The Morgan Crucible Company plc
Half-year report 2010

The advanced materials group

What we do

Contents

Morgan Crucible is a world leader in advanced materials.

Our highly skilled, dynamic people provide high technology solutions for specialised applications in selected global markets.

Operational and financial highlights

Commenting on the results, strategy and outlook for Morgan Crucible, Chief Executive Officer, Mark Robertshaw said:

"The Group's strategy of focusing on more differentiated, less economically cyclical markets has delivered significantly better earnings levels during the global economic downturn. Following our resilient profit and margin performance in 2009, the Group's underlying order book, excluding NP Aerospace, has been showing consistent month-on-month growth since the fourth quarter of last year giving us good momentum as we enter the second half. I am encouraged by our good progress in both profits and margin this year. This year-on-year profit improvement, coupled with healthy cash generation, underpin an 8% increase in the interim dividend reflecting the Board's confidence in the Group's strategy and outlook.

Our focus remains on the actions we ourselves take to improve the quality and performance of our business. To this end, in July of this year we initiated a fundamental streamlining of our divisional structure by rationalising the existing business units into two new divisions. We believe this simplified structure will help position the Group for faster top line growth, greater operational efficiencies and improved margins. Whilst the global economic demand outlook remains uncertain, we believe that this is an exciting time for the Group as we continue to improve the quality, focus and prospects of our business."

Highlights

- Revenues for the half year increased to £501.1 million (2009: £492.0 million). At constant currency and excluding NP Aerospace the Group achieved 9.7% growth compared with the first half of 2009.
- NP Aerospace revenues for the first half of the year were in line with our expectations at £62.9 million (2009: £95.5 million) with our forecast remaining at c.£120 million of revenues for the full year.
- Group underlying operating profit (EBITA after restructuring charges and one off items) increased by 25.7% to £48.0 million (2009: £38.2 million) representing a margin of 9.6% (2009: 7.8%).
- Underlying profit before tax* increased by 53.4% to £35.9 million (2009: £23.4 million).
- Underlying EPS** increased by 35.9% to 8.7 pence (2009: 6.4 pence).
- Interim dividend increased by 8% to 2.7 pence per share (2009: 2.5 pence per share).
- The Group completed a Euro 60 million private placement in the first half of the year replacing shorter-term bank debt. This increases the maturity of the Group's debt facilities and locks in attractive long-term funding rates.
- Net debt at 4 July 2010 was £260.7 million, which, despite adverse currency movements of £11.0 million, maintains our net debt to EBITDA ratio at 2.1 times.
- This month the Group undertook a significant streamlining of its organisational structure by rationalising the existing business units into two divisions. We believe the new simplified structure will position the Group for further margin improvement. The two new divisions will be named 'Morgan Ceramics', comprising the Technical Ceramics and Thermal Ceramics businesses, and 'Morgan Engineered Materials', comprising the Carbon, including NP Aerospace, and Molten Metal Systems businesses.

£m unless otherwise stated	**Six months 2010**	Six months 2009	Change
Revenue	**501.1**	492.0	+1.8%
Group EBITA~	**50.3**	45.3	+11.0%
Underlying operating profit++	**48.0**	38.2	+25.7%
Underlying PBT*	**35.9**	23.4	+53.4%
Underlying EPS** (pence)	**8.7p**	6.4p	+35.9%
Net cash inflow from operating activities	**57.2**	58.6	-2.4%
Basic EPS (pence)	**7.2p**	3.4p	+117.7%
Operating profit	**44.1**	30.1	+46.5%
Profit before tax	**32.0**	15.3	+109.2%

~ Group EBITA is defined as operating profit before restructuring costs, other one-off items and amortisation of intangible assets.
++ Underlying operating profit is defined as operating profit of £44.1 million (2009: £30.1 million) before amortisation of £3.9 million (2009: £8.1 million).
* Underlying PBT is defined as operating profit of £44.1 million (2009: £30.1 million) before amortisation of £3.9 million (2009: £8.1 million) less net financing costs of £12.1 million (2009: £14.8 million).
** Underlying earnings per share ('EPS') is defined as basic earnings per share of 7.2 pence (2009: 3.4 pence) adjusted to exclude amortisation of 1.5 pence (2009: 3.0 pence).

Operating and financial review

Divisional structure change

In July this year the Group simplified and streamlined its organisational structure into two divisions.

The Technical and Thermal Ceramics businesses have been brought together under a single, integrated management team. We see significant upside from a much closer alignment of the two businesses. Not only is there a growing convergence between the two in terms of customers and end-markets, there are also significant opportunities to leverage the strengths of each division to accelerate our profitable growth plans. Thermal Ceramics, with a strong and well established presence in the high growth markets of Asia, the Middle East and Latin America, provides an excellent platform from which to accelerate the penetration and growth of Technical Ceramics into these regions. At the same time, the focus of Technical Ceramics on distinctive competencies and innovation to deliver higher value added solutions for our customers provides opportunities to enhance further the market positioning and margins of the Thermal business. The new division will be known as Morgan Ceramics.

Dr Andrew Hosty, CEO of Technical Ceramics, will lead the new Morgan Ceramics division and will today join the Board.

Simultaneously, we have created a new Morgan Engineered Materials division which will comprise the Carbon business, NP Aerospace and the Molten Metal Systems business. The division will be led by Don Klas.

At the preliminary announcement for the 2010 results the Group will report the segmental analysis on the basis of the two new divisions above. In addition we will also provide the analysis of the segments on the former basis in order to give visibility and continuity of reporting.

Reference is made to Divisional EBITA throughout the operational reviews for each of our divisions and is shown in the table below. We have kept the same divisional commentary breakdown as historically provided as this reflects the way we managed the businesses throughout the first half of the year.

