Morgan Crucible
Half-year Report 2011

Extraordinary products from advanced materials

Morgan Crucible
The Advanced Materials Group

Morgan Crucible is a world leader in advanced materials...

Contents

...we produce a wide range of specialist, high-specification materials that have extraordinary attributes and properties.

Engineered into products, they deliver enhanced performance, often under extreme conditions.

Our dynamic, highly skilled people are continuously engaged in finding solutions for complex and technologically demanding applications, which are used all over the world.

Despite the complexity of our technologies our focus is simple:

We supply innovative, differentiated products made from advanced materials which enable our customers' products to perform more efficiently, more reliably and for longer.

Operational and financial highlights

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

"The Group has made significant progress in the first half towards our three year goal of doubling underlying PBT* by 2013. A particular highlight over the past six months is the very strong growth of our emerging markets businesses with revenue up 35% year-on-year on a constant currency basis. We have also delivered strong top line performance in our Western world markets, particularly in North America. The recovery and growth of our traditional businesses has been augmented by the successful ramp-up of new products into markets such as hard disk drives and clean energy. The streamlining of the Group's structure into two Divisions announced last summer is delivering the benefits we anticipated. This Divisional rationalisation, in combination with our ongoing enhancements to our low cost manufacturing footprint, means we are continuing to make good progress on margin-enhancing improvements to our operational cost base."

Highlights

- Revenue for the half-year increased by 11.8% to £560.0 million (2010: £501.1 million). At constant currency the Group delivered 14.0% revenue growth compared to 2010
- Group underlying operating profit (EBITA after restructuring charges and one-off items) increased by 49.0% to £71.5 million (2010: £48.0 million)
- Group underlying operating profit margins increased to 12.8% compared to 9.6% in the first half of 2010
- Group underlying profit before tax* increased by 66.3% to £59.7 million (2010: £35.9 million)
- Group underlying EPS** increased by 67.8% to 14.6 pence per share (2010: 8.7 pence)
- Net debt was £244.3 million at the half-year (4 July 2010: £260.7 million), improving the net debt to EBITDA ratio to 1.5 times (4 July 2010: 2.1 times)
- Interim dividend increased by 20.4% to 3.25 pence per share (2010: Interim 2.70 pence per share)
- Strong progress towards all three financial goals for 2013

Outlook

The Group has entered the second half of 2011 with good trading momentum across both Divisions and across the geographies and end-markets that they serve. Whilst the macro-economic environment remains uncertain, the Group is confident that it is well placed with its differentiated technologies and market leading positions to continue to make further progress towards its three year goals in the second half of the year.

£m unless otherwise stated	**Six months 2011**	Six months 2010	Change
Revenue	**560.0**	501.1	+11.8%
Group EBITA~	**71.7**	50.3	+42.5%
Group underlying operating profit++	**71.5**	48.0	+49.0%
Group underlying PBT*	**59.7**	35.9	+66.3%
Group underlying EPS** (pence)	**14.6p**	8.7p	+67.8%
Net cash inflow from operating activities	**44.9**	57.2	–21.5%
Basic EPS (pence)	**13.1p**	7.2p	+81.9%
Operating profit	**67.4**	44.1	+52.8%
Profit before tax	**55.6**	32.0	+73.8%
Return on Operating Capital Employed^	**28.4%**	25.4%	+11.8%

~ Group EBITA is defined as operating profit before restructuring costs, other one-off items and amortisation of intangible assets.
++ Group underlying operating profit is defined as operating profit of £67.4 million (2010: £44.1 million) before amortisation of £4.1 million (2010: £3.9 million).
* Group underlying PBT is defined as operating profit of £67.4million (2010: £44.1 million) before amortisation of £4.1 million (2010: £3.9 million), less net financing costs of £11.8 million (2010: £12.1 million).
** Group underlying earnings per share ("EPS") is defined as basic earnings per share of 13.1 pence (2010: 7.2 pence) adjusted to exclude amortisation of 1.5 pence (2010: 1.5 pence).
^ Return on Operating Capital Employed is defined as Group underlying operating profit divided by the sum of Working Capital (which excludes pension liability and provisions) and the net book value of tangible assets. Goodwill and other intangible assets are excluded.

