

(1) Members of the Management Board and previously members of the Executive Committee qualify for top-up pension payments defined as follows:
Provided that the relevant person is still employed by the Group upon retirement, this regime guarantees top-up pension income of 10-20% of the basic reference salary depending on length of service during the final three years prior to retirement plus a flat-rate of 50% of the maximum bonus.
Actuarial obligations were measured at €1.5 million at December 31, 2010, compared with €2 million at December 31, 2009.

(2) The reduction in the total compensation between 2009 and 2010 was primarily attributable to the retirement of two members of the Executive Committee[1].

Members of the Management Board and previously of the Executive Committee[1] do not qualify for any other long-term employee benefits.

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

Furthermore, members of the Management Board and previously of the Executive Committee (including the Chairman of the Management Board) were awarded the following share-based payments:

- stock options: 198,000 stock options were granted to members of the Management Board and previously of the Executive Committee (including the Chairman of the Management Board) in fiscal 2007 and in fiscal 2009:

	2007 plan Tranche 1
Date of Board of Directors' meeting	July 25, 2007
Total number of shares allotted	75,000
Subscription price	57.24
Start of exercise period	July 2011
Expiration date	July 2017

(1) Following the departure of the final member of the Executive Committee on June 30, 2010, the Executive Committee was dissolved.

	2009 plan Tranche 1
Date of Board of Directors' meeting	January 22, 2009
Total number of shares allotted	123,000
Subscription price	18.90
Start of exercise period	February 2013
Expiration date	February 2019

- bonus share allotments: see the table of previous allotments to the Management Board and previously to the Executive Committee (including the Chairman of the Management Board) below.

	2005 plan Tranche 1
Date of Board of Directors' meeting	June 30, 2005
Total number of shares allotted	15,300
Share price at allotment date	39.25
Definitive allotment date (end of the vesting period)	July 1, 2007
End of lock-up period	July 1, 2009

No bonus shares were granted to Management Board and Executive Committee members in the 2008 plan.

Note 27 Commitments and contingencies

A - Financial commitments and liabilities

In millions of euros	Dec. 31, 2010	Dec. 31, 2009
Commitments received		
Guarantees and endorsements	0.0	0.2
Other commitments received	2.8	0.6
TOTAL	**2.8**	**0.8**
Commitments given		
Collateralized debts and commitments	0.0	0.3
Market guarantees	15.0	20.5
Payment guarantee on acquisitions	0.0	0.0
Other guarantees	24.8	50.1
Other commitments given	7.5	8.1
TOTAL	**47.3**	**79.0**

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

Nature

The largest item, which amounted to €24.8 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 reduction in this item compared with December 31, 2009 (€25.3 million) is attributable to the total withdrawal of the guarantee issued to the European Commission following payment of the outstanding amount (€29.1 million) during 2010 of the fine meted out in 2003.

Maturity

Commitments and contingencies with a maturity of over 1 year amounted to €30.2 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

None

Note 29 Approval of the financial statements

The Group's consolidated financial statements for the fiscal year to December 31, 2010 were approved by the Management Board at its meeting on March 15, 2011.

Statutory Auditors' report on the consolidated financial statements - Fiscal year ended December 31, 2010

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, 2010, 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, 2010, and of the results of its operations for the year then ended, in accordance with IFRSs as adopted for use in the European Union.

Without qualifying the opinion stated above, we draw your attention to Note 2 "Accounting policies and principles of consolidation" to the consolidated financial statements listing the new standards published by the IASB, adoption of which is mandatory in financial years beginning on or after January 1, 2010.

→ 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:

Impairment losses

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 15, 2011	Neuilly-sur-Seine, March 15, 2011
KPMG Audit ID	Deloitte & Associés
Catherine Porta	Joël Assayah
Partner	*Partner*

Parent company financial statements

Income statement	96
Balance sheet	98
Notes to the balance sheet and income statement	100
List of subsidiaries and shareholdings	113
Five-year financial summary	114
Statutory Auditors' report on the financial statements	115

5

INCOME STATEMENT

(€ 000s)	2010	2009
OPERATING REVENUES (1)		
Revenues		
Other revenues	820	1,538
TOTAL SALES	**820**	**1,538**
Reversals of operating provisions	0	329
Transferred operating costs	1,027	1,602
Other income	817	825
TOTAL 1	**2,664**	**4,294**
OPERATING EXPENSES (2)		
Other purchases	14	16
External charges	3,516	4,176
Taxes other than income tax	464	751
Wages and salaries	1,400	2,967
Social security charges	418	700
Depreciation, amortization and charges to provisions:		
- against fixed assets: amortization	34	34
- for liabilities and charges: charges to provisions	22	36
Other expenses	395	285
TOTAL 2	**6,263**	**8,965**
OPERATING INCOME (TOTAL 1 - 2)	**(3,599)**	**(4,671)**

(€ 000s)	2010	2009
FINANCIAL INCOME (3)		
Income from participating interests	24,599	23,015
Other income from fixed assets	109	228
Other interest and related income	2,603	5,314
Reversals of depreciation, amortization and charges to provisions	11,505	407
Foreign exchange gains	7,091	10,167
TOTAL 3	**45,907**	**39,131**
FINANCIAL EXPENSE (4)		
Depreciation, amortization and charges to provisions	15,694	8,923
Interest and related expenses	6,061	9,785
Foreign exchange losses	5,827	3,462
TOTAL 4	**27,582**	**22,170**
NET FINANCIAL INCOME (3 - 4)	**18,325**	**16,961**
INCOME BEFORE TAX AND NON-RECURRING ITEMS	**14,726**	**12,290**
EXCEPTIONAL INCOME		
Management transactions	265	74
Capital transactions	389	3,404
Reversals of provisions and transferred costs	1	32,122
TOTAL 5	**655**	**35,600**
EXCEPTIONAL CHARGES		
Management transactions	1,837	1,602
Capital transactions	38	35,285
Depreciation, amortization and charges to provisions	22	3
TOTAL 6	**1,897**	**36,890**
NET EXCEPTIONAL INCOME (TOTAL 5 - 6)	**(1,242)**	**(1,290)**
INCOME TAX	**(1,140)**	**(641)**
NET INCOME FOR THE YEAR	**14,624**	**11,641**
TOTAL INCOME	**49,226**	**79,025**
TOTAL EXPENSES	**34,602**	**67,384**

BALANCE SHEET

ASSETS

(€ 000s)	Dec. 31, 2010 Gross	Dec. 31, 2010 Depreciation and amortization	Dec. 31, 2010 Net	Dec. 31, 2009 Net
FIXED ASSETS				
Intangible assets				
Concessions, patents, licenses, brands	8,778	8,758	20	34
SUB-TOTAL	**8,778**	**8,758**	**20**	**34**
Property, plant and equipment				
Other	373	293	80	98
SUB-TOTAL	**373**	**293**	**80**	**98**
Financial fixed assets[1]				
Participating interests	490,631	122,161	368,470	360,584
Loans and advances to participating interests	111,904	76	111,828	121,924
Other fixed assets	5		5	5
Other	4,663	6	4,657	6,346
SUB-TOTAL	**607,203**	**122,243**	**484,960**	**488,859**
TOTAL A	**616,354**	**131,294**	**485,060**	**488,991**
CURRENT ASSETS				
Advances and downpayments paid on orders[2]	1		1	0
Trade receivables and related accounts[2]	485		485	1,069
Other[2]	54,293		54,293	61,328
Cash and cash equivalents	720		720	7,609
ACCRUALS				
Prepaid expenses[2]	345		345	355
TOTAL B	**55,844**	**0**	**55,844**	**70,361**
Deferred costs D	679		679	990
Foreign currency translation losses E	5,460		5,460	2,167
TOTAL (A+B+C+D+E)	**678,337**	**131,294**	**547,043**	**562,509**

(1) due in less than one year: 3,251.
(2) due in over one year: 1,117.

LIABILITIES

(€ 000s)	Dec. 31, 2010	Dec. 31, 2009
EQUITY		
Share capital	39,886	39,291
Issue premium	205,704	199,672
Merger premium	8,252	8,252
Revaluation reserves	3,252	3,252
Unavailable reserves	2,262	2,262
Statutory reserve	3,442	2,860
Other reserves	34,108	32,837
Retained earnings	21	35
Net income for the year	14,624	11,641
Tax-regulated provisions	28	7
TOTAL A	**311,579**	**300,109**
PROVISIONS FOR LIABILITIES AND CHARGES		
Provisions for liabilities	37	11,502
Provisions for charges	70	48
TOTAL B	**107**	**11,550**
BORROWINGS [(1)]		
Bond issues	43,251	43,237
Borrowings from credit institutions [(2)]	4,256	28,459
Other borrowings	143,164	113,626
Trade payables and related accounts	847	874
Tax and social security liabilities	1,619	1,824
Other liabilities	24,591	46,618
ACCRUALS		
Prepaid income	1,214	1,920
TOTAL C	**218,942**	**236,558**
Foreign exchange translation gains D	16,415	14,292
TOTAL (A+B+C+D)	**547,043**	**562,509**

(1) due in over one year: 187,360 due in less than one year: 4,256.
(2) Including current bank loans and overdrafts: 3,770.

Notes to the balance sheet and income statement

Summary of the notes to the financial statements

Note 1	Accounting principles and methods	101
Note 2	Analysis and commentary	102
Note 3	Fixed assets	103
Note 4	Provisions	104
Note 5	Maturity schedule of assets and liabilities	104
Note 6	Information about related parties	105
Note 7	Revaluation reserve	105
Note 8	Accrued income and expenses	106
Note 9	Share capital	106
Note 10	Commitments	108
Note 11	Leases	109
Note 12	Employees	109
Note 13	Average headcount	109
Note 14	Analysis of tax expense	109
Note 15	Tax consolidation	110
Note 16	Translation adjustments	110
Note 17	Treasury shares	110
Note 18	Information about exceptional items	111
Note 19	Information about risk factors	111
Note 20	Consolidation	112

Note 1 Accounting principles and methods

The financial statements of Mersen SA for fiscal 2010 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.

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, 2010 rendered 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

Top-up 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.

Top-up pension obligations specifically related to the Group's senior managers are not recorded under provisions, but appear solely under off-balance sheet commitments.

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.

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% and additional age-related increases;
- changes in the actuarial assumptions are taken into account only outside the corridor;
- discounting to present value at a rate of 4.50%;
- 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 SA 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 bonus share allotments

The Company has put in place stock option and bonus 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 bonus 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 bonus 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 bonus share allotment plans for employees.

Note 2 Analysis and commentary

Income statement

Sales

Revenues (€820 thousand) primarily derive from services billed in France and abroad.

Operating income

The Company's operating loss came to €3,599 thousand, reflecting the impact of the holding company's operating costs.

Net financial income

The €18,325 thousand in net financial income represented a significant increase on the €16,961 thousand recorded in the previous fiscal year owing predominantly to the reduction in the cost of debt.

Exceptional items

The €1,242 thousand in net exceptional expense derived primarily from a dispute and the costs incurred as a result of a change in the Company's name.

Income tax

The Company recorded a 2010 income tax benefit of €1,140 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 decrease in the net value of €3,899 thousand was triggered by the redemption of loans and advances to participating interests, which was offset partly by further selective acquisitions.

Debt

The Company's total net debt rose by €15,300 thousand in the fiscal year to December 31, 2010.

(€ 000s)	Dec. 31, 2010	Dec. 31, 2009
Bank overdrafts	3,770	27,881
Bond issue	43,220	43,220
Other borrowings	142,976	113,406
Other financial liabilities [(1)]	23,257	37,626
Total debt	**213,223**	**222,133**
Cash and cash equivalents	(490)	(7,372)
Other receivables [(2)]	(52,788)	(58,667)
Marketable securities, cash and cash equivalents	**(53,278)**	**(66,039)**
Loans to subsidiaries	**(111,614)**	**(121,726)**
Other financial assets	**(4,447)**	**(5,784)**
o/w:	43,884	28,584
- due in over one year	72,880	32,859
- due in less than one year	(28,996)	(4,275)

(1) Financial advances received recognized under "Other financial liabilities".
(2) 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	0	0	8,778	8,744	14	0	8,758
Fixed assets in progress	0	0	0	0	0	0	0	0
TOTAL 1	**8,778**	**0**	**0**	**8,778**	**8,744**	**14**	**0**	**8,758**
Property, plant and equipment								
Buildings and technical installations	0	0	0	0	0	0	0	0
Other property, plant and equipment	372	1	0	373	274	19	0	293
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	**372**	**1**	**0**	**373**	**274**	**19**	**0**	**293**
Financial fixed assets								
Participating interests	467,480	23,151	0	490,631	106,896	15,265	0	122,161
Loans and advances to participating interests	121,924	29,357	39,377	111,904	0	0	0	0
Other fixed assets	5	0	0	5	0	0	0	0
Other financial assets	6,349	10,272	11,958	4,663	3	6	3	6
TOTAL 3	**595,758**	**62,780**	**51,335**	**607,203**	**106,899**	**15,347**	**3**	**122,243**
TOTAL	**604,908**	**62,781**	**51,335**	**616,354**	**115,917**	**15,380**	**3**	**131,294**

Note 4 Provisions

(€ 000s) Accounts	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	7	22	1	0	28
TOTAL 1	**7**	**22**	**1**	**0**	**28**
Provisions for liabilities and charges					
Foreign currency losses	740	37	740	0	37
Retirement indemnities	40	21	0	0	61
Long-service awards	8	1	0	0	9
Risk related to Ugimag	10,762	0	0	10,762	0
TOTAL 2	**11,550**	**59**	**740**	**10762**	**107**
Provisions for impairment					
in participating interests	106,896	15,265	0	0	122,161
in loans and advances to participating interests	0	76	0	0	76
in shares held in treasury	3	6	3	0	6
TOTAL 3	**122,620**	**15,347**	**3**	**0**	**122,243**
TOTAL	**118,456**	**15,428**	**744**	**10,762**	**122,378**

Owing to the increase in capital realized by Ugimag in 2010, the provisions for liabilities recorded in respect of this company was reversed and a corresponding allowance for impairment losses was set aside during the fiscal year.

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	111,904	290	111,614
Other financial assets	4,663	2,961	1,702
Trade receivables	485	485	0
Other receivables	54,293	53,176	1,117
Prepaid expenses	345	345	0
TOTAL	**171,690**	**57,257**	**114,433**

(€ 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	43,251	31	40,000	3,220
Borrowings from credit institutions	4,256	4,256	0	0
Other borrowings	143,164	189	142,975	0
Trade payables and related accounts	847	847	0	0
Tax and social security liabilities	1,619	876	504	239
Other liabilities	24,591	24,591	0	0
Prepaid income	1,214	792	422	0
TOTAL	**218,942**	**31,582**	**183,901**	**3,459**

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	111,828	0
Trade receivables	436	0
Other receivables	53,011	41
Borrowings from credit institutions	304	0
Other borrowings	61	0
Trade payables	64	0
Other liabilities	23,499	0
Financial expense	15,936	37
Financial income	36,738	9

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		290
Other financial assets		216
Other receivables		263
Cash and cash equivalents		231
TOTAL		**1,000**
2. Amount of accrued expenses included in the balance sheet items below		
Bond issues		31
Borrowings from credit institutions		189
Other borrowings		485
Trade payables and related accounts		250
Tax and social security liabilities		1,547
Other liabilities		1,122
TOTAL		**3,624**
3. Amount of prepaid income and expenses	**Expenses**	**Income**
Operating items	345	9
Financial items	0	1,205
TOTAL	**345**	**1,214**
4. Costs deferred over several periods		
Bond issuance expenses	679	
TOTAL	**679**	

Note 9 Share capital

Share capital

The share capital is made up of 19,942,777 fully paid-up shares each with a par value of €2. During 2010, 294,921 new shares derived from the dividend payable in shares, with 2,447 new shares issued as a result of the exercise of stock options allotted to certain options.