	Carbon		Technical Ceramics		Insulating Ceramics		Consolidated	
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Revenue	**186.6**	200.6	**124.4**	110.6	**190.1**	180.8	**501.1**	492.0
Divisional EBITA*	**18.6**	19.2	**15.8**	12.3	**18.4**	15.8	**52.8**	47.3
Unallocated central costs							**(2.5)**	(2.0)
Group EBITA							**50.3**	45.3
Restructuring costs and other one-off items							**(2.3)**	(7.1)
Underlying operating profit							**48.0**	38.2

* Divisional EBITA is defined as segment operating profit before restructuring costs, other one-off items and amortisation of intangible assets.

Carbon

Revenues for the first half of 2010 in the Carbon division were £186.6 million (2009: £200.6 million), representing a decrease at reported rates of 6.9%. At constant currency this decrease in revenues was 7.7%. The revenues for the base Carbon division, excluding NP Aerospace, were £123.7 million (2009: £105.1 million) representing a significant increase of 17.7% at reported rates; 15.9% on a constant currency basis. NP Aerospace revenues in the first half of 2010 were £62.9 million (2009: £95.5 million), in line with our expectations following the strong surge of vehicle contracts last year.

Divisional EBITA for the first half was £18.6 million (2009: £19.2 million), reflecting the reduction in NP Aerospace revenues being largely offset by the strong recovery in the base Carbon business in the first half. The overall division margin improved to 10.0% (2009: 9.6%), with NP Aerospace delivering 14.1% in this half compared with 14.4% in 2009, despite lower revenues, with the base Carbon business increasing its margin to 7.9%, compared with 5.2%.

The recovery in the base Carbon business excluding NP Aerospace reflected the strong return of its traditional markets in virtually all regions and across most end-markets, and the order book, despite working to a much shorter window than historically, has shown continued improvement through the period. Revenue of body armour products in the Americas were at a similar level to the first half of 2009 at c.£5 million whilst our European armour revenues were c.£4 million.

The base Carbon business continues to see the benefits of our extensive cost reduction actions taken in 2008 and 2009, with improved margins being achieved from moves to low cost regions such as Mexico, China and Hungary and from our ongoing Operational Excellence projects. In addition to the recovery of the traditional markets, we have continued to pursue further growth opportunities in areas such as renewable energy, with success in supplying a broader product offering into the wind energy market, and further progress in our high temperature offering into the solar industry.

As expected, revenues in NP Aerospace declined from the record levels of 2009 as UK MoD demand for new Cougar based vehicles reduced from the initial surge requirements of last year. Our existing order book, combined with customer commitments for long-lead time items, mean that our expectation remains that full year NP Aerospace revenues for 2010 will be c.£120 million. Building upon the success of the last two years, particularly in respect of advanced armour solutions, we continue to pursue a number of additional domestic and international opportunities with existing and new customers.

Technical Ceramics
Revenues for the first half of 2010 in Technical Ceramics were £124.4 million (2009: £110.6m), representing an increase at reported rates of 12.5%. At constant currency the increase in revenues was 13.2%.

EBITA for the first half was £15.8 million (2009: £12.3 million), reflecting a year-on-year increase of 28.5%. Margins improved to 12.7% (2009: 11.1%).

Most of the Technical Ceramics division's markets have been showing improved demand during the past several months. US markets in particular recovered strongly in the first half. Asian demand also showed good growth. European recovery was generally less pronounced but still showed a positive trend relative to the second half of last year. From an end-market perspective, there has been a general improvement in trading conditions in the first half. Aerospace markets recovered well from the slowdown seen in mid 2009 with our US metals business in particular benefiting from its alignment with this key market. Medical applications in the diagnostic and analytical areas also saw strong demand, but the medical device market has remained soft in the first half, mainly due to destocking in the supply chain. Consumer electronics demand was robust and the take up of our new products in hard disk drive applications was encouraging. Construction and thermal processing markets reflected the positive economic growth in Asia. The same markets in Europe were flatter, but showed positive sentiment towards the end of the half. In power generation, the weakness of the Industrial Gas Turbine (IGT) market held back our Certech businesses, in both the US and Europe, whilst solar started the half slowly but saw pick up towards the end of the period.

The restructuring of our Californian plants, arising from the integration programme of the businesses acquired from Carpenter, was largely completed during the half, having successfully delivered the benefits expected and established a much improved and re-invigorated business. We continue to seek bolt-on acquisition opportunities with technology leadership in our preferred markets to further advance and grow the division.

Insulating Ceramics
Within the Insulating Ceramics division there are two operating segments: Thermal Ceramics and Molten Metal Systems.

The Insulating Ceramics division revenue increased to £190.1 million (2009: £180.8 million), an increase of 5.1% and on a constant currency basis an increase of 4.0%. Divisional EBITA improved to £18.4 million (2009: £15.8 million), an increase of 16.5% and margins improved to 9.7% from 8.7%.

The Thermal Ceramics business' revenue increased by 2.8% to £170.2 million in 2010 (2009: £165.6 million) at reported rates and by 1.8% on a constant currency basis. The Thermal Ceramics EBITA at £15.5 million (2009: £15.7 million) marginally declined from the 2009 comparative which reflects the later cycle characteristics of the business and low plant loading earlier this year in our larger Western world sites.

While the first few months of 2010 continued at the subdued level of trading experienced in the second half of 2009, this position started to improve towards the end of quarter one and that trend has continued with increasing levels of orders and sales across our end-markets and regions.

Regionally, the strongest recovery has been in Latin America due mainly to iron and steel end-market demand and major petrochemical developments in Brazil. In Asia, China and India emerged relatively unscathed from the economic downturn with strong growth in ceramics, chemicals and steel end-markets driven by infrastructure projects and domestic growth. Our North American and European markets have been slower to recover although both are now experiencing improved trading.