Operating and financial review

Reference is made to Divisional EBITA throughout the operational reviews for each of the Divisions and is shown in the table below:

	Revenue 2011 £m	Revenue 2010 £m	EBITA 2011 £m	EBITA 2010 £m	EBITA Margin 2011 %	EBITA Margin 2010 %
Technical Ceramics	**145.0**	124.4	**21.4**	15.8	**14.8**	12.7
Thermal Ceramics	**198.7**	170.2	**23.3**	15.5	**11.7**	9.1
Ceramics	**343.7**	294.6	**44.7**	31.3	**13.0**	10.6
AM&T including NP Aerospace	**193.0**	186.6	**25.6**	18.6	**13.3**	10.0
Molten Metal Systems	**23.3**	19.9	**3.9**	2.9	**16.7**	14.6
Engineered Materials	**216.3**	206.5	**29.5**	21.5	**13.6**	10.4
Unallocated central costs*			**(2.5)**	(2.5)		
EBITA pre one-off items**	**560.0**	501.1	**71.7**	50.3	**12.8**	10.0
One-off items**			**(0.2)**	(2.3)		
EBITA post one-off items**			**71.5**	48.0	**12.8**	9.6

* Includes plc costs (e.g. Report & Accounts, AGM, Non-Executives) and Group Management costs (e.g. Corporate head office rent, utilities, staff etc.).

** One-off items include the costs of restructuring activity, gain on disposal of property and other one-off items.

Ceramics Division
The Ceramics Division consists of the Technical Ceramics and Thermal Ceramics businesses. As a result of the recovery in its Western world revenue, careful end-market selection, successful new business conversion and the benefits from the merger of the two businesses, the Division has been able to contribute to the progress made by the Group towards its three year goals.

Revenue for the first half of 2011 in the Ceramics Division was £343.7 million (2010: £294.6 million), representing an increase of 16.7% at reported rates. At constant currency this increase in revenue was 19.6%.

Divisional EBITA for the first half was £44.7 million (2010: £31.3 million), reflecting good operational leverage on the strong top line performance. As a result, the EBITA margin for the Division improved substantially to 13.0% (2010: 10.6%).

General trading and the order book in the Technical Ceramics business have continued their strong start to 2011. The business has seen improving market conditions across all geographies in the first half of the year. The aerospace and general industrial markets have been particularly robust and there are now also improving signals from the medical device and industrial gas turbine markets. The investments made in 2010 for next generation HDD products are operational and supporting the production ramp which continues to progress very well. The level of other new business opportunities that are coming through is encouraging for this year and beyond. Increasing demand for fused silica rollers, used in the solar industry, is driving requirements for capital to expand production in China and supporting increasing revenue in North America. The aerospace business in North America is performing strongly. New sales resources are being added for Technical Ceramics products in South America and Asia to support strategic growth targets into these territories.

As anticipated, the later cycle Thermal Ceramics business has continued to see a recovery in its markets which was evident at the end of 2010. Investment in new capacity is planned in emerging markets which includes a new high temperature paper line in India that will go into production by the end of this year. The Thermal business continues to win significant multi-million US dollar contracts for fire protection of offshore oil platforms that will provide revenue over the next two years and which support the continued growth prospects of this business. Order books remain strong entering the second half of the year.

Work on reducing the cost base following the merger of the Thermal and Technical businesses is well on track to deliver the anticipated £5 million benefits forecast for 2011 and there is increased confidence of reaching the upper end of the previously anticipated £6 to £8 million benefits for 2012.

Engineered Materials Division

The Engineered Materials Division consists of the Advanced Materials & Technology business (AM&T), the NP Aerospace business and the Molten Metal Systems business (MMS). The Division has made good progress in the first half of the year through a combination of Western world recovery, new product initiatives, emerging market growth and continuing cost reduction initiatives and has contributed significantly to the Group's progress towards achievement of its three year targets.

Revenue for the first half of 2011 in the Engineered Materials Division was £216.3 million (2010: £206.5 million), representing an increase of 4.7% at reported rates. At constant currency this increase in revenue was 6.2%.

Divisional EBITA for the first half was £29.5 million (2010: £21.5 million), reflecting the strong performance in both the AM&T and MMS businesses. NP Aerospace trading has been in line with expectations with first half revenue of £55.0 million (2010: £62.9 million). The EBITA margin for the Division improved substantially to 13.6% (2010: 10.4%).