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 bonus 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 bonus shares, provided that they remain with the Group for a certain period of time.

Three stock option plans were 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 Supervisory Board each time that it makes use of the authorization.

Four bonus share allotment plans were set up on June 30, 2005, June 28, 2006, February 26, 2008 and February 11, 2009.

The bonus 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.

Characteristics/Assumptions	2003 stock option plan	2006 bonus share plan	2007 stock option plan	2008 bonus share plan	2009 stock option plan	2009 bonus share plan
Allotment date	May 14, 2003	June 28, 2006	July 25, 2007	February 26, 2008	February 11, 2009	February 11, 2009
Availability date	May 14, 2007	July 1, 2008	July 25, 2011	March 1, 2011	February 11, 2013	February 11, 2013
Expiration date	May 13, 2013	July 1, 2011	July 25, 2017	March 1, 2013	February 11, 2019	February 11, 2014
Adjusted exercise price *(€)*	19.68	0.00	53.10	0.00	17.53	0.00
Adjusted share price at allotment date *(€)*	20.48	40.07	52.35	27.48	17.95	17.95
Estimated life *(number of years)*	5.5	2	5.5	3	8	4
Volatility	40.6%	37.0%	30.9%	N/A	38.1%	N/A
Dividend per share (as a % of share price)	2.4	1.6	1.9	2.3	2.5	2.5
Risk-free interest rate	3.43%	3.86%	4.44%	N/A	3.26%	N/A
Exercise period *(number of years)*	4	2	4	3	4	4
Lock-up period *(number of years)*	0	3	0	2	0	0
Number of options/adjusted share allotments	140,294	17,975	177,877	21,567	366,581	53,900
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%	1.5%				
Estimated annual cancellation rate at year-end 2007	End of the plan	1.5%	1.5%			
Estimated annual cancellation rate at year-end 2008	End of the plan	1.5%	1.5%	1.5%		
Estimated annual cancellation rate at year-end 2009	End of the plan	1.5%	1.5%	1.5%	7.0%	2.5%
Estimated annual cancellation rate at year-end 2010	End of the plan	1.5%	1.5%	1.5%	7.0%	2.5%
% of shares/options acquired following satisfaction of the performance condition	66.7	100	100	100	100	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	17,440				
Estimate of the number of options/shares ultimately vested in 2007	82,089	17,440	155,321			
Estimate of the number of options/shares ultimately vested in 2008	82,089	17,440	155,321	20,919		
Estimate of the number of options/shares ultimately vested in 2009	88,481	16,478	167,442	20,919	274,222	48,708
Estimate of the number of options/shares ultimately vested in 2010	88,481	16,478	172,892	19,363	314,391	47,715
Valuation of options/shares *(€)*	7.24	38.80	15.58	25.67	6.11	16.24
Valuation as a % of the share price at grant	35.5%	96.9%	29.8%	93.4%	34.1%	90.5%

Statement of changes in equity

(€ 000s)	
Opening equity at January 1, 2010	**300,109**
Net income for the year	14,624
Change in tax-regulated provisions	21
Capital increases	7,008
Expenses related to capital increases	(204)
Net BSAR issuance expenses	(177)
Dividend payment	(9,802)
Closing equity at December 31, 2010	**311,579**

Note 10 Commitments

Commitments and contingencies

(€ 000s)	
Commitments given	
Guarantee for euro cash pooling agreement	16,000
Guarantee covering pension obligations at our Deutsche Carbone Germany subsidiary	600
Guarantee for the syndicated loan to Mersen Holding China	56,676
Mersen USA BN counterguarantee	9,000
Mersen Scotland Holytown Scottish industry ministry guarantee	2,904
Other guarantees and deposits	3,699
TOTAL	**88,879**
Commitments received	**0**
TOTAL	**88,879**

Other reciprocal commitments

(€ 000s)	
Reciprocal commitments given	
Currency hedges	23,524
Commodities hedges	659
TOTAL	**24,183**
Reciprocal commitments received	
Currency hedges	23,635
Commodities hedges	659
TOTAL	**24,294**

Other employee commitments

(€ 000s)	
Top-up pension plan covering senior managers belonging to the Executive Committee	
Present value of plan obligations at December 31, 2010	1,072
Fair value of assets held by AXA Assurances	(45)
TOTAL	**1,027**

Other commitments related to financial instruments

(€ 000s)	
Fair value of financial instruments at December 31, 2010	
Interest rate swaps	(1,570)
TOTAL	**(1,570)**

Note 11 Leases

The Company did not hold any finance leases in progress at December 31, 2010.

Note 12 Employees

Total payroll costs for tax purposes amounted to €934 thousand in 2010.

The compensation and benefits paid to officers and members of the Supervisory Board in respect of fiscal 2010 amounted to €1,246 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	14,726	0
Exceptional	(1,242)	0
Tax benefit received from subsidiaries consolidated for tax purposes		1,140

Increase and decrease in future tax liability

(En milliers d'euros)	Début exercice	Variation exercice	Fin exercice
Amortissements dérogatoires	(1)	(2)	(3)
Provisions pour retraites GPC	603	(31)	572
Provision rentes bénévoles	329	(33)	296
Résultat sur couverture à terme	(3)	3	0
Charge à payer contribution sociale solidarité	14	(7)	7
Congés payés	16	(4)	12
Indemnités de départ en retraite	40	21	61
Assiette de la dette ou du crédit futur(e) d'impôt (éléments significatifs)	998	(53)	945
Déficits fiscaux	45 826	1 349	47 175
Total	46 824	1 296	48 120
Taux d'impôt futur retenu	34,43 %		34,43 %
Montant créance future d'impôt	16 122		16 568

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	2,316	2,314		2
On miscellaneous borrowings	3,142	3,109		33
On other receivables and payables	2			2
TOTAL	**5,460**	**5,423**		**37**
Foreign currency translation gains (unrealized)				
On financial fixed assets	8,678	3,109		5,569
On miscellaneous borrowings	7,737	2,314	5,347	76
TOTAL	**16,415**	**5,423**	**5,347**	**5,645**

A provision for liabilities for currency losses of €37 thousand was set aside at December 31, 2010.

Note 17 Treasury shares

Pursuant to the liquidity agreement entered into with Exane-BNP Paribas, the Company held 26,434 treasury shares at December 31, 2010.

Note 18 Information about exceptional items

Exceptional income

(€ 000s)	
Management transactions	
Restructuring, professional fees and expenses	265
SUB-TOTAL	**265**
Capital transactions	
Gains on the sale of treasury shares	389
SUB-TOTAL	**389**
Reversals of depreciation, amortization and charges to provisions	1
SUB-TOTAL	**1**
TOTAL	**655**

Exceptional charges

(€ 000s)	
Management transactions	
Professional fees and expenses related to disposal of automobile business	111
Professional fees and expenses related to EU fine	357
Professional fees and expenses related to change in corporate name	516
Becquet-BVO dispute	810
GPC pensions for non-active workers	43
SUB-TOTAL	**1,837**
Capital transactions	
Losses on the sale of treasury shares	38
SUB-TOTAL	**38**
Allowance for accelerated tax depreciation	22
SUB-TOTAL	**22**
TOTAL	**1,897**

Note 19 Information about risk factors

The financial risk management policy is approved by the Executive Committee 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 three 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.

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.

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 SA 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	Guarantees and sureties given
				Gross	Net			
Mersen France SB SAS	40,936	1,369	100	49,589	49,589			
Ugimag SA (France)	3,208	(278)	100	86,869	2,929			
Mersen France Amiens SAS	22,477	(1,723)	100	25,402	25,402			
Mersen France Gennevilliers SAS	19,896	2,273	100	19,896	19,896			
Mersen Corporate Services SAS (France)	3,574	606	100	3,646	3,646	457		
Mersen France PY SAS	17,321	5,807	100	17,321	17,321	1,090		
Mersen France Grésy SAS	461	(2,227)	100	1,681	1,681			
Boostec (France)	1,085	1,089	85.26	5,428	5,428			
Mersen Deutschland FFM AG (Germany)	10,021	15,983	10	1,635	1,635			600
Mersen Deutschland Holding GmbH & Co. KG (Germany)	28,700	(20,224)	100	28,700	5,917		414	
Mersen Argentina SA (Argentina)	230	407	97.99	962	807			
Mersen Oceania Pty Ltd (Australia)	837	4,188	100	702	702	1,028		
Mersen do Brasil Ltda (Brazil)	16,009	(7,427)	100	23,847	16,800			
Mersen Canada Dn Ltee/Ltd (Canada)	1,449	11,170	100	1,322	1,322	1,356		
Mersen China Holding Co Ltd (China)	72,306	981	100	68,608	68,608			17,003
Mersen Korea Co. Ltd (South Korea)	3,255	5,296	100	12,060	11,540			
Carbone Danmark A/S (Denmark)	67	(14)	100	528	528			
Mersen Ibérica SA (Spain)	2,404	2,903	66.68	680	680	125		
Mersen Ibérica Bcn SA (Spain)	2,043	426	100	2,396	2,396		1,355	
Mersen USA Bn Corp. (United States)	72,361	96,584	100	68,926	68,926	15,795	60,916	9,000
Mersen UK Holdings Ltd (United Kingdom)	7,235	(4,478)	100	903	903		6,390	
Mersen Scot. Holding Ltd (United Kingdom)	46,474	(1,339)	100	42,000	42,000		42,463	
Mersen Hellas SA (Greece)	91	(123)	100	638	0			
Carbone Lorraine Mauritius (Mauritius)	0	109	100	1,681	98			
Mersen India Pvt Ltd (India)	1,690	5,680	100	7,239	7,021			
Mersen Italia Spa (Italy)	2,500	1,049	99.99	4,590	4,590			
Mersen Fma Japan KK (Japan)	461	1,799	8.70	2,977	917	178		
Mersen Maroc	197	(300)	100	692	692			
Mersen Mexico Monterrey S. de R.L. de C.V. (Mexico)	849	175	100	731	731			299
Mersen South Africa Pty Ltd (RSA)	118	3,080	54.77	813	813	141		
Carbone Lorraine Singapore Holding PTE Ltd (Singapore)	871	(716)	100	1,065	57			
Mersen Nordic AB (Sweden)	223	422	100	551	551	578		
Mersen Istanbul Sanayi Urunleri AS (Turkey)	991	1,074	100	5,016	2,907	184		
Total figures (concerning the other subsidiaries and shareholdings)								
Subsidiaries (at least 50%-owned)								
in France				88	28			
outside France				1,232	1,229	81		
Shareholdings (10% to 50%-owned)								
outside France				217	180	10		1,381
Other shareholdings (less than 10%-owned)				**0**	**0**			
TOTAL				**490,631**	**368,470**	**21,023**	**111,538**	**28,283**

FIVE-YEAR FINANCIAL SUMMARY

	2010	2009	2008	2007	2006
1. Share capital at year-end					
Capital *(€ 000s)*	39,886	39,291	28,595	28,562	27,931
Number of shares outstanding	19,942,777	19,645,409	14,297,213	14,280,735	13,965,475
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	18,560	(12,862)	17,580	10,259	21,054
Income tax	(1,140)	(641)	(7,376)	(3,379)	(4,312)
Employee profit-sharing	0	0	0	0	0
Net income after tax, depreciation, amortization and charges to provisions	14,624	11,641	12,770	8,310	9,445
Total earnings paid out	14,957	9,822	8,864	12,138	11,871
3. Overall result of operations per share *(€)*					
Net income after tax and employee profit-sharing, but before depreciation, amortization and provisions	0.95	(0.62)	1.75	0.95	1.82
Net income after tax, depreciation, amortization and provisions (1)	0.73	0.59	0.89	0.58	0.68
Dividend paid on each share	0.75	0.50	0.62	0.85	0.85
4. Employees					
Average headcount	5	6	6	6	6
Total payroll costs *(€ 000s)*	1,400	2,967	2,145	1,693	2,375
Amount paid for welfare benefits *(€ 000s)*	418	700	565	329	584

(1) Net income after tax and employee profit-sharing, but before depreciation, amortization and provisions was negative in 2009 because it reflects 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.

Statutory Auditors' report on the financial statements - Fiscal year ended December 31, 2010

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, 2010, 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, 2010, 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.C 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 Management Board members 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 the percentage interests and voting rights held by shareholders and their identity.

The Statutory Auditors

Paris La Défense, March 15, 2011
KPMG Audit ID

Catherine Porta
Partner

Neuilly-sur-Seine, March 15, 2011
Deloitte & Associés

Joël Assayah
Partner

Legal and financial information

Risk management	118
General information about the share capital	123
Corporate governance	134
Compensation and benefits in kind	141
Report by the Chairman of the Supervisory Board	149
Statutory Auditors' report	158
Statutory Auditors' report on related-party agreements	159

6

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 carried out in 2001 and updated in 2005 and then 2008. At the request of the Audit and Accounts Committee, a decision was made to update this risk mapping survey on an annual basis. Accordingly, the Group carried out an update of its 2008 risk mapping in 2010. This revised survey did not reveal any major risks that were not sufficiently controlled. It helped to update the action plans required for proper control of all the Group's risks. It 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 reduce the risks identified in the mapping survey conducted in 2008 and launched an action plan for the risks that emerged in the 2010 mapping. Some of these action plans were completed, while others are still underway. These initiatives focused primarily on:

- an update of the Group's major scenarios depending on changes in the scope of consolidation and changes in the size of certain of its units. The update of these scenarios helps to take into account the changes made and to validate the measures implemented to mitigate risks.
- implementation of a Group instruction concerning kilns and items to be taken into account to reduce as far as possible the risk arising from the use of this type of equipment.
- the launch of a more detailed mapping survey of the various risks by category for each of the Group's major facilities. This mapping survey will pave the way for implementation during 2011 of the targeted action plans and more specifically in relation to the nature of the risks detected.
- the registration of products subject to the European REACH regulations, chiefly graphite.

During 2010, the Group registered the products subject to the REACH regulations, chiefly graphite. It also continued to monitor the progress made by its suppliers with REACH registrations concerning certain strategic substances used in 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 Group continues its program of implementing carbon footprint reviews at its significant facilities. These carbon footprints are used to draft action plans to reduce the environmental impact of its activities. This work will also help the Group to reach conclusions at other facilities and thus to benefit from a leverage effect. 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 soil samples with the regulations in force on a regular basis. The 2010 update led to the detection of a limited soil pollution issue at a plant that has been active for a century. This pollution is attributable to processes and products used more than 20 years ago at the facility, before it was part of 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. Taking these factors into account, the Group opted to set aside a provision for pollution abatement costs in its 2010 consolidated financial statements to uphold the conservatism principle.

The Group is also working on developing the eco-design of its products. Several initiatives and projects are currently in progress (see Chapter 3 on "Sustainable development")

→ Information system 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, it:

- developed a cross-audit tool and trained a group of auditors in North America. Cross-audits are expected to be expanded in the region during 2011. A similar type process is likely to be initiated during 2011 in Asia;
- continued to develop central control systems helping to verify remotely that the Group's rules are applied properly;
- conducted network audits;

Work on updating the Group's rules conducted during 2009 was made available to employees via the Group's intranet in early 2010. A self-assessment tool, which was also put online at the same time, can now be used by units to assess themselves with respect to the Group's standards and to make a contribution to the improvement of information system security.

From a more global perspective, the purchasing teams achieved 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;
- employing equipment and purchasing goods and services that reduce greenhouse gases and power consumption in general.

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).

→ 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 enjoying a dominant position so that it can protect its purchases of the most sensitive materials over the long term.