There has been a pick up across a range of our end-markets including emission control systems for automotive applications, where we are a niche, differentiated supplier. Also our targeted development sectors of fire protection and environmental protection have led to new global contracts with leading companies in the areas of defence, cement production and a new technology for producing coking fuels for steel plants. In contrast the building and construction sector in Europe has shown little sign of recovery following the harsh winter and economic downturn.

Revenues in the Molten Metal Systems business increased by 30.9% to £19.9 million compared with £15.2 million in the first half of 2009 and on a constant currency basis revenues increased by 26.7%. Margin progression from 2009 has been strong with the business achieving a 14.6% margin in the first half of 2010 compared with only 0.7% in the first half of 2009. We continue to see strong demand in the majority of our markets, with significant growth in Asia and Eastern Europe. The new plant in Suzhou, China, and our expanded Indian operations have all increased output, enabling the business to capitalise on this lower cost base and service the strong demand in these regions.

Financial review
Reference is made to 'Underlying operating profit' and 'Underlying EPS' below, both of which are defined at the front of this statement. These measures of earnings are shown because the Directors consider that they give a better indication of underlying performance.

Group revenue in the first half of 2010 was £501.1 million, an increase of 1.8% compared to 2009. At constant currency and excluding NP Aerospace the Group achieved a 9.7% revenue growth compared to the first half of 2009.

Operating and financial review
continued

Group EBITA before restructuring charges and one-off items was £50.3 million (2009: £45.3 million) representing a margin of 10.0% (2009: 9.2%).

Group underlying operating profit (EBITA after restructuring costs and one-off items) for the first half of the year was £48.0 million (2009: £38.2 million). Underlying operating profit margins were 9.6%, compared to 7.8% for 2009.

The Group has incurred costs of £2.4 million in respect of restructuring costs in the first half of the year, comprising restructuring activity across all divisions.

The Group purchased a further 10% stake in NP Aerospace in April 2010, taking Morgan Crucible's stake to a 70% holding. The consideration for this 10% and for the year-end adjustment to the amount payable for the 11% acquired in 2009 totaled £27.2 million payable in two tranches, £14.8 million in April and £12.4 million in the third quarter. Included in this is a payment of £2.3 million to the Employee Benefit Trust in accordance with the terms of the original acquisition agreement.

The net finance charge was £12.1 million (2009: £14.8 million). Net bank interest and similar charges were £12.3 million (2009: £11.4 million). A one-off gain of £2.0 million was realised on foreign exchange contracts in the first half of the year as the Group organised its cash pooling arrangements more effectively. An element of the finance charge under IFRSs is the net interest charge on pension scheme net liabilities which was £1.1 million (2009: £2.3 million). Also included in the finance charge is an 'interest expense on unwinding of discount on deferred consideration' of £0.7 million (2009: £1.1 million) which relates to the NP Aerospace acquisition.

The Group amortisation charge for the year was £3.9 million (2009: £8.1 million). The main reason for the decrease in amortisation is based on a fair value assessment of the assets of NP Aerospace at the date of the 11% acquisition at the start of 2009. The amortisation calculation was driven by the NP Aerospace order book at the time which was 'fair valued' as part of the intangible assets and amortised over the 12 month period over which the orders were delivered. Hence in 2009 the Group had a one-off increase in its amortisation charge.

The tax charge for the period was £9.6 million (2009: £4.3 million). The effective tax rate for this year is 30% (2009: 28%). The medium term view is that the effective tax rate will continue to be c.30%.

Underlying EPS was 8.7 pence (2009: 6.4 pence), an increase of 35.9%.

The Group pension deficit increased by £15.2 million since last year-end to £121.1 million on an IAS 19 basis. The main movement was in the US pension schemes. The US scheme deficit deteriorated by £13.0 million to £59.2 million (2009: £46.2 million), mainly due to a lower discount rate and movement in foreign exchange rates on retranslation of the US dollar denominated balance.

The net cash inflow from operating activities was £57.2 million (2009: £58.6 million). Free cash flow before one-off costs and dividends was £29.7 million (2009: £30.6 million).

Net capital expenditure was £4.5 million comprising £6.2 million of gross expenditure offset by £1.7 million of proceeds from the sale of land, buildings and equipment from discontinued sites, primarily the former Molten Metal Systems manufacturing plant in Norton.

Net debt at the end of period was £260.7 million. The net debt to EBITDA ratio at the period end was maintained at 2.1 times (2009 year-end 2.1 times) despite an unfavourable foreign exchange translation movement of £11.0 million. The Group completed a Euro 60 million private placement in the first half of the year. This new funding is split Euro 40 million, for five years at a fixed coupon of 3.65% and Euro 20 million for seven years at a fixed coupon of 4.32%. As a result of this new funding and continued effective balance sheet management the Group has been able to reduce its bank facilities from £280 million to £180 million. Our bank facility headroom is now at £122 million.

Cash flow

	2010 £m	2009 £m
Net cash inflow from operating activities	**57.2**	58.6
Net capital expenditure	(4.5)	(9.3)
Net interest paid	(10.5)	(11.2)
Tax paid on ordinary activities	(12.5)	(7.5)
Free cash flow before one-off costs and dividends	**29.7**	30.6
One-off costs:		
– Restructuring costs and other one-off items	(4.1)	(5.1)
– Tax settlement	–	(19.0)
Dividends paid	(6.7)	–
Cash flows from other investing and financing activities	(15.9)	(31.2)
Exchange rate movement	(11.0)	32.2
Opening net debt*	(252.7)	(290.4)
Closing net debt	**(260.7)**	(282.9)

* Net debt is defined as interest-bearing loans and borrowings, bank overdrafts less cash and cash equivalents.