The first half of 2011 has seen strong revenue performance from AM&T, up 13.9% on the first half of 2010 on a constant currency basis. Revenue has increased in all geographic regions but particularly in China where the business has achieved a 47% increase over the first half of 2010 driven by the successful introduction of the high temperature product line combined with underlying growth of electrical products. Trading in traditional markets continued to rebound elsewhere in the world with solid year-on-year growth across the Americas, Europe and Asia. Clean energy initiatives are gathering pace with high temperature revenue increasing substantially compared to the first half of 2010 and continued growth anticipated in the second half of the year. Revenue from the wind market, to which AM&T supplies electrical brush and rotary products, continues to increase particularly through market share gains in China. Order books for AM&T overall continue to be strong entering the second half of the year. Hairong, the lithium ion anode technology business, based in China, has continued to develop its product offering for the portable power and electric vehicle markets.

NP Aerospace revenue in the first half was £55.0 million (2010: £62.9 million), in line with expectations. With the order book remaining solid there is confidence that the previous forecast of c. £90 million revenue for 2011 will be achieved.

MMS saw continued revenue growth in the first half, up 19.0% on a constant currency basis against the first half of 2010. Growth continues to come in particular from China and India where low cost manufacturing bases continue to enhance margin performance. The MMS order books remain strong entering the second half of the year.

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 the best indication of underlying performance.

Group revenue in the first half of 2011 was £560.0 million, an increase of 11.8% compared to the first half of 2010. On a constant currency basis, revenue increased by 14.0%, and at constant currency and excluding NP Aerospace, by 17.9%.

Group EBITA before restructuring charges and one-off items was £71.7 million (2010: £50.3 million) representing a margin of 12.8% (2010: 10.0%).

Group underlying operating profit (EBITA after restructuring costs and one-off items) for the first half of 2011 was £71.5 million (2010: £48.0 million). Underlying operating profit margins were 12.8%, compared to 9.6% for the first half of 2010.

The restructuring costs and other one-off items of £0.2 million charge (2010: £2.3 million charge) included restructuring costs of £4.6 million, a gain on sale of land and buildings of £1.2 million and a credit of £3.2 million for the change in the UK pension schemes outlined below.

During the first half of 2011, the Group has made very good progress towards its three year goals, with all the main organic building blocks of the strategy contributing to the improving performance of the business. Recovery and organic growth in our Western markets, rapid growth in emerging markets and increased revenue from new products have all contributed to profit and margin enhancement in the first half. Good cost control management and benefits from the merger of Technical and Thermal Ceramics have all benefited the Group in this period. The strong top line growth combined with operating cost efficiencies delivered an increase in underlying PBT to £59.7 million (2010: £35.9 million), a 66.3% increase over the first half of 2010.

Operating and financial review
continued

The Group amortisation charge for the half-year was £4.1 million (2010: £3.9 million).

The net finance charge was £11.8 million (2010: £12.1 million). This charge was primarily net bank interest and similar charges of £11.0 million (2010: £12.3 million), a decrease of £1.3 million. The decrease in the net interest charge is due to the continuing reduction in debt levels and improvement in overall bank facility costs as a result of the refinancing in March 2011 offset by the write-off of the previous facility fees. The balance of the finance charge under IFRS is the net interest charge on pension scheme net liabilities which was £0.6 million (2010: £1.1 million), and interest expense on the unwinding of discount on deferred consideration of £0.2 million (2010: £0.7 million) relating to the NP Aerospace acquisition.

The tax charge for the period was £16.7 million (2010: £9.6 million). The effective tax rate for the half-year is 30% (2010: 30%) and the medium term view is that the rate will remain at c.30%.

Underlying EPS was 14.6 pence (2010: 8.7 pence) an increase of 67.8%.

The Group pension deficit has decreased by £12.7 million since last year end to £91.2 million on an IAS 19 basis. The main movements were in the US and UK defined benefit pension schemes. The UK scheme deficit improved by £7.8 million to £18.8 million (2010: £26.6 million) and the US scheme improved by £6.0 million to £44.1 million (2010: £50.1 million) mainly due to improving discount rates. The reduction in the UK defined benefit pension schemes' deficit also includes a reset of the future indexation of current employees' accrued benefits to the Consumer Price Index ('CPI') rather than the Retail Price Index ('RPI'). This resulted in a pension credit of £3.2 million being recognised in the income statement.