→ 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 15% of the Group's consolidated sales.

PROPORTION OF SALES DERIVING FROM THE GROUP'S PRINCIPAL CUSTOMERS

(€ 000s)	2010		2009	
	Volume of sales	% Percentage of sales	Volume of sales	% Percentage of sales
With the Group's leading customer	20,687	2.8	14,001	2.4%
With the Group's top 5 customers	77,277	10.4	57,136	9.7%
With the Group's top 10 customers	118,028	15.9	88,434	15.1%

→ 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, Colombia and Turkey. These unconsolidated subsidiaries potentially represent a risk, albeit a very modest one given their size, since their sales totaled less than €7.9 million in 2010.

In China, 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 insurance policies were 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 2010 in respect of its civil liability, environmental and civil aviation insurance program came to €671,600.

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 2010 in respect of this insurance program came to €888,337.

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. The total premiums paid by the Mersen group during fiscal 2010 in respect of this insurance program came to €41,310.

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 2011 were adjusted. All the Group's other insurance policies remained unchanged by comparison with the previous year.

Labor risks

The Company pays particular attention to the quality of its labor relations and to the development of dialog with employees and unions. For example, union representatives, labor 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;
- 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.

Taking these factors into account, a streamlining and industrial retraining plan was drawn up for the Amiens plant. This plan consisted in gradually transferring the CLAE's automobile operations to two other plants and initiating substantial investments to increase its research and development capabilities and the volume of rail collection business.

This plan continues to be implemented by Midmark, which purchased the Automobile and household electrical appliance brush division.

In parallel to this industrial plan, a training, reskilling and retraining plan was launched. Its goal is 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 is aiming to protect a total of 134 jobs in this manner. To date, 36 months after the project began, 90% of the affected employees have already been retrained.

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.

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). Tutoring was also organized at various facilities in France, with seniors training employees in key jobs.

In general terms, a review of the competencies that the Group will need over the next few years was carried out for each division 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 its workforce is also a key aspect of our 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 should 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).

A project is currently being negotiated concerning the prevention of psycho-social risks. To back it up, a survey of the 1,600 employees of the French facilities was held to gain insight into the difficulties affecting their professional lives. All employees and particularly blue-collar workers played a full part in this survey.

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 (p. 64).

Interest-rate risk

Interest-rate risks are addressed in the "Interest-rate risks" section of Note 3 to the consolidated financial statements (p. 63)

Commodity risks

Commodity risks are addressed in the "Commodity risks" section of Note 3 to the consolidated financial statements (p. 63).

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 (p. 62).

Equity risks

At December 31, 2010, the Group held 26,434 shares in treasury worth €1.1 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 contributes 2.8% of sales.

Litigation

Appeal procedure in Europe

The appeal procedure launched by Mersen during February 2004 in the EU Court of First Instance against the fine imposed by the European Commission in December 2003 for anti-trust practices in brushes for electric motors and products for mechanical applications came to a definitive end on November 12, 2009, when the European Court of Justice dismissed the appeal lodged by Mersen in December 2008 and confirmed the €43.05 million fine meted out by the European Commission in 2003. A partial payment of €20 million had been made by Mersen in 2005 to reduce the expenses incurred over the protracted proceedings. The remaining balance of the fine and associated interest was paid in two installments during 2010.

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 paid by Morgan Crucible Ltd in July 2004 for anti-trust practices for the 1995-98 period in the field of graphite brushes for traction applications. No new developments occurred in 2010. 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 (Canada)) remains non-material.

Civil proceedings in the United Kingdom

Mersen and one of its subsidiaries in the United Kingdom was again summoned to appear before the CAT (Competition Administrative Tribunal) in September 2010. 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 and Schunk. In April 2008, the CAT handed down a ruling rejecting the claims for compensation against Mersen, stating that no claim for compensation could be brought against the Company while the appeal procedure by the Company before the EU Court of First Instance or the Court of Justice of the European Union was still in progress.

Through these proceedings in the UK, 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 the allegations presented by the plaintiffs and filed detailed pleadings in November 2010 requesting the dismissal or rejection of these CAT proceedings on the grounds they have no legal basis.

In December 2010, the Deutsche Bahn group announced that it was taking legal action against Morgan, SGL, Schunk and Mersen in the CAT (Competition Administrative Tribunal), together with other European rail companies. Through these new proceedings in the UK, the plaintiffs are attempting to secure redress before 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 was informed of these new proceedings during February 2011.

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 was launched to determine the exact circumstances and causes of this accident, as well as any criminal responsibilities. The criminal investigation is still in progress.

Based on the information available, the requisite provisions have been set aside for all the identified litigation proceedings 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.

GENERAL INFORMATION ABOUT THE SHARE CAPITAL

Conditions

Changes in the share capital and the respective rights of the various classes of shares are made in accordance with the provisions laid down in law.

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

At December 31, 2010, the share capital amounted to €39,885,554 divided into 19,942,777 shares, each with a par value of €2 and belonging to the same category.

Authorizations to carry out a capital increase

Combined General Meeting of December 12, 2008

Issue of share issuance rights (BEAs)

Shareholders at the Combined General Meeting authorized the issue of share issuance rights (BEAs), on one or more occasions during a period of 18 months, to Société Générale, which will then be bound to subscribe the new ordinary shares in the Company at the latter's request, it being specified that the issue of shares may take place at any time during the two-year (2) period following the issue of BEAs. The nominal amount of new shares that may be carried out by exercising the BEAs may not exceed €5 million, it being stipulated that this nominal amount may be increased, where appropriate, by the nominal amount of shares to be issued to protect the rights of holders of securities conferring rights to the Company's shares. The unit subscription price for the BEAs was set at €0.01 (zero point zero one euros) and the unit price for the subscription of ordinary shares issued through exercise of the BEAs is determined based on the average share price weighted by trading volumes of the Company's ordinary shares over the three session period immediately preceding exercise of the BEAs, less a discount not exceeding 10%.

On December 12, 2008, the Board decided to issue immediately 2,500,000 BEAs to Société Générale at a unit price of €0.01. The BEAs were fully subscribed by Société Générale on December 17, 2008. This issue of BEAs was presented in an offering circular approved by the Autorité des Marchés Financiers under no. 08-271 dated December 5, 2008.

During May and June 2009, the Company drew three successive tranches of 400,000 shares. These three tranches were issued respectively at a price per share of €20.35 for the first, €19.66 for the second and €17.62 for the third. All in all, the Company issued 1,200,000 new shares, representing 8.4% of its initial share capital and raising a total of €22.3 million.

This authorization expired on June 12, 2010.

Grant of stock subscription or purchase options

Shareholders at the Combined General Meeting of December 12, 2008 also authorized the Board of Directors to grant officers and employees of the Company and its subsidiaries options entitling them to subscribe new shares in the Company. The maximum number of new shares that may be issued through the exercise of options granted is capped at 340,000 shares, each with a par value of €2. Claude Cocozza, the former Chairman and Chief Executive Officer, the beneficiaries of bonus share allotments referred to in the Fifth Resolution of this General Meeting, as well as officers and employees of the Company and of affiliated companies holding over 10% of the Company's share capital, are excluded from receiving the options referred to in this authorization. The subscription or purchase price of the shares covered by the options will be determined by the Board of Directors, with no discount, in accordance with the legislation in force on the day of grant of the options subject to the restrictions provided for in Articles L. 225-177 and L. 225-179 of the French Commercial Code. This authorization is valid for a period of 36 months. It replaced and superseded the previous authorization granted by the Combined General Meeting of May 24, 2007.

During its meeting on January 22, 2009, the Board decided pursuant to this authorization to award 38 of the Group's senior managers, including two Management Board members in the person of Ernest Totino and Luc Themelin, options entitling the grantee to subscribe 340,000 of the Company's shares. The Board set the terms and conditions for the issue of these stock options. It notably set the subscription price at €18.90, as well as the terms and performance criteria to be satisfied before the options can be exercised. These options may be exercised only subject to attainment of growth targets for earnings per share (which may be altered by the Board in exceptional circumstances) over the 2008 to 2011 fiscal years. The percentage of options that may be exercised will be determined by applying two criteria, with the most favorable criterion of i) growth in the Company's EPS of between

1 or 2 times the value of 2007 EPS, or ii) growth in the Company's EPS by comparison with the average of EPS of a sample of listed companies in the SBF 120, being used.

Bonus share allotments

Shareholders authorized the Board of Directors to allot shares in the Company at no cost to the Company's officers or employees or those of affiliated companies, or certain categories thereof. The total number of shares that may be granted pursuant to this authorization may not exceed 50,000, which currently represents around 0.3% of the share capital. The authorization is valid for a period of 38 months. The Company's Management Board members and beneficiaries of the stock subscription and purchase options, as well as officers and employees of the Company and affiliated companies holding over 10% of the Company's capital or set to hold more than 10% of the Company's capital as a result of the bonus share allotment, are excluded from receiving the bonus share allotments. This authorization replaces and supersedes the previous authorization granted by the Combined General Meeting of May 24, 2007.

At its meeting on January 22, 2009, the Board decided to grant 50,000 shares free of charge to 50 of the Group's executives pursuant to this authorization. The Board set a vesting period of four years. In addition, the grant is conditional upon the continued employment of the beneficiaries until the end of the vesting period. No holding obligations and periods are imposed at the end of the vesting period.

Combined General Meeting of May 19, 2009

Increase in the capital with preferential subscription rights for shareholders

At the General Meeting on May 19, 2009, shareholders authorized the Management Board to issue ordinary shares and any securities conferring rights to the capital, with preferential subscription rights for shareholders, through the capitalization of share 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 these authorizations may not exceed €10 million. This authorization is valid for 26 months. This authorization replaced and superseded the authorization granted by the Combined General Meeting of May 24, 2007, which had not been used. At its meeting on September 15, 2009, the Management Board decided to carry out an issue of new shares with preferential subscription rights for shareholders for a maximum nominal amount of €7.6 million. On October 19, 2009, the Management Board formally noted that 3,730,044 shares each with a par value of €2, had been issued at the end of the subscription period.

Capital increase reserved for employees participating in the Group Investment Plan

Shareholders authorized the Management Board at the General Meeting on May 19, 2009 to increase the share capital, 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 €300,000, i.e. approximately 1% of the Company's share capital.

It replaces and supersedes the previous authorization granted by the Combined General Meeting of December 12, 2008.

At its meeting on September 24, 2009, the Management Board decided to offer employees of its European and North American subsidiaries the option of acquiring 75,000 new shares at a price of €17.67. On December 15, 2009, the Management Board formally noted that 62,668 shares each with a par value of €2, had been issued at the end of the subscription period.

Combined General Meeting of May 20, 2010

Payment of the dividend in shares

The General Meeting of May 20, 2010 decided to offer each shareholder the option of receiving payment of the entire dividend for shares owned in new shares of the Company.

At its meeting on May 20, 2010, the Management Board set the issue price for the new shares at €23.60, which corresponded to 90% of the average opening price of the Company's share on Euronext in the 20 stock market sessions preceding the General Meeting, less the amount of the dividend. On July 2, 2010, at the end of the period during which the option was available, the Management Board formally noted that 13,740,074 rights were reinvested in the new shares of the Company and decided to issue 294,921 new shares each with a par value of €2.

Increases in the capital with preferential subscription rights for shareholders

The General Meeting authorized the Management Board, subject to the Supervisory Board's prior approval, to issue shares or securities conferring rights immediately and/or in the future to the Company's share capital, through the 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.

Capital increase reserved for employees participating in the Group Investment Plan

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 €390,000, i.e. approximately 1% of the Company's share capital. This authorization is valid for a period of 26 months. To date, it has not been used by the Company. It replaces and supersedes the previous authorization granted by the Combined General Meeting of May 19, 2009.

Capital increase through the issuance of redeemable stock subscription or acquisition warrants (BSARs)

The Annual General Meeting delegated powers to the Management Board, which may opt to sub-delegate these under the terms of law and the regulations, to increase the share capital through the issuance on one sole occasion the redeemable stock subscription or acquisition warrants (2010 BSARs). The 2010 BSARs will be issued solely to holders of the 2007 BSARs in exchange for securities tendered to the Company under a simplified exchange offer without preferential subscription rights for shareholders to the shares to be issued through the exercise of the 2010 BSARs. The holders of the 2007 BSARs are the holders of the Company's redeemable stock subscription or acquisition warrants, which were detached from the bonds with redeemable stock subscription and/or acquisition warrants issued on November 22, 2007 and were the subject of a prospectus approved by the Autorité des Marchés Financiers under visa no. 07-350 dated October 9, 2007.

The maximum nominal amount of the capital increases to be carried out pursuant to this delegation of powers was set at €246,240, representing a total number of 123,120 shares with a par value of €2, with this amount not taking into account additional shares that may be issued to protect the rights of the 2010 BSAR holders. The price of the shares to be issued via a 2010 BSAR may not be any lower than 150% of the average closing price of Mersen shares on the Eurolist market in Compartment B of Euronext Paris SA over the 40 trading sessions preceding the meeting of the Management Board approving the terms of issuance of the 2010 BSARs.

At its meeting on May 20, 2010, the Management Board laid down the arrangements and characteristics of a simplified public exchange offer for all the 2007 BSARs in issue in return for 2010 BSARs with a lower exercise price and a longer maturity date.

At its meeting on July 15, 2010, the Management Board, based on the results of the offer as communicated by the Autorité des marchés financiers (Information bulletin 210C0631), formally noted that the definitive number of 2007 BSARs tendered was 113,771 and decided to issue 103,331 2010 BSARs.

Issuance of stock subscription warrants to be granted at no cost to shareholders in the event of a public offer for the Company's shares

The Annual General Meeting delegated powers to the Management Board to decide to issue, on one or more occasions, and subject to the prior approval of the Supervisory Board, called to approve based on a positive prior and compliant opinion of a committee comprising three (3) independent members specially appointed by the Supervisory Board to this end, warrants enabling them to subscribe on preferential terms the Company's shares and the allotment free of charge to all the Company's shareholders with this status prior to the expiry of the public offer. The total nominal amount of the capital increase resulting from the exercise of these subscription warrants may not exceed 25% of the nominal amount of the share capital. This authorization states that the Management Board will have to report, at the time of the issue, on the circumstances and reasons why it believes that the offer is not in the interests of the shareholders and justify the issuance of the warrants, as well as the financial and legal terms of the warrants. They will automatically become null and void when the offer and any rival offer fail, become null and void or are withdrawn. The delegation of powers to the Management Board is valid for any issue of stock subscription warrants as part of a public offer filed within a period of eighteen (18) months after the May 20, 2010 Annual General Meeting. To date, this authorization has not been used by the Company.