Key exchange rates used

The following major exchange rates have been used for the half year to/at 4 July 2010:

€ Euro	Average – €1.1509;	
	Closing – €1.2053	
US $ Dollar	Average – $1.5208;	
	Closing – $1.5189	

Interim dividend

The Board has declared an interim dividend of 2.7 pence per Ordinary share. This is an 8% increase compared to the interim dividend declared in 2009. The dividend will be paid on 12 January 2011 to Ordinary shareholders on the register of members at the close of business on 3 December 2010.

A scrip alternative to the cash dividend will again be offered as part of this interim dividend giving shareholders the opportunity to increase their shareholding without incurring dealing costs or stamp duty.

Board change

As outlined in the Divisional Structure Change section Dr Andrew Hosty, currently CEO of Technical Ceramics, is to head our new Morgan Ceramics division and will today join the Board. There are no matters requiring disclosure in relation to Listing Rule 9.6.13.

Outlook

Whilst risks remain to the global economic recovery, we believe that the Group is well placed to make progress in the second half of this year. We remain cautiously optimistic about prospects for the months ahead, particularly as we continue to take positive actions to improve the level and quality of our earnings.

Risks and uncertainties

The main risks to the Group continue to be those that were reported on pages 60 and 61 of the 2009 Annual Report, which is available on request from the Company's registered office at Quadrant, 55-57 High Street, Windsor, Berkshire SL4 1LP or at www.morgancrucible.com. The Group continues to monitor and manage these risks within acceptable tolerances.

Going concern

As highlighted on page 59 of the 2009 financial statements, the Group meets its day-to-day working capital requirements through local banking arrangements. During the interim period, the Group completed a Euro 60 million private placement. As a result of this new funding and continued effective balance sheet management the Group has now reduced its bank facilities from £280 million to £180 million. The bank facility headroom is now at £122 million.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group is able to operate within the level of its committed facilities. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated financial statements for the six months ended 4 July 2010.

Responsibility statement

We confirm that to the best of our knowledge:

- The condensed consolidated financial statements for the six months ended 4 July 2010 have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;
- The interim management report includes a fair review of the information required by:

  a. DTR 4.2.7R (indication of important events during the first six months and description of principal risk and uncertainties for the remaining six months of the year);

  b. DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

Tim Stevenson
Chairman

Mark Robertshaw
Chief Executive Officer

Condensed consolidated income statement
for the six months ended 4 July 2010

	Note	Six months 2010 £m	Six months 2009 £m	Year 2009 £m
Revenue	2	**501.1**	492.0	942.6
Operating costs before restructuring costs, other one-off items and amortisation of intangible assets		**(450.8)**	(446.7)	(853.6)
Profit from operations before restructuring costs, other one-off items and amortisation of intangible assets		**50.3**	45.3	89.0
Restructuring costs and other one-off items:				
Restructuring costs and costs associated with settlement of prior period anti-trust litigation	6	**(2.4)**	(7.2)	(14.0)
Gain on disposal of property		**0.1**	0.1	2.0
Profit from operations before amortisation of intangible assets	2	**48.0**	38.2	77.0
Amortisation of intangible assets		**(3.9)**	(8.1)	(16.3)
Operating profit	2	**44.1**	30.1	60.7
Finance income		**15.5**	11.9	24.4
Finance expense		**(27.6)**	(26.7)	(53.7)
Net financing costs	4	**(12.1)**	(14.8)	(29.3)
Profit before taxation		**32.0**	15.3	31.4
Income tax expense	5	**(9.6)**	(4.3)	(8.7)
Profit after taxation and for the period		**22.4**	11.0	22.7
Profit for the period attributable to:				
Equity holders of the parent		**19.4**	9.0	19.0
Non-controlling interests		**3.0**	2.0	3.7
		22.4	11.0	22.7
Earnings per share	7			
Basic		**7.2p**	3.4p	7.1p
Diluted		**6.9p**	3.2p	6.8p
Dividends				
Interim dividend – pence		**2.70p**	2.50p	
– £m		**7.3**	6.8	
Final dividend – pence				4.50p
– £m				12.2

The interim ordinary dividend is based upon the number of shares outstanding at the balance sheet date.
All results derive from continuing activities.

Condensed consolidated statement of other comprehensive income
for the six months ended 4 July 2010

	Six months 2010 £m	Six months 2009 £m	Year 2009 £m
Profit for the period	**22.4**	11.0	22.7
Foreign exchange translation differences	**(0.6)**	(27.5)	(17.5)
Actuarial loss on defined benefit plans	**(16.7)**	(8.3)	(18.7)
Revaluation on step acquisition	**–**	10.8	10.8
Net gain on hedge of net investment in foreign subsidiary	**1.3**	14.6	9.1
Cash flow hedges:			
Effective portion of changes in fair value	**(0.3)**	3.9	0.2
Transferred to profit or loss	**0.5**	–	4.6
Change in fair value of equity securities available-for-sale	**–**	–	1.0
Tax effect on components of other comprehensive income	**–**	(2.5)	5.5
Total comprehensive income for the period	**6.6**	2.0	17.7
Total comprehensive income attributable to:			
Equity holders of the parent	**1.3**	2.7	17.1
Non-controlling interests	**5.3**	(0.7)	0.6
Total comprehensive income for the period	**6.6**	2.0	17.7