The net cash inflow from operating activities was £44.9 million (2010: £57.2 million) which included working capital increases commensurate with revenue growth. With this growth in revenue, working capital increased in absolute terms but the third party working capital/sales ratio for the Group was 21.4%, broadly in line with that of last half-year at 21.3%. It is anticipated that working capital ratios will improve in the second half of the year as some of the working capital build in the first half of the year unwinds.

Net debt at the half-year end was £244.3 million (4 July 2010: £260.7 million). As a result of the significant improvement in operating performance the net debt to EBITDA ratio at the half-year was improved to just below 1.5 times (2010 year end 1.7 times). The Group refinanced its bank facilities in March 2011 with a new facility of £150 million at significantly reduced margins. At the half-year c. £140 million of this bank facility was undrawn.

Cash flow

	Six months 2011 £m	Six months 2010 £m
Net cash inflow from operating activities	**44.9**	57.2
Net capital expenditure	**(8.0)**	(4.5)
Restructuring costs and other one-off items	**(4.0)**	(4.1)
Net interest paid	**(11.2)**	(10.5)
Tax paid	**(11.6)**	(12.5)
Free cash flow before acquisitions and dividends	**10.1**	25.6
Cash flows in respect of acquisitions	**(10.5)**	(14.1)
Dividends paid	**(5.5)**	(6.7)
Exchange movement and other items	**(2.2)**	(12.8)
Movement in net debt in period	**(8.1)**	(8.0)
Opening net debt*	**236.2**	252.7
Closing net debt	**244.3**	260.7

* 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 3 July 2011:

Euro	Average – €1.1502;	Closing – €1.1080
US Dollar	Average – $1.6162;	Closing – $1.6046

Interim dividend

The Board has declared an interim dividend of 3.25 pence per Ordinary share. This is an increase of 20% compared to the interim dividend declared in 2010. The dividend will be paid on 12th January 2012 to Ordinary shareholders on the register of members at the close of business on 25th November 2011.

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.

Risks and uncertainties

The main risks to the Group continue to be those that were reported on pages 58 and 59 of the 2010 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 57 of the 2010 financial statements, the Group meets its day-to-day working capital requirements through local banking arrangements. During the interim period, the Group completed the refinancing of its bank facilities. As a result of this new funding and continued effective balance sheet management the Group has now reduced its bank facilities to £150 million. The bank facility headroom at the half-year was c. £140 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 3 July 2011.

Responsibility statement

We confirm that to the best of our knowledge:

- The condensed consolidated financial statements for the six months ended 3 July 2011 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 3 July 2011

	Note	Six months 2011 £m	Six months 2010 £m	Year 2010 £m
Revenue	2	**560.0**	501.1	1,017.1
Operating costs before restructuring costs, other one-off items and amortisation of intangible assets		**(488.3)**	(450.8)	(907.6)
Profit from operations before restructuring costs, other one-off items and amortisation of intangible assets		**71.7**	50.3	109.5
Restructuring costs and other one-off items:	6			
Restructuring costs		**(4.6)**	(2.4)	(8.5)
Gain on disposal of property		**1.2**	0.1	0.6
Pension credit on United Kingdom pension schemes		**3.2**	–	–
Profit from operations before amortisation of intangible assets	2	**71.5**	48.0	101.6
Amortisation of intangible assets		**(4.1)**	(3.9)	(8.0)
Operating profit	2	**67.4**	44.1	93.6
Finance income		**13.3**	15.5	29.0
Finance expense		**(25.1)**	(27.6)	(54.9)
Net financing costs	4	**(11.8)**	(12.1)	(25.9)
Profit before taxation		**55.6**	32.0	67.7
Income tax expense	5	**(16.7)**	(9.6)	(19.7)
Profit for the period		**38.9**	22.4	48.0
Profit for the period attributable to:				
Owners of the parent		**35.6**	19.4	42.5
Non-controlling interests		**3.3**	3.0	5.5
Profit for the period		**38.9**	22.4	48.0
Earnings per share	7			
Basic		**13.1p**	7.2p	15.8p
Diluted		**12.5p**	6.9p	15.0p
Dividends				
Proposed interim dividend – pence		**3.25p**	2.70p	
– £m		**8.9**	7.3	
Approved final dividend – pence				5.00p
– £m				13.6

The proposed interim and approved final dividends are based upon the number of shares outstanding at the balance sheet date.