SUMMARY OF CHANGES IN THE SHARE CAPITAL

Dates	Description of the transaction	Share capital following the transaction	Share premium	Total number of shares after the transaction
Dec. 31, 2001	Issue of 18,729 new shares each with a par value of €2 through the exercise of subscription options	22,256,924	292,041	11,128,462
Dec. 31, 2002	Issue of 10,688 new shares each with a par value of €2 through the exercise of subscription options	22,278,300	180,704	11,139,150
Nov. 27, 2003	Issue of 3,750 new shares each with a par value of €2 through the exercise of subscription options	22,285,800	63,512	11,142,900
Dec. 23, 2003	Issue of 54,990 new shares each with a par value of €2 as a result of the capital increase reserved for employees	22,395,780	1,110,798	11,197,890
April 15, 2004	Issue of 2,000 new shares each with a par value of €2 through the exercise of subscription options	22,399,780	30,520	11,199,890
Aug. 20, 2004	Issue of 2,500 new shares each with a par value of €2 through the exercise of subscription options	22,404,780	38,150	11,202,390
Oct. 19, 2004	Issue of 2,489,420 new shares each with a par value of €2 through a capital increase in cash with preferential subscription rights for shareholders	27,383,620	58,003,486	13,691,810
Dec. 16, 2004	Issue of 46,328 new shares each with a par value of €2 as a result of the capital increase reserved for employees	27,476,276	1,176,731	13,738,138
Dec. 31, 2004	Issue of 17,439 new shares each with a par value of €2 through the exercise of subscription options	27,511,154	254,261	13,755,577
Dec. 31, 2005	Issue of 85,775 new shares each with a par value of €2 through the exercise of subscription options	27,682,704	1,829,333	13,841,352
June 28, 2006	Issue of 44,494 new shares each with a par value of €2 as a result of the capital increase reserved for employees	27,771,692	1,388,213	13,885,846
Dec. 31, 2006	Issue of 79,629 new shares each with a par value of €2 through the exercise of subscription options	27,930,950	2,219,832	13,965,475
July 25, 2007	Issue of 30,900 shares each with a par value of €2 through the grant of bonus shares	27,992,750	1,721,748** unavailable reserves	13,996,375
Sept. 11, 2007	Issue of 200,191 new shares each with a par value of €2 through the exercise of subscription options	28,393,132	6,627,591	14,196,566
Dec. 17, 2007	Issue of 44,094 new shares each with a par value of €2 as a result of the capital increase reserved for employees	28,481,320	1,931,317	14,240,660
Jan. 24, 2008	Issue of 40,075 new shares each with a par value of €2 through the exercise of subscription options	28,561,470	1,254,681	14,280,735
July 24, 2008	Issue of 16,478 shares each with a par value of €2 through the grant of bonus shares	28,594,426	540,478** unavailable reserves	14,297,213
May 26, 2009	Issue of 400,000 shares, each with a par value of €2, resulting from the exercise of 400,000 share issuance rights	29,394,426	7,340,000	14,697,213
June 11, 2009	Issue of 400,000 shares, each with a par value of €2, resulting from the exercise of 400,000 share issuance rights	30,194,426	7,064,000	15,097,213
June 25, 2009	Issue of 400,000 shares, each with a par value of €2, resulting from the exercise of 400,000 share issuance rights	30,994,426	6,248,000	15,497,213
July 7, 2009	Issue of 355,484 shares, each with a par value of €2, resulting from the payment of the dividend in shares	31,705,394	5,822,827	15,852,697
Oct. 19, 2009	Issue of 3,730,044 new shares each with a par value of €2 through a capital increase in cash with preferential subscription rights for shareholders	39,165,482	55,950,660	19,582,741
Dec. 15, 2009	Issue of 62,668 new shares each with a par value of €2 as a result of the capital increase reserved for employees	39,290,818	982,007	19,645,409
July 2, 2010	Issue of 294,921 share each with a par value of €2 as a result of the capital increase resulting from the right to elect for payment of the dividend in shares	39,880,660	6,370,293	19,940,330
Sept.-Oct. 2010	Issue of 2,447 shares each with a par value of €2 as a result of the exercise of stock subscription options by employees	39,885,554	43,263	19,942,777

Voting right certificates

None.

Investment certificates

None.

Shares pledged

None.

Shareholders' agreement

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

Securities conferring rights to the share capital

The stock options still to be exercised at December 31, 2010, after taking into account cancellations, entitle their holders to acquire a total of 583,236 shares, each with a par value of €2.

The BSAR warrants that may be exercised at December 31, 2010 entitle their holders to acquire a total of 103,331 new shares, each with a par value of €2.

The total number of bonus shares likely to be granted definitively stands at 71,908 new shares, each with a par value of €2, representing 0.36% of the current share capital.

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

Based on the number of stock subscription options, BSAR warrants that may be exercised by BSAR grantees and the shares that may be definitively granted, the maximum dilution would be 3%.

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

Ownership of the share capital

The Company's share capital at December 31, 2010 amounted to €39,885,554, comprising 19,942,777 shares each with a par value of €2 and all belonging to the same category.

The number of voting rights stands at 19,942,777.

At December 31, 2010, 26,434 shares representing 0.13% 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 2010. The Company did not hold any other of its own shares at this date.

No shares carry double voting rights.

The number of stock subscription options granted to members of the Management Board and still outstanding stood at 156,968 taking into account the canceled options.

Furthermore, no public tender or exchange offer, 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 offers 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 of the 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 restricting the effects of such a disposal on the Company's share price.

The agreement is due to expire on June 30, 2012. It will automatically expire ahead of this date when AXA Capital crosses below the threshold of 10% of Mersen's share capital and voting rights. If the agreement ends early, the arrangements for an orderly sale of the Mersen shares will remain in force until June 30, 2012.

Share ownership thresholds crossed

February 5, 2010: Via the Fonds Stratégique d'Investissement (FSI), Caisse des Dépôts et Consignations crossed indirectly above the 10% threshold, indirectly holding 1,966,279 shares (including 1,106,601 via FSI), i.e. 10% of the share capital and voting rights (including 5.63% via FSI).

March 4, 2010: Columbia Wanger Asset Management declared that it holds 1,054,050 shares on behalf of five customers, i.e. 7.37% of the share capital and voting rights.

April 22, 2010: Credit Suisse Group declared that it holds 350,341 shares or 1.7834% of the share capital and voting rights.

April 26, 2010: Credit Suisse Group crossed below the 1% threshold, holding 149,904 shares or 0.7631% of the share capital and voting rights.

May 1, 2010: Ameriprise Financial Inc crossed above the 5% mark and declared that it holds 1,558,625 shares indirectly via Columbia Management Investment Advisors LLC and Columbia Wanger Asset Management LLC (including 96,025 via Columbia Management Investment Advisors and 1,462,600 via Columbia Wanger Asset Management), i.e. 7.934% of the share capital and voting rights (including 0.489% via Columbia MIA and 7.445% via Columbia Wanger Asset Management).

May 18, 2010: Ameriprise Financial Inc crossed above the 8% threshold, holding 1,586,669 shares or 8.077% of the share capital and voting rights.

CHANGES IN OWNERSHIP OF THE SHARE CAPITAL

	Dec. 31. 2010			Dec. 31. 2009			Dec. 31. 2008		
Shareholders	Number of shares	% of the share capital	% of voting rights	Number of shares	% of the share capital	% of voting rights	Number of shares	% of the share capital	% of voting rights
Free float, o/w	19,916,343			19,603,222			14,237,692		
- French institutional investors	7,897,940	39.6%	39.6%	7,569,248	38.5%	38.5%	5,096,348	35.7%	35.7%
- individual shareholders	3,358,122	16.9%	16.9%	4,148,926	21.1%	21.1%	4,010,561	28%	28%
- employee shareholders	257,912	1.3%	1.3%	273,095	1.4%	1.4%	202,559	1.4%	1.4%
- international institutional investors	8,402,369	42.1%	42.1%	7,611,953	38.8%	38.8%	4,928,224	34.5%	34.5%
Treasury shares (liquidity agreement)	26,434	0.1%	0.1%	42,187	0.2%	0.2%	59,521	0.4%	0.4%
TOTAL	19,942,777	100%	100%	19,645,409	100%	100%	14,297,213	100%	100%

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

Management and Supervisory board members hold 25,847 registered shares, and management board members hold 4,936 shares via the Mersen FCPE (corporate mutual fund), representing a total of 0.1% of the share capital. The Company held a total of 26,434 of its own shares at December 31, 2010 under a liquidity agreement complying with the AFEI's charter.

Market in the Company's shares

Shares are admitted for trading on the Premier Marché of the Paris Stock Exchange and are eligible for the SRD (Deferred Settlement) service. Mersen shares are a constituent of the SBF 120, CAC Mid100 and the Next 150 indices.

A total of 19,942,777 shares are listed on the market.

Mersen shares	Number of shares traded *(In units)*	Capital traded *(In millions of euros)* [(1)(3)]	High/low [(2)(3)] High *(€)*	Low *(€)*
2009				
January	1,526,857	26.71	19.84	16.61
February	607,237	10.31	19.62	15.62
March	866,994	13.77	18.20	14.23
April	843,780	15.45	20.06	15.55
May	574,256	11.65	21.46	18.66
June	543,619	10.47	20.83	17.42
July	720,906	12.92	19.15	17.45
August	864,397	16.99	20.86	18.44
September	2,127,665	49.19	24.60	19.39
October	1,919,231	48.81	28.20	22.50
November	1,024,463	24.76	25.30	22.80
December	866,933	21.46	25.95	23.30
2010				
January	654,711	17.03	27.80	24.17
February	552,088	13.42	25.60	23.35
March	581,287	14.98	27.25	23.71
April	572,324	15.79	28.55	26.20
May	564,541	14.66	27.05	23.95
June	356,833	9.90	29.27	25.60
July	313,654	8.58	28.51	26.45
August	270,368	7.73	29.5	27.01
September	520,859	15.31	32.76	26.81
October	393,151	12.59	32.94	32.3
November	343,360	10.88	34.50	31.07
December	435,250	14.80	35.38	31.12
2011				
January	427,390	14.88	38.55	32.64
February	521,420	19.66	40.00	35.55

Source: Euronext.
(1) Based on the monthly average share price.
(2) Based on monthly intra-day highs and lows.
(3) Data adjusted following the capital increase.

	Nbr of shares at year-end	Earnings per share (€) Dividend	Share price (€) High	Low	Last	Overall yield based on year-end share price
2006	13,965,475	0.85	51.00	36.55	42.65	2.0%
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%

Dividend 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 2010, the 3rd resolution of the Combined General Meeting of May 19, 2011 provides for payment of a dividend of €0.75 per share, subject to shareholders' approval.

Description of the stock repurchase program submitted for shareholders' approval at the Combined General Meeting of May 19, 2011

In accordance with Articles 241-1 *et seq.* of the General Regulation of the Autorité des Marchés Financiers, as well as EC regulation 2273/2003 of December 22, 2003, which entered force on October 13, 2004, this information memorandum is intended to present the objectives and arrangements for the renewal of the stock repurchase program, as well as its expected impact on the Company's shareholders.

SUMMARY OF THE PRINCIPAL CHARACTERISTICS OF THE PROGRAM

Issuer: MERSEN.

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

Maximum percentage of the capital authorized for repurchase by shareholders at the General Meeting: 10%.

Maximum acquisition price per share: €80.

Aims of the program in order of priority:

- **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 L. 225-197-1 to L. 225-197-3;**
- **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: 18 months from Combined General Meeting of May 20, 2010 until the date of the General Meeting convened to approve the financial statements for fiscal 2010.

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 20, 2010 in connection with the previous stock repurchase program to stabilize the share price. At December 31, 2010, 26,434 shares were held under this liquidity agreement.

The Company did not use any derivatives.

SUMMARY STATEMENT

ISSUER'S DECLARATION OF TRANSACTIONS IN ITS OWN SHARES BETWEEN MAY 20, 2010 AND DECEMBER 31, 2010

Percentage of the share capital held directly and indirectly	0.13%
Number of shares canceled over the previous 24 months	None
Number of shares held in the portfolio	None
Carrying amount of the portfolio	None
Market value of the portfolio	None

	Total gross cash flows		Open interest on the filing date of the 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 instruments	None							
Average maximum life			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, the Company has entrusted Exane-BNP Paribas (independent services provider) with implementing a liquidity agreement in accordance with the AFEI's charter approved by the Autorité des Marchés Financiers for an automatically renewable period of one year. The funds and shares made available pursuant to this agreement and credited to the liquidity account on February 25, 2005 comprised €2,200,000 and no shares.

II - Objectives of the stock repurchase program

Mersen wants to be able to implement a program to repurchase its own shares pursuant to the authorization submitted for approval by shareholders at the Combined General Meeting on May 19, 2011.

Share 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 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 L. 225-197-1 to L. 225-197-3;
- 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 conforms to the provisions of Articles L. 225-209 *et seq.* of the French Commercial Code, as well as EC Regulation no. 2273/2003 of December 22, 2003, implementing the Market Abuse Directive 2003/6/EC of January 28, 2003, which entered force on October 13, 2004. It will be submitted for shareholders' approval at the Combined General Meeting of May 19, 2011, deliberating in accordance with the quorum and majority voting requirements for Ordinary General Meetings. The corresponding resolution to be proposed by the Management Board is worded as follows:

Purchase of Mersen shares

After hearing the Management Board's report and having familiarized itself with the description of the stock repurchase program, the General Meeting authorizes the Management Board under the conditions stipulated in Article L. 225-209 *et seq.* of the French Commercial Code 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 1,994,277 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 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 L. 225-197-1 to L. 225-197-3;
- 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 €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 €159,542,160.

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 2011. In no case whatsoever will this authorization remain valid for more than 18 months. It replaces and supersedes the previous authorization granted by the Combined General Meeting of May 20, 2010.

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. 1,994,277 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. €80 per share, would be €159,542,160.

The Company's discretionary reserves, as stated under liabilities in the most recent annual financial statements prepared and certified at December 31, 2010, amounted to €248,076 thousand. Pursuant to law, the size of the stock repurchase program may not exceed this figure ahead of the December 31, 2011 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

Stock repurchases, sales and transfers may take place at any time within the restrictions 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 acquisitions of blocks of shares.

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

3) Schedule for the program

These stock repurchases may take place only after the approval of the corresponding resolution to be presented to the Combined General Meeting of May 19, 2011 and until the date of the General Meeting convened to approve the financial statements for 2011. In no case whatsoever will this authorization remain valid for more than 18 months.

4) Financing for the stock repurchase program

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

As a guide, net cash from operating activities before capital expenditures came to €97.5 million at December 31, 2010. Equity attributable to the Group's shareholders stood at €480.8 million, and net debt at €220.1 million.

V - Presentation of the likely impact of the stock 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, 2010.

The other assumptions were as follows:

- interest expense estimated at the gross annual rate of 3.5%;
- a unit repurchase price of €37.3581, the average closing price for sessions between January 19 and February 16, 2011;
- theoretical tax rate: 33%.

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

In millions of euros	Consolidated financial statements at Dec. 31, 2010	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	480.8	(76.2)	404.6	-15.9%
Total equity	493.7	(76.2)	417.5	-15.4%
Net debt	220.1	74.5	294.6	33.8%
Total number of shares outstanding at Dec. 31	19,942,777	1,994,278	17,948,499	-10.0%
Weighted average number of shares used to compute Earnings per share	19,768,883	1,976,888	17,791,995	-10.0%
Net income attributable to Mersen's shareholders	**38.4**	**(1.7)**	**36.7**	**-4.5%**
Earnings per share	**1.94**		**2.06**	**6.2%**

VI - Tax treatment of stock repurchases

1) For Mersen

The repurchase by Mersen of its own shares as part of the present 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 their shares

Capital gains tax applies to the present repurchase program (Article 112-6 of the French General Tax Code). Gains realized by legal entities subject to French corporate income tax incur business capital gains tax, in line with Article 39 duodecies of the French General Tax Code. Gains realized by individuals in France are subject to the disposal gains on securities or corporate rights regime provided for in Article 150-0-A of the

French General Tax Code. Under this regime, capital gains are taxable in France only if the aggregate annual amount of assets sold by the shareholder whose shares are repurchased exceeds €25,000. The tax rate stands at 18% or 29% including social security contributions. Gains are not liable to this tax in France when realized by individuals not domiciled in France for tax purposes or by entities having a head office located outside France (and with no permanent establishment in France holding the 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 (Article 244 bis C of the French General 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 ownership of Mersen's share capital at December 31, 2010

Mersen's share capital is divided into 19,942,777 shares, each with a par value of €2, ownership of which at December 31, 2010 was as follows based on the information received by Mersen:

OWNERSHIP OF THE SHARE CAPITAL AT DECEMBER 31, 2010

Shareholders	Number of shares	% of the share capital	% of voting rights
Free float, comprising:	19,916,343	99.9%	99.9%
- employee shareholders	257,912	1.3%	1.3%
- individual shareholders	3,358,122	16.9%	16.9%
- French institutional investors	7,897,940	39.6%	39.6%
- international institutional investors	8,402,369	42.1%	42.1%
Treasury shares (liquidity agreement)	26,434	0.1%	0.1%
TOTAL	**19,942,777**	**100%**	**100%**

To best of 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 (AXA Private Equity group)	3,366,646	16.88%
Fonds Stratégique d'Investissement/Caisse des Dépôts et Consignations	2,077,787	10.42%
Ameriprise Financial Inc.	1,639,822	8.22%
Mondrian Investment Partners	1,594,171	7.99%
Sofina	1,510,043	7.57%

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

No shareholders' agreement is in place.