Condensed consolidated balance sheet
as at 4 July 2010

	4 July 2010 £m	5 July 2009 £m	3 January 2010 £m
Assets			
Property, plant and equipment	**269.5**	280.9	276.2
Intangible assets	**290.8**	295.3	296.9
Investment in associate	**1.5**	1.5	1.5
Other investments	**5.5**	3.7	5.7
Other receivables	**3.0**	2.9	2.1
Deferred tax assets	**38.7**	34.4	37.2
Total non-current assets	**609.0**	618.7	619.6
Inventories	**147.5**	151.8	146.3
Derivative financial assets	**1.1**	0.3	0.5
Trade and other receivables	**187.8**	175.2	165.8
Cash and cash equivalents	**102.8**	141.3	107.6
Assets classified as held for sale	**–**	–	1.4
Total current assets	**439.2**	468.6	421.6
Total assets	**1,048.2**	1,087.3	1,041.2
Liabilities			
Interest-bearing loans and borrowings	**356.2**	392.0	346.6
Employee benefits	**121.1**	97.9	105.9
Grants for capital expenditure	**0.2**	0.1	0.2
Provisions	**7.0**	6.2	5.5
Non-trade payables	**18.5**	38.5	31.7
Derivative financial liabilities	**0.8**	–	4.1
Deferred tax liabilities	**47.6**	52.8	47.5
Total non-current liabilities	**551.4**	587.5	541.5
Bank overdraft	**1.2**	18.3	1.2
Interest-bearing loans and borrowings	**6.1**	13.9	12.5
Trade and other payables	**264.0**	251.5	250.3
Current tax payable	**2.8**	1.1	4.5
Provisions	**10.0**	8.0	10.9
Derivative financial liabilities	**8.6**	8.6	5.7
Total current liabilities	**292.7**	301.4	285.1
Total liabilities	**844.1**	888.9	826.6
Total net assets	**204.1**	198.4	214.6
Equity			
Share capital	**68.0**	67.9	67.9
Share premium	**85.4**	85.3	85.3
Reserves	**60.0**	49.8	61.4
Retained earnings	**(44.1)**	(33.7)	(30.0)
Total equity attributable to equity holders of parent Company	**169.3**	169.3	184.6
Non-controlling interests	**34.8**	29.1	30.0
Total equity	**204.1**	198.4	214.6

Condensed consolidated statement of changes in equity
for the six months ended 4 July 2010

	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Fair value reserve £m	Special reserve £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total parent equity £m	Non-controlling interests £m	Total equity £m
Balance at 5 January 2009	67.9	85.3	9.9	(4.6)	(2.7)	6.0	35.7	1.0	(20.7)	177.8	30.2	208.0
Profit for the period	–	–	–	–	–	–	–	–	9.0	9.0	2.0	11.0
Other comprehensive income	–	–	(10.2)	3.9	–	–	–	10.8	(10.8)	(6.3)	(2.7)	(9.0)
Transactions with owners:												
Dividends	–	–	–	–	–	–	–	–	(12.2)	(12.2)	(0.4)	(12.6)
Equity-settled share-based payment transactions	–	–	–	–	–	–	–	–	1.0	1.0	–	1.0
Balance at 5 July 2009	67.9	85.3	(0.3)	(0.7)	(2.7)	6.0	35.7	11.8	(33.7)	169.3	29.1	198.4
Balance at 5 January 2009	67.9	85.3	9.9	(4.6)	(2.7)	6.0	35.7	1.0	(20.7)	177.8	30.2	208.0
Profit for the period	–	–	–	–	–	–	–	–	19.0	19.0	3.7	22.7
Other comprehensive income	–	–	0.2	4.8	1.0	–	–	10.8	(18.7)	(1.9)	(3.1)	(5.0)
Other movements	–	–	–	–	–	–	–	(0.7)	0.2	(0.5)	0.5	–
Transactions with owners:												
Dividends	–	–	–	–	–	–	–	–	(12.1)	(12.1)	(1.3)	(13.4)
Equity-settled share-based payment transactions	–	–	–	–	–	–	–	–	2.3	2.3	–	2.3
Balance at 3 January 2010	67.9	85.3	10.1	0.2	(1.7)	6.0	35.7	11.1	(30.0)	184.6	30.0	214.6
Balance at 4 January 2010	**67.9**	**85.3**	**10.1**	**0.2**	**(1.7)**	**6.0**	**35.7**	**11.1**	**(30.0)**	**184.6**	**30.0**	**214.6**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**19.4**	**19.4**	**3.0**	**22.4**
Other comprehensive income	**–**	**–**	**(1.6)**	**0.2**	**–**	**–**	**–**	**–**	**(16.7)**	**(18.1)**	**2.3**	**(15.8)**
Transactions with owners:												
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(18.8)**	**(18.8)**	**(0.5)**	**(19.3)**
Equity-settled share-based payment transactions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2.0**	**2.0**	**–**	**2.0**
Issue of shares	**0.1**	**0.1**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0.2**	**–**	**0.2**
Balance at 4 July 2010	**68.0**	**85.4**	**8.5**	**0.4**	**(1.7)**	**6.0**	**35.7**	**11.1**	**(44.1)**	**169.3**	**34.8**	**204.1**

Condensed consolidated statement of cash flows
for the six months ended 4 July 2010