Condensed consolidated statement of comprehensive income
for the six months ended 3 July 2011

	Six months 2011 £m	Six months 2010 £m	Year 2010 £m
Profit for the period	**38.9**	22.4	48.0
Foreign exchange translation differences	**5.7**	(0.6)	6.2
Actuarial gain/(loss) on defined benefit plans	**4.4**	(16.7)	(6.1)
Net (loss)/gain on hedge of net investment in foreign subsidiary	**(3.5)**	1.3	(0.6)
Cash flow hedges:			
Effective portion of changes in fair value	**(0.1)**	(0.3)	0.6
Transferred to profit or loss	**(0.4)**	0.5	(0.5)
Change in fair value of equity securities available-for-sale	**–**	–	0.2
Tax effect on components of other comprehensive income	**(0.9)**	–	2.6
Total comprehensive income for the period	**44.1**	6.6	50.4
Total comprehensive income attributable to:			
Equity holders of the parent	**41.2**	1.3	42.2
Non-controlling interests	**2.9**	5.3	8.2
Total comprehensive income for the period	**44.1**	6.6	50.4

Condensed consolidated balance sheet
as at 3 July 2011

	3 July 2011 £m	4 July 2010 £m	2 January 2011 £m
Assets			
Property, plant and equipment	**260.6**	269.5	269.2
Intangible assets	**281.3**	290.8	285.0
Investment in associate	**1.5**	1.5	1.5
Other investments	**5.1**	5.5	5.6
Other receivables	**2.1**	3.0	2.0
Deferred tax assets	**37.3**	38.7	38.5
Total non-current assets	**587.9**	609.0	601.8
Inventories	**169.7**	147.5	161.0
Derivative financial assets	**0.9**	1.1	0.7
Trade and other receivables	**219.4**	187.8	184.7
Cash and cash equivalents	**67.2**	102.8	85.0
Total current assets	**457.2**	439.2	431.4
Total assets	**1,045.1**	1,048.2	1,033.2
Liabilities			
Interest-bearing loans and borrowings	**294.4**	356.2	310.4
Employee benefits	**91.2**	121.1	103.9
Grants for capital expenditure	**0.2**	0.2	0.1
Provisions	**7.2**	7.0	7.6
Non-trade payables	**10.9**	18.5	13.5
Derivative financial liabilities	**–**	0.8	–
Deferred tax liabilities	**43.9**	47.6	45.2
Total non-current liabilities	**447.8**	551.4	480.7
Bank overdraft	**8.0**	1.2	1.0
Interest-bearing loans and borrowings	**9.1**	6.1	9.8
Trade and other payables	**269.5**	264.0	265.4
Current tax payable	**12.0**	2.8	5.8
Provisions	**17.2**	10.0	12.8
Derivative financial liabilities	**1.4**	8.6	5.6
Total current liabilities	**317.2**	292.7	300.4
Total liabilities	**765.0**	844.1	781.1
Total net assets	**280.1**	204.1	252.1
Equity			
Share capital	**68.7**	68.0	68.5
Share premium	**89.9**	85.4	88.3
Reserves	**66.7**	60.0	64.6
Retained earnings	**16.1**	(44.1)	(6.4)
Total equity attributable to equity holders of parent Company	**241.4**	169.3	215.0
Non-controlling interests	**38.7**	34.8	37.1
Total equity	**280.1**	204.1	252.1

Condensed consolidated statement of changes in equity
for the six months ended 3 July 2011

	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 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
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	–	–	–	–	–	–	–	–	42.5	42.5	5.5	48.0
Other comprehensive income	–	–	2.9	0.1	0.2	–	–	–	(3.5)	(0.3)	2.7	2.4
Transactions with owners:												
Dividends	0.5	2.9	–	–	–	–	–	–	(18.9)	(15.5)	(1.1)	(16.6)
Equity-settled share-based payment transactions	–	–	–	–	–	–	–	–	3.5	3.5	–	3.5
Issue of shares	0.1	0.1	–	–	–	–	–	–	–	0.2	–	0.2
Balance at 2 January 2011	68.5	88.3	13.0	0.3	(1.5)	6.0	35.7	11.1	(6.4)	215.0	37.1	252.1
Balance at 3 January 2011	**68.5**	**88.3**	**13.0**	**0.3**	**(1.5)**	**6.0**	**35.7**	**11.1**	**(6.4)**	**215.0**	**37.1**	**252.1**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**35.6**	**35.6**	**3.3**	**38.9**
Other comprehensive income	**–**	**–**	**2.6**	**(0.5)**	**–**	**–**	**–**	**–**	**3.5**	**5.6**	**(0.4)**	**5.2**
Transactions with owners:												
Dividends	**0.2**	**1.6**	**–**	**–**	**–**	**–**	**–**	**–**	**(20.9)**	**(19.1)**	**(1.3)**	**(20.4)**
Equity-settled share-based payment transactions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4.3**	**4.3**	**–**	**4.3**
Balance at 3 July 2011	**68.7**	**89.9**	**15.6**	**(0.2)**	**(1.5)**	**6.0**	**35.7**	**11.1**	**16.1**	**241.4**	**38.7**	**280.1**