As a result of the stock options granted under the 1999 to 2010 plans still outstanding at December 31, 2010, 949,818 new shares (following the adjustment after the capital increase carried out in October 2009) may potentially be issued. The information concerning Mersen's stock subscription options is shown on page 146 of this document.

The BSAR warrants existing at December 31, 2010 entitle their holders to acquire a total of 103,331 new shares, each with a par value of €2. Note that these BSAR warrants may not be exercised prior to July 17, 2012, barring the occurrence of specific events.

The total number of bonus shares that may be granted definitively at December 31, 2010 was 91,297 new shares each with a par value of €2 after the adjustment resulting from the October 2009 capital increase.

IX - Persons responsible for the information memorandum

To the best of the Company's knowledge, the information provided in this information memorandum is true and accurate. It provides all the information required for investors to make an informed judgment of Mersen's stock repurchase program.

There are no omissions liable to impair its significance.

CORPORATE GOVERNANCE

SUPERVISORY BOARD UNTIL MARCH 15, 2011

Names	Date of first appointment	Most recent renewal date	End of term in office	Number of shares or BSAR stock warrants 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	May 20, 2010	-	Annual General Meeting called to vote on the financial statements for the year ending December 31, 2013	120 (1) 0 (2)	**Vice-Chairman of the Supervisory Board of:** RTE
Yann Chareton DoB: January 8, 1978 Director (until May 19, 2009) Member of the Supervisory Board (since May 19, 2009) Member of the Audit and Accounts Committee	Jan. 1, 2009	May 19, 2009	Annual General Meeting called to vote on the financial statements for the year ending December 31, 2012	120 (1) 0 (2)	**Supervisory Committee of:** Alvest **Manager of:** ACF Investment 1 **Manager of:** ACF Investment 2 **Director of:** Kos SpA
Hervé Couffin DoB: October 26, 1951 Director (until May 19, 2009) Member of the Supervisory Board (since May 19, 2009) Member of the Audit and Accounts Committee, the Appointments and Remuneration Committee and the Strategy Committee Independent member**	May 22, 1995	May 19, 2009	Annual General Meeting called to vote on the financial statements for the year ending December 31, 2012	16 369(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) **Former Director of:** Neuf Telecom
Dominique Gaillard DoB: February 17, 1960 Director (until May 19, 2009) Member of the Supervisory Board (since May 19, 2009) Member of the Appointments and Remuneration Committee and the Strategy Committee	Jan. 1, 2009	May 19, 2009	Annual General Meeting called to vote on the financial statements for the year ending December 31, 2012	140 (1) 0 (2)	**Directorships held/Member of the Supervisory Board of:** Several subsidiaries of the AXA Private Equity group **Chairman of the Supervisory Board of:** Moteurs Baudouin and Vieux-Port Equity **Member of the Supervisory Committee of:** Alvest, Floor'in **Member of the Supervisory Board of:** Kuvera Développement, Kebexa Participations, Financière Keos **Chief Executive Officer of:** AXA Private Equity Participations GmbH **Director of:** ACF Investment 1 **Manager of:** ACF Investment II

Names	Date of first appointment	Most recent renewal date	End of term in office	Number of shares or BSAR stock warrants held conferring rights to Mersen's share capital*	Other positions held
Jean-Paul Jacamon DoB: August 5, 1947 Director (until May 19, 2009) Member of the Supervisory Board (since May 19, 2009) Chairman of the Appointments and Remuneration Committee Member of the Strategy Committee Independent member**	Jan. 22, 2003	May 19, 2009	Annual General Meeting called to vote on the financial statements for the year ending December 31, 2010	192 (1) 3,200 (2)	**Director of:** Tokheim **Former Director of:** Alcan, AMEC
Jean-Claude Karpeles DoB: June 15, 1940 Director (until May 19, 2009) Member of the Supervisory Board (since May 19, 2009) Member of the Audit and Accounts Committee and Strategy Committee Independent member**	April 6, 1999	May 19, 2009	Annual General Meeting called to vote on the financial statements for the year ending December 31, 2010	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:** the Paris Chamber of Commerce and Industry - Hauts de Seine department
Agnès Lemarchand DoB: December 29, 1954 Director (until May 19, 2009) Member of the Supervisory Board (since May 19, 2009) Member of the Appointments and Remuneration Committee and the Strategy Committee Independent member**	May 24, 2007	May 19, 2009	Annual General Meeting called to vote on the financial statements for the year ending December 31, 2012	252 (1) 1,600 (2)	**Executive Chairman and Director of:** Steetley Dolomite Ltd **Member of the Supervisory Board of:** Siclae
Henri-Dominique Petit DoB: July 3, 1948 Director (until May 19, 2009) Member and Vice-Chairman of the Supervisory Board (since May 19, 2009) Chairman of the Audit and Accounts Committee Member of the Appointments and Remuneration Committee Independent member**	May 24, 2007	May 19, 2009	Annual General Meeting called to vote on the financial statements for the year ending December 31, 2010	158 (1) 800 (2)	**Director of:** Canal Corp. (US)

Names	Date of first appointment	Most recent renewal date	End of term in office	Number of shares or BSAR stock warrants held conferring rights to Mersen's share capital*	Other positions held
Walter Pizzaferri DoB: August 20, 1957 Director (until May 19, 2009) Member of the Supervisory Board (since May 19, 2009) Chairman of the Strategy Committee Independent member**	May 24, 2007	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: February 19, 1943 Director (until May 19, 2009) Member of the Supervisory Board (since May 19, 2009) Member of the Audit and Accounts Committee and Strategy Committee Independent member**	May 24, 2007	May 19, 2009	Annual General Meeting called to vote on the financial statements for the year ending December 31, 2010	552 (1) 5,000 (2)	**Director of:** Moria SA, Sonoco Products (US), Committee Charter. **Member of the Supervisory Committee of:** Groupe Grégoire **Manager of:** Cybèle
Marc Speeckaert DoB: May 23, 1951 Director (until May 19, 2009) Member of the Supervisory Board (since May 19, 2009)	Jan. 1, 2009	May 19, 2009	Annual General Meeting called to vote on the financial statements for the year ending December 31, 2010	610 (1) 0 (2)	**Chief Executive Officer of:** Sofina **Director of:** SES (Luxembourg), Rapala (Finland), Landis Gyr (Switzerland), 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.*
(1) Number of shares held.
(2) Number of BSAR stock warrants held.
** *According to the requirements of the AFEP-MEDEF code*

EXECUTIVE COMMITTEE

Names	Date of first appointment	Most recent renewal date	End of term in office	Number of shares or BSAR stock warrants held conferring rights to Mersen's share capital	Other positions held
Ernest TOTINO DoB: April 7, 1959 Chairman of the Management Board	May 19, 2009	-	Annual General Meeting called to vote on the financial statements for the year ending December 31, 2012	1,557 (1) 6,700 (2)	-
Luc THEMELIN DoB: February 23, 1961 Member of the Management Board	May 19, 2009	-	Annual General Meeting called to vote on the financial statements for the year ending December 31, 2012	2,337 (1) 4,000 (2)	-

(1) Number of shares held.
(2) Number of BSAR stock warrants held.

Summary biographies of the Supervisory Board members

Jocelyne Canetti

A graduate of the Ecole Normale Supérieure and holder of the agrégation 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 and Vice-Chair of the Supervisory Board of RTE.

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.

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 in electrical and electronic engineering, 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

After graduating from the Ecole Nationale Supérieure de Chimie in Paris and MIT in Boston, with an MBA from INSEAD, Agnès Lemarchand began her career in the chemicals and pharmaceutical industry with Rhône-Poulenc. In 1986, she was appointed chairman and chief executive officer of IBF (a biotechnology company), then joined Ciments Français in 1991, where she ran its Prodical subsidiary. In 1997, she moved to the Lafarge group as strategy director at Lafarge specialty materials, before being named chairman and chief executive officer of the lime business in 1999, a position she held until 2004. After handling the sale of Lafarge's lime assets in the US and in Europe, she led an MBO of the UK lime business and founded Steetley Dolomite Ltd (UK), of which she has since been the 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 (purchasing, production,

marketing and sales) and in the rest of the world (divisional manager in London, then president of the cinema and television division in Los Angeles, European president of Eastman Kodak, based in London, COO of the Consumer Imaging division based in the US and, lastly, president of Eastman Kodak Asia-Pacific based in Shanghai). 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.

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.

He is a director of Sonoco Products (US), Sperian Protection and Moria SA and of the Charter Committee. 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

Ernest Totino

Ernest Totino, who holds a PhD in chemistry, has spent the bulk of his career with the Mersen group, having started out in Research and development. He then worked in production, before being named plant director and then head of the "anticorrosion equipment" division. He joined the Group's Executive Committee in 2005, on which he was given responsibility for supervising the anticorrosion equipment and industrial brushes activities, as well as information systems and purchasing. In 2008, he was appointed as Chief Operating Officer, before taking over as Chairman of the Management Board in May 2009. Ernest Totino does not hold any office outside the Group.

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. Luc Themelin 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" on page 149 of this document.

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 (4) 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 is invested with 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. Every deliberation gives rise to the preparation of minutes signed by the Chairman and one of the Management Board members.

The Management Board currently has 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. During 2010, the Management Board met 9 times with an attendance rate of 100%.

→ Executive Committee

Composition of the Executive Committee until June 30, 2010 (1)

Ernest Totino
Chairman of the Management Board

Luc Themelin
Member of the Management Board

Bernard Leduc
Director of Human Resources, Quality and Continuous Improvement

Jean-Claude Suquet (until March 31, 2010)
Group Vice President, Finance and Administration

The Executive Committee comprises senior managers whose role is to run and supervise the Group's day-to-day operations. It met once every month. It conducted a detailed analysis of the monthly earnings and cash generation trends at each division and examined the remedial measures implemented where actual performance fell short of budget. It monitored the initiatives implemented to reduce the WCR, notably those launched to manage the WCR via the supply chain. The Executive Committee began all of its meetings with an analysis of trends in employee safety and measures taken on an ongoing basis to make improvements.

In addition, it:

- studied the strategic options proposed by the divisions;
- drew up the business plan for the Group and its divisions;
- defined the investment program and authorized spending on each major investment project;
- examined the various acquisition plans;
- determined the key financial reporting priorities;
- changed the Group's corporate identity;
- reviewed the new organization of the finance department;
- adopted the Group's budget;
- monitored initiatives taken by the Risk and Internal Audit department.

The Executive Committee was dissolved on June 30, 2010 following the retirement of its final member (who was not on the Management Board).

(1) The Executive Committee was dissolved on June 30, 2010 following the retirement of its final member (who was not on the Management Board).

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 2011, the black-out periods are:

- **January 10 to February 2, 2011:** owing to the announcement of fourth quarter 2010 sales on January 25, 2011
- **from February 14 to March 24, 2011:** owing to the announcements concerning full-year 2010 results on March 16, 2011
- **from April 5 to April 28, 2011:** owing to the announcement of first-quarter 2011 sales on April 20, 2011
- **from July 5 to July 28, 2011:** owing to the announcement of second-quarter 2011 sales on July 20, 2011
- **from August 1 to September 8, 2011:** owing to the announcement of interim results on August 31, 2011
- **from October 10 to November 2, 2011:** owing to the announcement of third-quarter 2011 sales on October 25, 2011

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 of October 6, 2008 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 Management Board members' remuneration in accordance with Article L. 225-102 of the French Commercial Code

The aggregate amount of the total compensation and benefits of any kind paid during 2010 to Supervisory and Management Board members of Mersen, namely the 11 members of the Supervisory Board, plus the Chairman, Vice-Chairman and two members of the Management Board, came to €1,246,762, breaking down into:

- compensation payable to Management Board members as presented in the following summary tables;
- compensation paid to Supervisory Board members: €220,000 in attendance fees, which were 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. These attendance fees for fiscal 2010 are paid at the beginning of 2011. They were allocated between the eleven Supervisory Board members as follows:

(€)	2010	2009
Jocelyne Canetti	10,733	-
Yann Chareton	18,784	17,770
Hervé Couffin	24,427	32,670
Dominique Gaillard	19,747	16,883
Jean-Paul Jacamon	23,724	26,542
Jean-Claude Karpeles	22,752	24,112
Agnès Lemarchand	20,038	21,650
Henri-Dominique Petit	28,384	29,049
Walter Pizzaferri	17,169	16,712
Philippe Rollier	22,752	23,465
Marc Speeckaert	11,490	11,147
TOTAL	**220,000**	**220,000**

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 2010.

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 2010.

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

Ernest Totino, Chairman of the Management Board

(€)	2010	2009
Compensation and benefits payable in respect of the fiscal year (broken down below)	xxxx	548,004
Valuation of options granted during the fiscal year	-	245,588
Valuation of bonus share allotments during the fiscal year	-	-
TOTAL	XXX	793,592

Luc Themelin, Member of the Management Board

(€)	2010	2009
Compensation and benefits payable in respect of the fiscal year (broken down below)	xxxx	352,311
Valuation of options granted during the fiscal year	-	147,353
Valuation of bonus share allotments during the fiscal year	-	-
TOTAL	XXXX	499,664

SUMMARY OF THE COMPENSATION AND BENEFITS PAYABLE TO EACH MANAGEMENT BOARD MEMBER

Ernest Totino, Chairman of the Management Board

(€)	2010		2009	
	Amounts due in respect of 2010	Amounts paid in 2010	Amounts due in respect of 2009	Amounts paid in 2009
Fixed salary	350,000	350,000	326,667	326,667
Variable salary	xxxx	210,864	210,864	193,172
Incentive / Employee profit-sharing	NC(*)	17,326(a)	17,154(a)	17,778
Exceptional salary (b)	13,960	13,960	0	0
Benefits in kind	12,909	12,909	10,473	10,473

(a) pursuant to the incentive agreement covering fiscal 2009 received in April 2010. The benefit of this agreement is based on Art. 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.
N.B. Benefits in kind include contributions towards the corporate executives' social guarantee, as well as a company car.

Luc Themelin, Member of the Management Board

(€)	2010		2009	
	Amounts due in respect of 2010	Amounts paid in 2010	Amounts due in respect of 2009	Amounts paid in 2009
Fixed salary	230,000	230,000	230,000	230,000
Variable salary	xxxx	119,048	119,048	192,340
Incentive / Employee profit-sharing	NC(*)	19,353(a)	19,180(a)	19,798
Benefits in kind	3,302	3,302	3,263	3,263

(a) including €16,971 pursuant to the incentive agreement and €2,382 corresponding to employee profit-sharing. The benefit of these agreements is predicated on his employment agreement.
N.B. The bonus, which varies between 0% and 80% of the basic salary, is paid in year n+1.
N.B. Benefits in kind include a company vehicule.