	Note	**Six months 2010 £m**	Six months 2009 £m	Year 2009 £m
Operating activities				
Profit for the period		**22.4**	11.0	22.7
Adjustments for:				
Depreciation		**16.4**	16.6	31.7
Amortisation		**3.9**	8.1	16.3
Net financing costs		**12.1**	14.8	29.3
Profit on sale of property, plant and equipment		**–**	(0.1)	(2.1)
Income tax expense		**9.6**	4.3	8.7
Equity-settled share-based payment expenses		**1.6**	0.7	2.0
Cash generated from operations before changes in working capital and provisions		**66.0**	55.4	108.6
(Increase)/decrease in trade and other receivables		**(22.0)**	11.0	26.5
(Increase)/decrease in inventories		**(0.1)**	(1.1)	8.1
Increase/(decrease) in trade and other payables		**12.3**	(4.4)	(8.8)
Non-cash operating costs relating to restructuring		**–**	1.4	1.5
Decrease in provisions and employee benefits		**(3.1)**	(8.8)	(13.5)
Cash generated from operations		**53.1**	53.5	122.4
Interest paid		**(11.3)**	(12.1)	(25.5)
Income tax paid		**(12.5)**	(26.5)	(32.0)
Net cash from operating activities		**29.3**	14.9	64.9
Investing activities				
Purchase of property, plant and equipment		**(6.2)**	(9.9)	(18.1)
Proceeds from sale of property, plant and equipment		**1.7**	0.6	4.4
Sale of investments		**0.6**	0.4	0.2
Interest received		**0.8**	0.9	2.3
Acquisitions of subsidiaries and associate, net of cash acquired		**(14.1)**	(31.6)	(31.9)
Forward contracts used in net investment hedging		**(2.4)**	–	(0.3)
Net cash from investing activities		**(19.6)**	(39.6)	(43.4)
Financing activities				
Net (decrease)/increase in borrowings	8	**(7.8)**	24.7	(35.5)
Payment of finance lease liabilities	8	**(0.3)**	(0.3)	(0.6)
Dividends paid		**(6.7)**	–	(12.1)
Net cash from financing activities		**(14.8)**	24.4	(48.2)
Net decrease in cash and cash equivalents		**(5.1)**	(0.3)	(26.7)
Cash and cash equivalents at start of period		**107.6**	139.4	139.4
Effect of exchange rate fluctuations on cash held		**0.3**	(10.6)	(5.1)
Cash and cash equivalents at period end	8	**102.8**	128.5	107.6

Notes to the condensed consolidated financial statements

1. Basis of preparation

The Morgan Crucible Company plc (the 'Company') is a company domiciled in the United Kingdom. The condensed consolidated financial statements of the Company as at and for the six months ended 4 July 2010 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interests in associates.

These half-year condensed consolidated financial statements have been drawn up to Sunday 4 July 2010. The Group maintains a 52 or 53 week fiscal year ending on the Sunday nearest to the Accounting Reference Date of the Company, 1 January.

The condensed consolidated financial statements for the six months ended 4 July 2010 have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

As required by the Disclosure and Transparency Rules of the Financial Services Authority, these condensed consolidated financial statements have been prepared applying the accounting policies that were applied in the preparation of the Company's published consolidated financial statements for the year ended 3 January 2010 except for the impact of adopting the accounting standards below.

During the period, the Group has applied IFRS 3 (Revised 2008) *Business Combinations* and IAS 27 (Revised 2008) *Consolidated and Separate Financial Statements*. The revised standards introduce changes to acquisition accounting, notably in respect of treatment of acquisition costs, step and partial acquisitions, non-controlling interests and contingent consideration. The revised standards have had no impact on the reported results or financial position of the Group. In addition, the Group has applied amendments to the following adopted IFRSs: IAS 17 *Leases*, IAS 18 *Revenue*, IAS 27 (Amended 2008) *Consolidated and Separate Financial Statements*, IAS 36 *Impairment of Assets*, IAS 38 *Intangible Assets*, IAS 39 *Financial Instruments*, IFRS 2 *Share-Based Payment*, IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 8 *Operating Segments*, IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*, IFRIC 17 *Distributions of Non-Cash Assets to Owners*, IFRIC 18 *Transfers of Assets from Customers*. The above amendments have not had any significant impact on the reported results or financial position of the Group.

The comparative figures for the financial year ended 3 January 2010 are not the Company's statutory consolidated accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006. The consolidated financial statements of the Group as at and for the year ended 3 January 2010 are available on request from the Company's registered office at Quadrant, 55-57 High Street, Windsor, Berkshire SL4 1LP or at www.morgancrucible.com.

The condensed consolidated financial statements for the six months ended 4 July 2010 and the comparative period have neither been audited nor reviewed.

The condensed consolidated financial statements for the six months ended 4 July 2010 were approved by the Board on 28 July 2010.

Notes to the condensed consolidated financial statements continued

2. Segment information

The Group comprises the following four reportable segments:

- Carbon – the Carbon Division produces a wide variety of technological solutions from carbon, graphite and silicon carbide.
- Technical Ceramics – the Technical Ceramics Division makes an extensive range of industrial ceramics products for a wide variety of applications.
- Thermal Ceramics – the Thermal Ceramics Division designs and manufactures a wide variety of heat insulation products.
- Molten Metal Systems – the Molten Metal Systems Division occupies a leading position in the supply of crucibles and manufactures equipment used in the melting, holding and processing of metals and alloys.

					Insulating Ceramics					
	Carbon		Technical Ceramics		Thermal Ceramics		Molten Metal Systems		Consolidated	
	Six months 2010 £m	Six months 2009 £m	**Six months 2010 £m**	Six months 2009 £m	**Six months 2010 £m**	Six months 2009 £m	**Six months 2010 £m**	Six months 2009 £m	**Six months 2010 £m**	Six months 2009 £m
Revenue from external customers	**186.6**	200.6	**124.4**	110.6	**170.2**	165.6	**19.9**	15.2	**501.1**	492.0
Divisional EBITA[1]	**18.6**	19.2	**15.8**	12.3	**15.5**	15.7	**2.9**	0.1	**52.8**	47.3
Unallocated costs									**(2.5)**	(2.0)
Group EBITA[2]									**50.3**	45.3
Restructuring costs and other one-off items									**(2.3)**	(7.1)
Underlying operating profit[3]									**48.0**	38.2
Amortisation of intangible assets									**(3.9)**	(8.1)
Operating profit									**44.1**	30.1
Finance income									**15.5**	11.9
Finance expense									**(27.6)**	(26.7)
Profit before taxation									**32.0**	15.3
Segment assets	**380.0**	388.2	**230.4**	224.7	**261.9**	262.4	**31.8**	31.5	**904.1**	906.8
Unallocated assets									**144.1**	180.5
Total assets									**1,048.2**	1,087.3