Hervé Couffin, Chairman of the Supervisory Board (from May 19, 2009)

(€)	2010		2009	
	Amounts due in 2010	Amounts paid in 2010	Amounts due in 2009	Amounts paid in 2009
Fixed salary	80,000	40,000	49,753	49,753
Attendance fees	24,427	32,670	32,670	29,771
Benefits in kind	0	0	0	0

(*) 2010 Incentive agreement not yet determined.

Henri-Dominique Petit, Vice-Chairman of the Supervisory Board (from May 19, 2009)

(€)	2010		2009	
	Amounts due in 2010	Amounts paid in 2010	Amounts due in 2009	Amounts paid in 2009
Fixed salary*	20,000	10,000	12,438	12,438
Attendance fees	28,384	29,049	29,049	15,169
Benefits in kind	0	0	0	0

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

Stock subscription or purchase options granted in 2010 to each director/management board member

Name of the director/ 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
Ernest Totino				0		
Luc Themelin				0		

In 2010, no stock subscription options were granted to the Chairman of the Management Board or to the Member of the Management Board.

Bonus performance shares that became available in 2010 for each Management Board member

Bonus performance shares that became available for each Management Board member in 2010	No. and date of plan	Number of shares that became available during the fiscal year	Vesting conditions
Ernest Totino	-	0	-
Luc Themelin	-	0	-

Summary of commitments given to Management Board members

	Employment contract	Supplementary pension scheme (1)	Compensation and benefits due or likely to be payable owing to the cessation or change in duties (2)	Payment under a no-compete clause
Ernest Totino Chairman of the Management Board Appointment of May 19, 2009 expiring at the end of the Annual General Meeting called to approve the financial statements for the 2011 financial year	No	Yes	Yes	No
Luc Themelin Member of the Management Board Appointment of May 19, 2009, which expires at the end of the General Meeting called to approve the financial statements for the 2011 financial year	Yes	Yes	No(3)	No

(1) The supplementary pension plans are described on page 144.
(2) The compensation and benefits due or likely to be paid on grounds of termination or change in duties are described on page 144.
(3) Luc Themelin would receive a severance payment pursuant to the collective bargaining agreement should his employment agreement be terminated.

Agreements regulated by Article L. 225-38 of the French Commercial Code

In accordance with the provisions of Articles L. 225-38 and L. 225-42-1 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 to be terminated. This authorization granted to the Supervisory Board has been published on the Company's web site pursuant to the provisions of Article R. 225-34-1 of the French Commercial Code. This decision was made following the appointment of Ernest Totino as Chairman of the Management Board.

Payment of the aforementioned severance indemnity will be 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 (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.

Compensation paid to company officers (Executive Committee members) who are not directors/ Management or Supervisory Board members

Gross amounts in euros	2010*
Basic salaries	81,000
Performance-related bonuses	35,424
Benefits in kind	2,413
TOTAL	118,837

(*) From January 1, 2010 to June 30, 2010

N.B. The Executive Committee was dissolved on June 30, 2010 following the retirement of its final member (who was not on the Management Board).

N.B. Benefits in kind correspond to a company car.

N.B. The bonus, which varies between 0% and 80% or 90% of the basic salary, is paid in year n+1.

Compensation and benefits paid to company officers, including Management Board members

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 Executive Committee (through its dissolution), including Management Board members, is based on performance in relation to:

- the Group's Economic Value Added (EVA) targets (operating income after tax less the cost of capital employed);
- the Group's ROCE after tax targets set based on the average posted by a sample of 25 industrial companies;
- certain individual targets.

The members of the Executive Committee (through its dissolution), including Management Board members qualify for top-up pension payments. 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 top-up 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.

Loans and guarantees granted to officers and directors

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)	2010	2009	2008	2007	2006
Amounts allocated to employees	3,699	1,620	3,953	2,492	2,233
Number of beneficiaries	1,458	1,433	1,545	1,600	1,860

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)	2010	2009	2008	2007	2006
Amounts allocated to employees	1,867	762	2,265	2,249	2,219
Number of beneficiaries	1,420	1,110	1,496	1,423	1,498

Group Investment Plan - options and bonus shares

Since 1995, financial authorizations to develop stock ownership among employees through a Group Investment Plan, stock subscription option plans and bonus 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 all or some of the Company's officers 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 2010, 2,447 options were exercised.

The total number of stock subscription options still outstanding stood at 583,236 after the adjustment resulting from the October 2009 capital increase, which represents 3.64% of the share capital. Members of the Board have no options to purchase or to subscribe shares in subsidiaries of the Group.

Shareholders at the Combined General Meeting of December 12, 2008 authorized the Company to grant officers and employees of the Company and its subsidiaries options entitling them to subscribe new shares in the Company. The maximum number of new shares that may be issued through the exercise of options granted is capped at 340,000 shares, each with a par value of €2.

During January 2009, the Board used the authorization granted at the Annual General Meeting on December 12, 2008 by deciding to grant 38 senior managers, including two Management Board members, namely Ernest Totino and Luc Themelin, stock subscription options entitling them to subscribe 366,582 new shares in the Company, representing approximately 2% of the share capital. Grantees of the bonus shares are excluded from receiving the options allotted under this authorization. At its meeting on March 15, 2011, the Supervisory Board decided to make adjustments to the performance conditions of this plan.

It decided to restate 2011 EPS (and 2012 EPS, if appropriate) for the impact of the dividend payments in shares from the date of grant of the subscription options in January 2009 through to the definitive calculation of the percentage grant (around 5% of the share capital[1]). The Supervisory Board was of the opinion that this method of paying dividends, which was taken up by the vast majority of the shareholders (who received a discount of 10% to the share price for each dividend paid in shares), would have an unwarranted impact on the percentage grant received by holders of the subscription options. Taking into account the dividends paid in shares during 2009 and 2010 and the dividend proposed to shareholders in 2011[1], this change in the arrangements could have an impact of around 5 percentage points on the percentage grant.[2]

Group Investment Plan

Shareholders authorized the Management Board at the General Meeting on May 20, 2010 to increase the share capital, 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 €390,000, i.e. approximately 1% of the Company's share capital. This authorization is valid for a period of 26 months. To date, it has not been used by the Company.

This delegation replaces and supersedes that given by the Combined General Meeting of May 19, 2009 and has not been used to date.

Stock subscription options: Previous grants

	2000 plan Tranche 6	2000 plan Tranche 7	2001 plan Tranche 8	2003 plan Tranche 10	2007 plan Tranche 11	2009 plan Tranche 12	Total
Date of Board of Directors' meeting	May 10, 2000	Sept. 15, 2000	Jan. 18, 2001	May 14, 2003	July 25, 2007	Jan. 22, 2009	
Total number of shares available for subscription	484,126	10,102	5,051	140,293	177,876	366,582	1,184,030
o/w Management Board members	*33,666*	*0*	*0*	*10,099*	*26,950*	*86,253*	*156,968*
o/w top 10 allottees	*161,593*	*10,102*	*5,051*	*48,310*	*77,885*	*140,163*	*443,104*
Subscription price	41.88	42.68	44.99	19.68	53.10	17.53	
Start of exercise period	May 2005	Sept. 2005	Jan. 2006	May 2007	July 2011	Feb. 2019	
Expiration date	May 2010	Sept. 2010	Jan. 2011	May 2013	July 2017	Feb. 2019	
Total number of shares subscribed at Dec. 31, 2010	47,025	0	0	47,883	0	0	94,908
Options canceled by Dec. 31, 2010	437,101	10,102	3,367	51,812	3,504	0	505,886
o/w canceled in 2010	*126,162*	*3,368*	*0*	*0*	*0*	*0*	*129,530*
OPTIONS THAT MAY STILL BE EXERCISED	**0**	**0**	**1,684**	**40,598**	**174,372**	**366,582**	**583,236**

Stock subscription options: Management board members

	Number of options granted/exercised	Prices	Expiration date
Options granted since January 1, 2010 to each Management Board member:			
Chairman of the Management Board: Ernest Totino	0	-	-
Member of the Management Board: Luc Themelin	0	-	-
Options exercised since January 1, 2010 by each Management Board member:			
Chairman of the Management Board: Ernest Totino	0	-	-
Member of the Management Board: Luc Themelin	0	-	-

(1) Dividends paid in shares in 2009 and 2010 and the dividend proposed to shareholders in 2011 with an assumption that 66% of dividends would be paid in shares.

(2) Given the initial threshold at 35% of the grant, the restatement of dividends per share may give rise to a percentage grant of 35% (compared with 0% without a restatement) assuming that 2011 EPS (and 2012 EPS if appropriate), is both lower and close to 2007 EPS. Above the grant threshold of 35%, the impact is around 5 percentage points.

Stock subscription options: Shares allotted to the 10 employees (not Management Board members) who received the largest number

	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, 2010 to the 10 employees who received the largest number	0	-			
Options exercised since January 1, 2010 by the 10 employees who received the largest number	2,447	31.67	0	0	2,447

Bonus share allotments

Shareholders authorized the Board of Directors on December 12, 2008 to allot new or existing shares in the Company at no cost to the Company's officers or employees or those of affiliated companies, or certain categories thereof. The total number of shares that may be granted pursuant to this authorization may not exceed 50,000, which currently represents around 0.3% of the share capital. The authorization is valid for a period of 38 months. The Company's Management Board members and beneficiaries of the stock subscription and purchase options, as well as officers and employees of the Company and affiliated companies holding over 10% of the Company's capital or set to hold more than 10% of the Company's capital as a result of the bonus share allotment, are excluded from receiving the bonus share allotments. This authorization replaces and supersedes the previous authorization granted by the Combined General Meeting of May 24, 2007.

At its meeting on January 22, 2009, the Board decided to grant 50,000 shares free of charge to 50 of the Group's executives pursuant to this authorization. The Board set a vesting period of four years. In addition, the grant is conditional upon the continued employment of the beneficiaries until the end of the vesting period. No holding obligations and periods are imposed at the end of the vesting period. The number of shares allotted was increased to 53,900 after the adjustment resulting from the October 2009 capital increase.

BONUS SHARE ALLOTMENTS: PREVIOUS GRANTS

	2006 plan Tranche 2	2008 plan Tranche 3	2009 plan Tranche 4	Total*
Date of Board of Directors' meeting	June 28, 2006	February 26, 2008	January 22, 2009	
Total number of shares allotted	17,975	21,567	53,900	75,447
o/w Management Board members	*0*	*0*	*0*	*0*
*o/w Executive Committee***	*0*	*0*	*0*	*0*
o/w top 10 allottees	*5,001*	*3,230*	*10,780*	*14010*
Share price at allotment date	40.07	29.63	18.65	
Definitive allotment date (end of the vesting period)	July 1, 2008	March 1, 2011	Jan. 22, 2013	
End of lock-up period	July 1, 2011	March 1, 2013	Jan. 22, 2013	
Allotments canceled at Dec. 31, 2010	1497	1,403	2,156	3,559
o/w canceled in 2010		*755*	2,156	*2,911*
Number of shares allotted definitively	16,478			
Outstanding at December 31, 2010	0	20,164	51,744	71,908

* *represents the total of plans 3 and 4 only; shares allotted under plan 2 have been allotted definitively*

** *The Executive Committee was dissolved on June 30, 2010 following the retirement of its final member (who was not on the Management Board).*

BONUS SHARE ALLOTMENTS: MANAGEMENT BOARD MEMBERS

	Number of shares allotted/subscribed
Shares granted since January 1, 2010 to each Management Board member:	
Chairman of the Management Board: Ernest Totino	0
Member of the Management Board: Luc Themelin	0
Options exercised since January 1, 2010 by each Management Board member:	0
Chairman of the Management Board: Ernest Totino	0
Member of the Management Board: Luc Themelin	0

BONUS SHARE ALLOTMENTS: SHARES ALLOTTED TO THE 10 EMPLOYEES (NOT MANAGEMENT BOARD MEMBERS) WHO RECEIVED THE LARGEST NUMBER

	Number of shares allotted/subscribed
Shares allotted since January 1, 2010, to the 10 employees who received the largest number of shares	0

→ Fees paid to the Statutory Auditors and members of their networks by the Group

	2010				2009			
	Deloitte		KPMG		Deloitte		KPMG	
(€ 000s)	Amount	%	Amount	%	Amount	%	Amount	%
Audit								
- Statutory audit, certification, review of the individual and consolidated financial statements	770	73%	544	80%	779	70%	584	72%
- Other accessory and audit assignments	96	9%	123	18%	207	19%	210	26%
SUB-TOTAL	**866**	**82%**	**667**	**99%**	**986**	**88%**	**794**	**98%**
Other services, etc.								
- Legal, tax law, labor law	128	12%	0	0%	105	9%	17	2%
- Other (state where > 10% of audit fees)	57	5%	9	1%	26	2%	0	0%
SUB-TOTAL	**185**	**18%**	**9**	**1%**	**131**	**12%**	**17**	**2%**
TOTAL	**1,051**	**100%**	**676**	**100%**	**1,117**	**100%**	**812**	**100%**

→ Shares in the Company's capital held by directors and officers

Number of shares held directly by members of the Supervisory Board and Management Board: 25,847.

The Management Board holds a total of 4,936 shares through the Mersen FCPE (corporate mutual fund).

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.

REPORT BY THE CHAIRMAN OF THE SUPERVISORY BOARD

ON THE PREPARATION AND ORGANIZATION OF THE BOARD'S WORK 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 of 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 ended December 31, 2009.

Article L. 225-68 of the French Commercial Code notably states: *"Where a company refers voluntarily to a corporate governance code drafted 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 published."*

At the request of the Chairman of the Supervisory Board, this report was submitted for the opinion of the Audit and Accounts Committee and for the approval of the Supervisory Board on March 15, 2011, in accordance with the aforementioned arrangements.

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

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

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

Staggered renewal of the terms of office of Supervisory Board members

The Supervisory Board currently consists of eleven members. Ten members were appointed at the Combined General Meeting on May 19, 2009, which decided on the change in the Company's corporate governance structure. One member was appointed at the Annual General Meeting of May 20, 2010 with a term in office of four (4) years. To ensure a smooth renewal process for Supervisory Board members, five members were appointed for a term of office of four years and five members were appointed for a term of office of two years.

Fixed portion of Management Board members' compensation and benefits

The Company intends to retain the possibility of making changes to 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 worth noting that changes to the compensation and benefits package would be made only if significant gaps with the going market rates were observed.

Frequency of stock option and bonus share allotments

From 2000 onwards, the Company sought to introduce an authorization policy for stock subscription options at most every two years with a view to curbing the dilution suffered by shareholders. The same policy has also applied to authorizations for bonus share allotments granted since 2005. The most recent grants were authorized at the Combined General Meeting of December 19, 2008.

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 functions 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 preparations made for and organization of the work performed by the Supervisory Board and any restrictions that the Supervisory Board has placed on the powers of the Chairman of the Management Board, as well as the internal control procedures in place within the Mersen group under the authority of the Management Board. 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 by the Management Board. To this end, at any point during the year, it conducts the verifications and checks that it deems appropriate and may secure the communication of the documents it deems necessary to perform its duties. As part of its supervisory duties, 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.

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

- issues of securities conferring rights directly or indirectly to the Company's share capital;
- funding operations likely to alter substantially the Company's financing structure;
- capital expenditures or asset disposals (excluding shareholdings) in an amount of over €10 million;
- acquisitions, in whatever form, the price of which, inclusive of any liabilities assumed, exceeds €3 million;
- strategic partnership agreements;
- proposed amendments to the Articles of Association to be put to an extraordinary general meeting of the shareholders;
- proposed stock repurchase programs to be put to the ordinary general meeting of the shareholders;
- implementation of stock subscription or purchase plans and bonus share allotment plans for the Company's employees and directors of affiliated companies, as well as grants of stock subscription or purchase plans and bonus share allotment plans for members of the Company's Management Board;
- proposed interim or annual financial statements, earnings appropriations, dividend payments and interim dividend payments;
- proposed appointments or renewals of the appointment of Statutory Auditors to be put to the ordinary general meeting of the shareholders.