2. Segment information continued

	Carbon Year 2009 £m	Technical Ceramics Year 2009 £m	Insulating Ceramics: Thermal Ceramics Year 2009 £m	Insulating Ceramics: Molten Metal Systems Year 2009 £m	Consolidated Year 2009 £m
Revenue from external customers	391.4	206.0	315.1	30.1	942.6
Divisional EBITA[1]	40.5	25.1	26.7	0.9	93.2
Unallocated costs					(4.2)
Group EBITA[2]					89.0
Restructuring costs and other one-off items					(12.0)
Underlying operating profit[3]					77.0
Amortisation of intangible assets					(16.3)
Operating profit					60.7
Finance income					24.4
Finance expense					(53.7)
Profit before taxation					31.4
Segment assets	384.4	220.9	258.2	31.6	895.1
Unallocated assets					146.1
Total assets					1,041.2

1. Divisional EBITA is defined as segment operating profit before restructuring costs, other one-off items and amortisation of intangible assets.
2. Group EBITA is defined as operating profit before restructuring costs, other one-off items and amortisation of intangible assets.
3. Underlying operating profit is defined as operating profit before amortisation of intangible assets.

The above measures of profit are shown because the Directors use them to measure the underlying performance of the business, as referred to in the Management report section of the Half-year report.

3. Acquisitions

Clearpower Limited

In 2007 the Group acquired 49% of the Ordinary share capital of Clearpower Limited, a company that, via two intermediary holding companies, owns 100% of NP Aerospace Limited. On 5 January 2009 the Group acquired the remaining 51% of the Ordinary share capital of Clearpower Limited for a total of £56.8 million, an amount contingent on the future performance of Clearpower Limited. This comprised £12.2 million in cash for 11% of the Ordinary share capital and £44.6 million in discounted deferred contingent consideration for 40% of the Ordinary share capital. The discounted deferred contingent consideration takes the form of four synthetic forwards each to acquire 10% of the Ordinary share capital of Clearpower Limited at future dates from 2010 onwards, the amount of which are based on a fixed EBITDA multiple of Clearpower Limited.

On 1 April 2010 the Group agreed to pay £24.9 million. Of this amount £17.2 million relates to the acquisition of the first of the four synthetic forwards noted above. The remaining payment of £7.7 million relates to deferred contingent consideration on the acquisition of 11% of Clearpower in 2009. Approximately £12.4 million of the total was deferred for payment until 6 July 2010. In addition to these payments the Group paid £2.3 million to the Employee Benefit Trust in accordance with the terms of the original acquisition agreement.

Notes to the condensed consolidated financial statements continued

3. Acquisitions continued
In accordance with IAS 32 *Financial Instruments*: *Presentation*, the Group has also recognised a liability, representing the estimated present value of the redemption amount in respect of its obligation to acquire the remaining 30% of the Ordinary share capital of Clearpower Limited. It has treated these shares as if they were acquired by the Group on 5 January 2009. Since this consideration is contingent on the future performance of Clearpower this liability is remeasured at each reporting date with any adjustments recorded through goodwill, in accordance with IFRS 3 *Business Combinations (2004)*. It is possible that the carrying amount of this liability will increase or decrease if the future performance of Clearpower varies from current expectations. At 4 July 2010 this liability was remeasured and reduced to £22.4 million.

At 4 July 2010 the Group carries a total liability of £34.8 million in respect of deferred consideration. This is included within current and non-current non-trade payables. The unwinding of the discount on this liability of £0.7 million is recorded as a finance expense (see note 4). The adjustment through goodwill since the date of acquisition as a result of the remeasurement is £1.2 million.

4. Net finance income and expense

	Six months 2010 £m	Six months 2009 £m	Year 2009 £m
Interest income on bank deposits	**0.6**	0.9	2.3
Expected return on IAS 19 scheme assets	**12.9**	11.0	22.1
Gain on foreign exchange derivatives in respect of financial indebtedness	**2.0**	–	–
Finance income	**15.5**	11.9	24.4
Interest expense on financial liabilities measured at amortised cost	**(12.9)**	(12.3)	(25.1)
Interest on IAS 19 obligations	**(14.0)**	(13.3)	(26.4)
Interest expense on unwinding of discount on deferred consideration	**(0.7)**	(1.1)	(2.2)
Finance expense	**(27.6)**	(26.7)	(53.7)
Net financing costs recognised in profit or loss	**(12.1)**	(14.8)	(29.3)

5. Taxation – income tax expense

	Six months 2010 £m	Six months 2009 £m	Year 2009 £m
Tax on profit	**9.6**	4.3	8.7

The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 4 July 2010 is based on the Directors' best estimate of the effective tax rate for the year.

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of 4 years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010 and will be effective from 1 April 2011. This will reduce the Group's future current tax charge accordingly. If the rate change from 28% to 27% had been substantively enacted on or before the balance sheet date it would have had the effect of reducing the deferred tax liability recognised at that date by £0.5 million.

6. Restructuring costs and costs associated with settlement of prior period anti-trust litigation
Costs of restructuring were £2.4 million (2009: £8.2 million). During the prior period net legal costs of £1.0 million were recovered relating to the settlement of prior period anti-trust litigation.

7. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 4 July 2010 was based on the profit attributable to equity holders of The Morgan Crucible Company plc of £19.4 million (5 July 2009: £9.0 million) and a weighted average number of Ordinary shares outstanding during the period ended 4 July 2010 of 268,653,963 (5 July 2009: 267,923,219) calculated as follows:

	Six months 2010 £m	Six months 2009 £m	Year 2009 £m
Profit attributable to equity holders of The Morgan Crucible Company plc	**19.4**	9.0	19.0
Weighted average number of Ordinary shares:			
Issued Ordinary shares at beginning of the period	**270,206,256**	270,206,256	270,206,256
Effect of shares issued in period and treasury shares held by the Company	**(1,552,293)**	(2,283,037)	(2,136,004)
Weighted average number of Ordinary shares during the period	**268,653,963**	267,923,219	268,070,252
Basic earnings per share (pence)	**7.2p**	3.4p	7.1p

Diluted earnings per share

The calculation of diluted earnings per share at 4 July 2010 was based on the profit attributable to equity holders of The Morgan Crucible Company plc of £19.4 million (5 July 2009: £9.0 million) and a diluted weighted average number of Ordinary shares outstanding during the period ended 4 July 2010 of 281,567,233 (5 July 2009: 277,753,388), calculated as follows:

	Six months 2010 £m	Six months 2009 £m	Year 2009 £m
Profit attributable to equity holders of The Morgan Crucible Company plc	**19.4**	9.0	19.0
Weighted average number of Ordinary shares:			
Weighted average number of Ordinary shares during the period	**268,653,963**	267,923,219	268,070,252
Effect of share options/incentive schemes	**12,913,270**	9,830,169	11,654,230
Diluted weighted average number of Ordinary shares during the period	**281,567,233**	277,753,388	279,724,482
Diluted earnings per share (pence)	**6.9p**	3.2p	6.8p

Notes to the condensed consolidated financial statements continued

7. Earnings per share continued

Underlying earnings per share

The calculation of underlying earnings per share at 4 July 2010 was based on operating profit and share of profit of associate before amortisation, less net financing costs, loss on disposal of business, income tax expense and non-controlling interests of £23.3 million (5 July 2009: £17.1 million) and a weighted average number of Ordinary shares outstanding during the period ended 4 July 2010 of 268,653,963 (5 July 2009: 267,923,219) calculated as follows:

	Six months 2010 £m	Six months 2009 £m	Year 2009 £m
Operating profit and share of profit of associate before amortisation, less net financing costs, loss on disposal of business, income tax expense and non-controlling interests	**23.3**	17.1	35.3
Weighted average number of Ordinary shares:			
Issued Ordinary shares at beginning of the period	**270,206,256**	270,206,256	270,206,256
Effect of shares issued in period and treasury shares held by the Company	**(1,552,293)**	(2,283,037)	(2,136,004)
Weighted average number of Ordinary shares during the period	**268,653,963**	267,923,219	268,070,252
Earnings per share before amortisation of intangible assets (pence)	**8.7p**	6.4p	13.2p

Diluted underlying earnings per share

The calculation of diluted underlying earnings per share at 4 July 2010 was based on operating profit and share of profit of associate before amortisation, less net financing costs, loss on disposal of business, income tax expense and non-controlling interests of £23.3 million (5 July 2009: £17.1 million) and a diluted weighted average number of Ordinary shares outstanding during the period ended 4 July 2010 of 281,567,233 (5 July 2009: 277,753,388) calculated as follows:

	Six months 2010 £m	Six months 2009 £m	Year 2009 £m
Operating profit and share of profit of associate before amortisation, less net financing costs, loss on disposal of business, income tax expense and non-controlling interests	**23.3**	17.1	35.3
Weighted average number of Ordinary shares:			
Weighted average number of Ordinary shares during the period	**268,653,963**	267,923,219	268,070,252
Effect of share options/incentive schemes	**12,913,270**	9,830,169	11,654,230
Diluted weighted average number of Ordinary shares during the period	**281,567,233**	277,753,388	279,724,482
Diluted earnings per share before amortisation of intangible assets (pence)	**8.3p**	6.2p	12.6p

8. Cash and cash equivalents/bank overdrafts

	Six months 2010 £m	Six months 2009 £m	Year 2009 £m
Bank balances	**82.8**	110.3	92.9
Cash deposits	**20.0**	31.0	14.7
Cash and cash equivalents per condensed consolidated balance sheet	**102.8**	141.3	107.6
Bank balances subject to cash pooling arrangements	**–**	(12.8)	–
Cash and cash equivalents per condensed consolidated statement of cash flows	**102.8**	128.5	107.6
Bank overdrafts subject to cash pooling arrangements	**–**	(12.8)	–
Other bank overdrafts	**(1.2)**	(5.5)	(1.2)
Total bank overdrafts	**(1.2)**	(18.3)	(1.2)

At 5 July 2009, in accordance with IAS 32 *Financial Instruments: Presentation*, bank overdrafts subject to cash pooling arrangements were not offset against cash and cash equivalents as the Group did not then intend to settle on a net basis. This position was reviewed in the second half of the year ended 3 January 2010 and the Group would now intend to settle the pooled balances on a net basis.

Reconciliation of cash and cash equivalents to net debt*

	Six months 2010 £m	Six months 2009 £m	Year 2009 £m
Opening borrowings	**(360.3)**	(429.8)	(429.8)
Net decrease/(increase) borrowings	**7.8**	(24.7)	35.5
Payment of finance lease liabilities	**0.3**	0.3	0.6
Effect of movements in foreign exchange on borrowings	**(11.3)**	42.8	33.4
Closing borrowings	**(363.5)**	(411.4)	(360.3)
Cash and cash equivalents per condensed consolidated statement of cash flows	**102.8**	128.5	107.6
Closing net debt	**(260.7)**	(282.9)	(252.7)

* Net debt is defined as interest-bearing loans and borrowings, bank overdrafts less cash and cash equivalents.

9. Related parties

The Company has related party relationships with its subsidiaries and its associates.

	Six months 2010 £m	Six months 2009 £m	Year 2009 £m
Transactions with associate			
Sales to associate	**24.0**	–	12.4
Trade receivables due from associate	**4.7**	–	7.3

Except as disclosed in the table above:

- There were no related party transactions during the period that have materially affected the financial position or the performance of the Group during the period; and
- There have been no changes in the related party transactions as described in note 26 of the Group's 2009 Annual Report and Accounts that could have a material effect on the financial position or performance of the Group during the period.

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