Supervisory Board's internal charter: The Supervisory Board adopted its internal charter on July 23, 2009. The internal charter was amended on January 28, 2011 following the appearance of the AMF report on Audit Committees. It represents the governance charter for the Supervisory Board and also governs the relationships between the latter's members and members of Mersen's Management Board in a spirit of cooperation notably intended to ensure fluid exchanges between the corporate bodies in the interest of shareholders. It is intended to give the Supervisory Board the means to implement best practices in corporate governance.

It fits with the framework of the recommendations under the AFEP-MEDEF's corporate governance code.

The internal charter has five articles:

- Article 1 defines the role and duties of the Supervisory Board and indicates the lists of decisions made by the Management Board subject to authorization and to prior notice by the Supervisory Board;
- Article 2 relates to the holding and structure of Supervisory Board meetings (notices of meetings, participation, majority rules, minutes, Board secretary);
- Article 3 covers the compensation and benefits paid to members of the Supervisory Board (attendance fees, compensation and benefits paid to the Chairman and Vice President, exceptional compensation and benefits);
- Article 4 covers the ethical rules applicable to members of the Supervisory Board 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 charter is available for download from the Company's web site at www.mersen.com.

The Supervisory Board carries out an annual self-assessment.

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 general meeting of the shareholders on the recommendation of the Supervisory Board.

Supervisory Board members are appointed for a renewable term in office of four years. In an exception to this rule, the term of office of half the members of the Supervisory Board appointed in 2009 was set at two years.

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

At present, the Supervisory Board has eleven members. In connection with the investment by Fonds Stratégique d'Investissement ("FSI") in the Company's capital, FSI expressed its desire to secure representation on the Supervisory Board. FSI proposed Jocelyne Canetti as a candidate. This proposal was accepted in principle by the Board at its meeting on January 29, 2010, on the recommendation of the Appointments and Remuneration Committee. At the Annual General Meeting on May 20, 2010, shareholders decided to appoint Jocelyne Canetti for a term of four years.

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;
- 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 eight times during 2010, with an average attendance rate of 98%.

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

- **January 29, 2010**: The Supervisory Board reviewed the 2010 budget, as well as a preliminary estimate of 2009 sales and operating income. The Supervisory Board was informed of progress made by the project to change the Group's corporate image. It issued its opinion on the plan to move the corporate head office. The Supervisory Board gave its approval to the acquisition of M.Schneider. The Board decided to approve the renewal of the appointments of the Statutory Auditors of Deloitte and KPMG. It also approved in principle the plan to issue new BSARs in exchange for existing BSARs. The Board gave its authorization to the Management Board concerning the issuance of guarantees and endorsements up to an aggregate maximum amount of €10,000,000.
- **March 19, 2010:** The Board examined and approved the draft financial statements at December 31, 2009. It approved the report by the Chairman of the Supervisory Board on the work performed by the Board and on internal control. It gave its approval to the plan to change the Group's name change. The draft resolutions for the Annual General Meeting were approved by the Supervisory Board. It was informed of the Group's business trends out to February 28, 2010, as well as of the acquisition plans in progress. The Board set the 2009 bonus of Ernest Totino and Luc Themelin, their 2010 compensation and benefits and their targets for 2010. Lastly, the Board was informed of and discussed the findings of the self assessment of the Supervisory Board carried out by one of its members.
- **April 26, 2010:** Following the accident that occurred on April 7, 2010 at Mersen's facility in Gennevilliers, the Supervisory Board met in order to be informed of the circumstances in which this terrible accident occurred and to review with the Management Board the possible causes of the accident, the lessons for the Group's entire manufacturing base, the legal risks arising from the accident for individuals and for the Group, as well as the implications for the Group's production and business in the short term. The Supervisory Board expressed its support for the Group's management and employees at this most testing of times.
- **May 20, 2010:** the Supervisory Board was informed of trends in the Group's business to April 30, 2010, presented by the Chairman of the Management Board. It approved the draft simplified public exchange offer and more generally the entire associated transaction and decided to recommend that holders of the Company's 2007 BSARs should tender their securities to the simplified public exchange offer, with members of the Supervisory Board who hold 2007 BSARs abstaining from this decision. A general presentation of the Group's safety policy was presented to the Supervisory Board. The Supervisory Board heard an overview of the situation following the accident on April 7, 2010 that occurred at the Gennevilliers facility. Lastly, an update was provided on the status of the dispute between Mersen and several customers in relation to proceedings brought before the CAT (UK Competition Administrative Tribunal).
- **June 23, 2010:** The Supervisory Board reviewed the Group's latest business trends to May 31, 2010, as presented by the Chairman of the Management Board. The Board was also kept informed of the progress made by the legal investigation in the wake of the accident that occurred at the Gennevilliers facility. It was also informed of the status of the dispute between Mersen and several customers in relation to proceedings brought before the CAT (UK Competition Administrative Tribunal).
- **July 22, 2010:** The Board reviewed the Group's business plan (2010-2014) and was informed of the latest news concerning several recent acquisitions (Calcarb, Xianda, Mingrong, R.Theta), as well as trends in the Group's business to June 30, 2010.

- **August 27, 2010:** The Board reviewed the draft interim financial statements for the six months to June 30, 2010. It approved these financial statements, as well as the management projections. The Chairman of the Management Board presented trends in the Group's business to July 31, 2010. The Supervisory Board approved the arrangement of bank refinancing in China, as well as the guarantees granted in connection with this refinancing. The Board was informed by the Management Board of the plan to reorganize safety within the Group, the latest developments in an acquisition plan, as well as the progress made by the judicial investigation into the accident that occurred at the Gennevilliers facility in April 2010 and the status of the dispute between Mersen and several customers in relation to proceedings brought before the CAT (UK Competition Administrative Tribunal).
- **November 18, 2010:** The Board heard an update on the Group's business trends to October 31, 2010. It was also informed of relationships with other shareholders at a joint venture in China. It authorized the Management Board to issue a joint and several guarantee to a bank in connection with the Group's business activities in the United States.

3.4 Work performed by the Supervisory Board's three committees

The Supervisory Board defined in its internal charter the functions, duties and resources of its three committees: the Audit and Accounts Committee, the Appointments and Remuneration Committee and the Strategy Committee. As far 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 a consultation of the relevant committee 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) have the Company communicate any document that it deems useful for the performance of its duties;

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

(iii) have any third parties of its choosing (expert, advisor or statutory auditor) attend Committee meetings.

This consultation of the Committees may not serve to delegate the powers conferred upon the Supervisory Board by law or in the Articles of Association or have the effect of reducing or restricting the Management Board's powers.

Audit and Accounts Committee:

The internal charter of the Supervisory Board states that the Audit and Accounts Committee comprises at least three and at most six members, including a majority of independent members. The internal charter also stipulates that members of the Audit and Accounts Committee are selected on account of 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 in advance of Supervisory Board meeting for which the agenda includes a review of an issue related to its area of expertise.

The Audit and Accounts Committee has five members designated from among the members of the Supervisory Board, namely Jocelyne Canetti, Yann Chareton, Hervé Couffin, Jean-Claude Karpeles, Philippe Rollier and Henri-Dominique Petit. Henri-Dominique Petit acts as Chairman of the Committee.

During 2010, the Committee met six times with an attendance rate of 99%.

- **January 27, 2010:** The Committee familiarized itself with the preliminary full-year results. It also reviewed the plans to refinance the BSAR warrants issued in 2007 and laid down the structure of the new warrants for submission to the next meeting of the Supervisory Board.
- **March 9, 2010:** The Committee was informed of the preliminary 2009 results prior to their presentation to the Supervisory Board and reviewed the Statutory Auditors' report on the 2009 financial statements, as well as the 2009 draft reference document.
- **June 11, 2010:** The Committee reviewed the plan to conduct a risk mapping survey for 2010. It was given a presentation of the progress made by the Cash Initiative project, notably its priorities, performance indicators and initiatives, the principal cross-functional measures and organization of the project. Lastly, the Committee received a presentation of the commodity risk hedging policy.
- **August 26, 2010:** The Committee reviewed, in the presence of the Statutory Auditors, the Group's draft interim financial statements for the six months ended June 30, 2010, the draft half-year report and the draft press release. It gave its approval to a plan to refinance the credit lines in China. The Committee also reviewed the status of the Group's pension plans in the United States and the United Kingdom and asked for annual follow-up to be carried out.
- **September 13, 2010:** The Committee approved the proposal to change the "2010 Guidance" presented by the Chairman of the Management Board.
- **December 10, 2010:** The Committee reviewed the findings of the internal audits carried out during the year and validated the program for 2011. It was also informed of the Group's Information Systems development plan.

Appointments and Remuneration Committee:

The internal charter of the Supervisory Board states that the Appointments and Remuneration Committee comprises at least three and at most five members, including a majority of independent members. The Chairman and Vice-Chairman of the Supervisory Board may be members of the Remuneration Committee, but they should not participate in work by the Committee concerning their own compensation and benefits. The Appointments and Remuneration Committee meets at least twice per year and, in any case, in advance of meetings of the Supervisory Board or Management Board, the agenda for which includes the review of an issue related to its area of expertise.

The Committee has five members designated from among the members of the Supervisory Board, namely Hervé Couffin, Dominique Gaillard, Jean-Paul Jacamon, Agnès Lemarchand and Henri-Dominique Petit. Jean-Paul Jacamon acts as Chairman of the Committee.

During this period, the Appointments and Remuneration Committee met on three occasions with an attendance rate of 98%.

- **January 20, 2010:** The Committee examined and adopted for submission to the Supervisory Board the candidacy of Jocelyne Canetti, which was proposed by Fonds Stratégique d'Investissement. The Committee approved the appointment proposed by the Management Board of the new Chief Financial Officer.
- **February 9 and March 17, 2010:** The Committee heard a presentation of the career committee and succession planning process for Mersen's principal senior managers. It was informed of the salaries to be paid to the Executive Committee members during fiscal 2010 and prepared a proposal to the Supervisory Board concerning compensation and benefits, bonuses and objectives for Management Board members. It also laid down their final 2009 bonus figures. It approved the 2010 bonus criteria proposed by Ernest Totino, was informed of the list of the personal objectives given by the Chairman of the Management Board to Executive Committee members and drew up a list of personal objectives for Ernest Totino to be submitted for the approval of the Supervisory Board. The Committee was presented the agreements negotiated with the employee representatives concerning the implementation of a PERCO savings plan and a PERE supplementary savings plan. It determined how the PERE plan would be structured together with the supplementary pension plan for senior managers.
- **November 17, 2010:** The Committee was informed of the findings of a salary consistency study conducted by Towers Watson concerning the compensation and benefits paid to Management Board members and the Group's senior managers. It was given a presentation of the long-term incentive program for the Group's senior managers so that the relevant benefits of the principal mechanisms envisageable could be compared.

Strategy Committee:

The internal charter of the Supervisory Board stipulates that the Strategy Committee should have at least three and no more than seven members, including a majority of independent members. The other members of the Board are also invited to attend Strategy Committee meetings. The Strategy Committee meets at least twice per year and whenever it deems necessary, and in advance of Supervisory Board meetings for which the agenda includes the review of an issue in its area of expertise.

The Committee has seven members designated from among the members of the Supervisory Board, namely Hervé Couffin, Dominique Gaillard, Jean-Paul Jacamon, Jean-Claude Karpeles, Agnès Lemarchand, Walter Pizzaferri and Philippe Rollier. Walter Pizzaferri acts as Chairman of the Committee.

During 2010, the Strategy Committee met three times with an attendance rate of 92%.

- **March 10, 2010:** The Strategy Committee reviewed the repositioning of the Group's communication concerning its identity and business activities in connection with its name change, as well as the progress made by development plans in the photovoltaic, nuclear and water treatment markets.
- **June 23, 2010:** The Strategy Committee reviewed the divisions' and the Group's strategic plans.
- **November 24, 2010:** The Strategy Committee reviewed the Group's presence in Latin America, as well as an analysis of competition in China across all its business lines. It also carried out a progress update on the nuclear activities of its chemical engineering division in China.

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

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

At its first meeting on May 19, 2009, the Supervisory Board meeting decided to allocate a fixed annual compensation package to the Chairman and Vice-Chairman of the Supervisory Board. These compensation and benefits remained unchanged in 2010.

The compensation and benefits paid to the Chairman of the Management Board and members of the Management Board are approved by the Supervisory Board on the recommendation of the Appointments and Remuneration Committee. When considering the compensation and benefits paid to the Chairman and member of the Management Board, the Appointments and Remuneration Committee meets without them being in attendance. The bonus system for the Chairman and member 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 set based on the average posted by a sample of industrial companies;
- certain individual objectives set by the Supervisory Board for the year.

The Management Board members benefit from a top-up pension plan. Provided that the relevant person is still employed by the Group upon his/her retirement, this regime guarantees top-up 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 Management Board 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:

- complying with the policies defined by the Group, as well as with the legislation and regulations in force;
- implementing the internal processes properly and notably those helping to protect its assets;
- preventing fraud and errors;
- producing 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 findings 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 framework disseminated in January 2007 by the AMF concerning the general principles of internal control. Following the evaluation of the AMF 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

Since it has a manufacturing base spanning around 40 countries on five continents, the Mersen group monitors the effectiveness of its internal control framework by means of the following:

5.2.1 Internal control organization

From a corporate governance perspective, Mersen opted for an organization guaranteeing separation and balance between powers. The executive and management powers exercised by the Management Board are kept clearly separate from the control powers 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 on pages 138 and 139 of this document.

At 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, the composition, number of meetings and main duties of which are described in the Corporate Governance section. It supervises the internal control since it is notably responsible for:

- reviewing and assessing all issues relating to the production, verification and publication of financial documents by the Company in connection with its annual financial statements;
- validating the annual internal audit program and ensuring that the efficacy of internal control systems is monitored and that the recommendations made by the Statutory Auditors and internal audit teams are implemented;
- keeping itself informed of and monitoring risk management;
- ensuring the efficacy of the internal control and risk management systems.

5.2.2 Risk management

The Group introduced a program of annual updates to its risk mapping during 2010.

Risks were classified into the following four categories:

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

Within each category, the potential risk factors were ranked depending on their potential impact and likelihood of occurrence. 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. As with the previous mapping carried out in 2008, a progress report on the action plans is given on a regular basis and at least once a year to the Group's Audit and Accounts Committee and 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 circulated an internal control handbook to all its subsidiaries. This handbook encompasses all the basic internal control procedures applicable at every Group unit. To provide optimum access for all the Group's business units, this document was made available on Mersen's intranet. It covers the following points:

- a description of the background to, objectives and resources used in internal control;
  - a description of the internal control organization and reference to the internal control framework adopted by the Group (COSO);
- a section on risks addresses the definition of risk, measurement of a risk weighting 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 relationship 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 helped to strengthen the control system. After they are given appropriate training, the audits are conducted by the Group's operational and functional staff. 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

5.2.4.1 Internal audit department

The Group's internal audit department is responsible for overseeing 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 findings to the Audit and Accounts Committee on a regular basis, as well as to the Statutory Auditors. This department conducted 15 assignments during 2010. 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 at 15 production plants.

The internal audit department calls on the services of a specialized external firm to ensure the quality of the audit program and to facilitate continuous improvement. During 2010, as in 2009, a satisfaction study of the internal audit function was carried out at all the Group's consolidated entities. This study was conducted by an external firm.

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.

5.2.4.2 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 framework

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.

5.2.5.1 Management control and strategic planning

A Strategic Plan determining the priorities for 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. It receives a monthly status report on and analysis of these action plans.

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

5.2.5.2 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 together with them.
- forward planning of human resources, notably succession planning for senior managers.

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

5.2.5.3 Sustainable development

Mersen has long pursued a responsible approach in 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.

5.2.5.4 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 apply solely 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 draws 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 process of closing the accounts. It also contains the timetable for the various accounting closes, 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 on 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 basis. 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.

Efforts in this area were stepped up in 2009 and 2010 with regard to inventories and the supply chain. Special committees were set up with a view to formulating action plans to scale down inventories and improve the supply chain.

→ 7. Program adopted in 2010 and 2011 action plan for internal control

Aside from the action principles and tools described in this report, application of which is intended to be permanent, the Group requests on an annual basis all plant managers to provide a formal undertaking that the principal points of internal control are applied properly at their business unit.

The following specific initiatives were initiated in 2010 to tighten up internal control:

A system of cross-audits by geographical area was introduced during 2009 for the China and Europe regions and during 2010 for North America. Close to 80% of the Group's plants are covered by this system. These audits can help to detect points of improvement for certain aspects of internal control and form part of the continuous improvement program. In particular, they focus on compliance with the basic rules for various processes (purchasing, sales, logistics, human resources, etc.). The aim of this organization is also to promote a culture of internal control within the Group and to facilitate adoption of best practices more easily and rapidly.

In 2010, the internal audit department executed the audits approved by the Audit and Accounts Committee. It oversaw implementation of the action plans needed to remedy any deficiencies that came to light. It reinforced the culture of internal control within the Group by implementing a system of cross-audits by geographical area. It was evaluated by all the units audited in 2009.

It presented to the Management Board, then to the Audit and Accounts Committee its proposals concerning adjustments to the risk mapping. Note that these adjustments, which were carried out at the request of the Audit and Accounts Committee, are now made on an annual basis. Even so, a more fundamental overhaul is to be carried out every three years, with the assistance of an external firm. The next such overhaul will take place in 2011. It also kept the Audit and Accounts Committee informed of the details of the organization of internal control and risk management efforts, in line with the recommendations of the Eighth European directive.

The various audits conducted during 2010 did not reveal any significant internal control failings or deficiencies.

An assessment of the internal audit department was conducted with the assistance of an external consultant based on feedback from the Group units audited in 2009. The findings were presented to the Audit and Accounts Committee and to the Management Board.

Following the work performed during 2009 in relation to the AMF's accounting and financial internal control reference framework, certain projects were initiated, and notably the introduction of a training program to educate the Group's managers about the risks of fraud (swindling, forgery, etc.). Efforts will be made in other areas during 2011, notably concerning the distribution of data storage rules.

Looking ahead to 2011, the following projects are set to be launched by the Risk and Internal Audit department:

- the continued development of cross-audits in Europe, China and North America;
- implementation of a cross-audit process for information system security in North America;
- in-depth overhaul of risk mapping;
- implementation of improvements following the comparison between the AMF reference framework and that adopted by the Group;
- revamp of the internal handbook last reviewed in 2007;
- implementation of extraction tools for information systems in order to reinforce tests performed during audits.

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, 2010

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, 2010.

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 Article L. 225-68 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 in:

- 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 15, 2011	Neuilly-sur-Seine, March 15, 2011
KPMG Audit ID	Deloitte & Associés
Catherine Porta	Joël Assayah
Partner	*Partner*

STATUTORY AUDITORS' REPORT ON RELATED-PARTY AGREEMENTS - FISCAL YEAR ENDED DECEMBER 31, 2010

To the Shareholders,

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

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 agreements of which we were advised 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 agreements 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 agreements 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 agreements authorized during the fiscal year

We wish to inform you that we were not informed of any related-party agreements being authorized during the fiscal year now ended to be submitted for the approval of the Annual General Meeting in accordance with the provisions of Article L. 225-86 of the French Commercial Code.

Related-party agreements approved during previous fiscal years that continued to be executed during the past fiscal year

Pursuant to Article R. 225-57 of the French Commercial Code, we were informed that the following related-party agreements, 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

- Type and motive: Should the Mersen group terminate in any manner and on any grounds whatsoever (barring gross or willful misconduct, retirement or enforced retirement) the term of office of Ernest Totino as Chairman of the Management Board (notably owing to dismissal, non-renewal of his term of office on any grounds whatsoever or elimination of the position following the transformation or merger of the Company), a fixed severance benefit will be paid to Ernest Totino.
- Specific arrangements: the fixed benefit represents at most 0.5x of the total gross compensation and benefits that Ernest Totino received during the thirty-six months prior to the termination, provided that he satisfies the performance criteria, as defined for achievement of his bonus target.

The Statutory Auditors

Paris La Défense, March 15, 2011	Neuilly-sur-Seine, March 15, 2011
KPMG Audit ID	Deloitte & Associés
Catherine Porta	Joël Assayah
Partner	*Partner*

General information about Mersen

General information about Mersen 162

7

General information about Mersen

Corporate name and headquarters

Mersen
Immeuble La Fayette
2 place des Vosges
92400 Courbevoie La Défense 5

Form, nationality and law

The Company is a Société Anonyme incorporated under French law and governed notably by the law of July 24, 1966.

Incorporation and corporate life

The Company was incorporated on January 1, 1937 and shall be dissolved on December 31, 2035 unless its life is extended or it is dissolved early by a vote of an Extraordinary General Meeting.

Corporate purpose (Article 3 of the Articles of Association)

The Company's purpose in France and in all other countries is to carry out all operations concerning the design, manufacture, processing, use and sale of:

- carbon-based products, articles or equipment, whether or not they are combined with other materials;
- metal powders, articles made from these powders, special alloys and articles made from these alloys;
- electro-mechanical and electronic products;
- all industrial products, especially metallurgical, mechanical, plastic and elastomer products;
- all other products, articles or equipment that may be related to the above products:
  - either by using the latter to make the former,
  - or by developing research activities,
  - or through manufacturing processes, industrial applications or distribution networks.

In the area defined above, the Company may carry out all activities related to:

- raw materials, prepared materials, components and elements, spare parts, semi-finished and finished products, equipment, combinations of equipment, assemblies of all kinds and sizes combining equipment;
- all works;
- all techniques.

The Company may also indirectly carry out operations related to technical, industrial and commercial activities. To this end, it may form any companies and groups of companies, acquire holdings in any companies and partnerships, contribute assets to the capital of any company and subscribe to the shares of any company, purchase or sell any shares, partnership shares, or corporate rights.

In general, the Company may carry out any industrial, commercial, financial, securities or real estate operations connected principally or incidentally to these activities.

Furthermore, the Company may acquire any interest, in any form whatsoever, in any French or foreign companies or organizations.

Trade and Companies Register Code

RCS NANTERRE B 572 060 333 - APE CODE: 6420Z (effective January 1, 2008).

Access to the Company's corporate documents

Corporate documents, particularly the Articles of Association, financial statements and reports to General Meetings by the Management Board and Supervisory Board and the Statutory Auditors, may be consulted at the headquarters by contacting:

Thomas Baumgartner
Group Vice President, Finance and Administration
Mersen
Immeuble La Fayette
2 place des Vosges
92400 Courbevoie La Défense 5 (France)
Tel.: +33 (0)1 46 91 54 19

Fiscal year

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

Statutory distribution of income (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 as set forth in Section II Book 1 of the French Commercial Code.

Net income for the fiscal year, as shown on the income statement, comprises the difference between the income and expense for the year, less depreciation, amortization and provisions.

At least one twentieth of net income for the fiscal year, less any prior losses, if any, is allocated to a reserve account known as the statutory 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 deduction would resume.

Income available for distribution consists of net income for the fiscal year less any prior losses and the amounts to be allocated to reserve accounts as stipulated by law, plus any retained earnings.

An initial dividend of 5% of the paid-up and unredeemed par value of the shares is distributed from income. The shareholders may not demand payment of the dividend out of subsequent years' income, should the income 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 Ordinary 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.

The Ordinary 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 income available for distribution.

General Meetings of Shareholders (Article 25 of the Articles of Association)

Notice of meetings - Admission

General Meetings of shareholders are convened under the conditions laid down in law, and their proceedings are governed by the quorum and majority voting requirements stipulated in law.

The meetings are held at Company headquarters or at any other location specified in the notice convening the meeting.

All shareholders owning at least one fully paid-up share may attend General Meetings.

To be entitled to attend the General Meeting, holders of bearer shares must present a certificate showing that their shares have been placed in a blocked account three days ahead of the scheduled date of the meeting.

The Management Board may always elect to shorten these time limits.

Any shareholder may also, if the Management Board so decides when the general meeting is convened, participate and vote at general meetings by means of videoconferencing and telecommunications technology making it possible to identify them, under the conditions and in line with the terms and conditions provided for in law.

General meetings are chaired by the Chairman of the Supervisory Board or, in his absence, by the Vice-Chairman of the Supervisory Board and, failing this, by a member of the Supervisory Board specially designated for this purpose by the Supervisory Board. Otherwise, the General Meeting shall elect its own Chairman.

Minutes of the general meetings are drawn up and the Chairman of the Supervisory Board, the Vice-Chairman of the Supervisory Board, the Secretary of the Supervisory Board or a duly authorized person certifies copies of the minutes.

Disclosure thresholds (Article 11ter of the Articles of Association)

Pursuant to the Company's Articles of Association, shareholders are obliged to disclose any increase to above or decrease to below 1% of the share capital or of voting rights, or any multiple of this percentage.

Trading by the Company in its own shares

At the Combined General Meeting of May 20, 2010, the Company was authorized to trade in its own shares on the stock exchange in accordance with Article L. 225-209 *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 L. 225-197-1 to L. 225-197-3;
- 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 €50 per share. This price is set subject to adjustments related to any transactions affecting the Company's share capital. Based on the maximum purchase price set above and the number of shares making up the capital at the date of the authorization, the aggregate maximum amount of the purchases may not exceed €98,227,000.

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 21, 2010, the Company has not made use of this authorization, except for the acquisitions made under the liquidity agreement. At December 31, 2010, 26,434 shares were held under this liquidity agreement.

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

This authorization is valid until the General Meeting called to vote on the financial statements for fiscal 2010. Fresh authorization concerning stock repurchases is to be submitted for shareholders' approval at the Combined General Meeting on May 19, 2011.

Double voting rights

No shares carry double voting rights.

OFFICER RESPONSIBLE FOR THE REFERENCE DOCUMENT AND AUDITORS

Officer responsible for the reference document	166
Statement by the officer	166
Information included by reference	167
Auditors	167
Officer responsible for information	168

8

Officer responsible for the reference document

Ernest Totino

Chairman of the Management Board

Mersen
Immeuble La Fayette
2 place des Vosges
92400 Courbevoie La Défense 5

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 18 to 26 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.

The Statutory Auditors' report on the consolidated financial statements for the fiscal year ended December 31, 2010 on pages 93 and 94 of this document contains a comment about the accounting policies and principles of consolidation defined in Note 2 to the consolidated financial statements, which lists the latest standards published by the IASB, application of which was mandatory from January 1, 2010.

Ernest Totino

Information included by reference

The following information is included by reference in this annual report:

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.

Fiscal 2008

Included in annual report no. D-09-127 filed with the Autorité des Marchés Financiers on March 17, 2009:

- the 2008 consolidated financial statements prepared in accordance with the international accounting standards in force in 2007 on pages 35 to 85;
- an analysis of the 2008 results on pages 18 to 24;
- the Statutory Auditors' report on the consolidated financial statements on page 86.

Auditors

→ Alternate 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)

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)

→ 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 IS
Immeuble Le Palatin – 3, cours du Triangle
92939 La Défense Cedex

Date of first term: 2004

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)

OFFICER RESPONSIBLE FOR INFORMATION

Thomas Baumgartner

Group Chief Financial Officer

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

CROSS-REFERENCING TABLE

Cross-referencing Table 170

9

Cross-referencing Table

	Pages
1 - Persons responsible	**166**
2 - Statutory auditors	**167**
3 - Selected financial information	**12**
4 - Risk factors	**111, 112, 118 to 122**
5 - Information about Mersen	
5.1 - History and development of the Company	111, 112, 118 to 122
5.2 - Investments	21, 23, 24, 27, 51, 78
6 - Business overview	
6.1 - Principal activities	7 to 9
6.2 - Principal markets	7 to 9
7 - Organizational structure	**42 to 44**
8 - Property, plant and equipment	**35 to 39, 70**
9 - Operating and financial review	
9.1 - Financial condition	20, 46, 47, 83, 84, 96, 97
9.2 - Operating results	46, 47, 96, 97
10 - Liquidity and capital resources	**22, 23, 50, 51, 78 to 80, 104 to 107**
11 - Research and development, patents and licenses	**22, 56, 98, 103**
12 - Trend information	**25**
13 - Profit forecasts or estimates	**-**
14 - Administrative and management bodies	
14.1 - Members of the administrative and management bodies	134 to 139, 151
14.2 - Administrative, management, and supervisory bodies and senior management conflicts of interests	140
14.3 - Internal control procedures	154 to 157
15 - Remuneration and benefits	**141 to 147, 153**
16 - Board practices	**138, 139, 149 to 153**
17 - Employees	
17.1 - Workforce	28, 85, 109
17.2 - Shareholdings and stock options	90, 91, 102, 107, 123, 126, 127, 133, 142, 143, 145, 146
17.3 - Employee profit-sharing	145
18 - Major shareholders	**127, 128, 133**
19 - Related party transactions	**90, 105, 110**

	Pages
20 - Financial information concerning Mersen's assets and liabilities, financial position and profits and losses	
20.1 - Historical financial information	46 to 51, 96 to 99, 167
20.2 - Pro forma financial information	-
20.3 - Financial statements	45 to 92, 96 to 114
20.4 - Auditing of historic annual/interim financial information	93, 94, 115, 116
20.5 - Age of latest financial information	15, 16
20.6 - Interim and other financial information	-
20.7 - Dividend policy	14, 20, 129, 163
20.8 - Legal and arbitration proceedings	121, 122
20.9 - Significant change in Carbone Lorraine's financial or trading position	25
21 - Additional information	
21. 1 - Share capital	123 to 133
21.1.1 - Issued capital	126 to 129
21.1.2 - Shares not representing capital	-
21.1.3 - Shares held by the issuer	129 to 133
21.1.4 - Convertible securities, exchangeable securities or securities with warrants	123 to 125
21.1.5 - Terms of any acquisition rights and/or obligations over authorized but unissued capital or an undertaking to increase the capital.	123 to 125, 130 to 133
21.1.6 - Information about any capital of any member of the Group which is under option or agreed conditionally or unconditionally to be put under option	147
21.1.7 - History of share capital	126
21.2 - Memorandum and Articles of Association	
21.2.1 - Corporate objects and purposes	162
21.2.2 - Management and supervisory bodies	150, 151
21.2.3 - Rights, preferences and restrictions attaching to each class of existing shares	123 to 125, 127, 130 to 133
21.2.4 - Action necessary to change the rights of holders	123 to 125
21.2.5 - Conditions governing the manner in which annual general meetings and extraordinary general meetings of shareholders are called including the conditions of admission	163
21.2.6 - Provision of the issuer's articles of association, statutes, charter or bylaws that would have an effect of delaying, deferring or preventing a change in control	-
21.2.7 - Articles of association, statutes, charter or bylaw provisions, if any, governing the ownership threshold above which shareholder ownership must be disclosed	164
21.2.8 - Conditions governing changes in the capital	130 to 133
22 - Material contracts	**62**
23 - Third party information, statements by experts and declarations of any interest	**-**
24 - Documents available to the public	**16, 163**
25 - Information on holdings	**42 to 44, 71**

Printed on an environmental-friendly paper.

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