Condensed consolidated statement of cash flows
for the six months ended 3 July 2011

	Note	Six months 2011 £m	Six months 2010 £m	Year 2010 £m
Operating activities				
Profit for the period		**38.9**	22.4	48.0
Adjustments for:				
Depreciation		**15.9**	16.4	32.3
Amortisation		**4.1**	3.9	8.0
Net financing costs		**11.8**	12.1	25.9
Profit on sale of property, plant and equipment		**(1.4)**	–	(0.5)
Income tax expense		**16.7**	9.6	19.7
Equity-settled share-based payment expenses		**3.3**	1.6	3.1
Cash generated from operations before changes in working capital and provisions		**89.3**	66.0	136.5
Increase in trade and other receivables		**(28.9)**	(22.0)	(13.7)
Increase in inventories		**(7.8)**	(0.1)	(11.6)
(Decrease)/increase in trade and other payables		**(3.1)**	12.3	35.8
Decrease in provisions and employee benefits		**(8.6)**	(3.1)	(6.7)
Cash generated from operations		**40.9**	53.1	140.3
Interest paid		**(11.4)**	(11.3)	(25.7)
Income tax paid		**(11.6)**	(12.5)	(24.1)
Net cash from operating activities		**17.9**	29.3	90.5
Investing activities				
Purchase of property, plant and equipment		**(8.6)**	(6.2)	(19.1)
Proceeds from sale of property, plant and equipment		**0.6**	1.7	2.1
Sale of investments		**0.4**	0.6	0.3
Interest received		**0.2**	0.8	3.0
Acquisitions of subsidiaries, net of cash acquired		**(10.5)**	(14.1)	(32.9)
Forward contracts used in net investment hedging		**(5.7)**	(2.4)	(6.0)
Net cash from investing activities		**(23.6)**	(19.6)	(52.6)
Financing activities				
Net decrease in borrowings	8	**(7.3)**	(7.8)	(47.8)
Payment of finance lease liabilities	8	**(0.1)**	(0.3)	(0.5)
Dividends paid		**(5.5)**	(6.7)	(15.4)
Net cash from financing activities		**(12.9)**	(14.8)	(63.7)
Net decrease in cash and cash equivalents		**(18.6)**	(5.1)	(25.8)
Cash and cash equivalents at start of period		**85.0**	107.6	107.6
Effect of exchange rate fluctuations on cash held		**0.8**	0.3	3.2
Cash and cash equivalents at period end	8	**67.2**	102.8	85.0

A reconciliation of cash and cash equivalents to net borrowings is shown in note 8.

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 3 July 2011 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 3 July 2011. 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 3 July 2011 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 2 January 2011 except for the impact of adopting the accounting standards below.

During the period, the Group has applied amendments to the following adopted IFRSs: IFRS 3 *Business Combinations – Unreplaced and Voluntarily Replaced Share-Based Payment Awards*, IAS 24 *Related Party Disclosures*, IAS 32 *Classification of Rights Issues*, IAS 34 *Interim Financial Reporting – Significant Events and Transactions*, IFRIC 14 *Prepayments of a Minimum Funding Requirement* and IFRIC 19 *Extinguishing Financial Liabilities*. 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 2 January 2011 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 2 January 2011 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 3 July 2011 and the comparative period have neither been audited nor reviewed.

The condensed consolidated financial statements for the six months ended 3 July 2011 were approved by the Board on 27 July 2011.

Notes to the condensed consolidated financial statements continued

2. Segment information

The Group comprises the following four reportable operating segments:

- Morgan AM&T – the Morgan AM&T Business delivers highly engineered solutions built from a portfolio of advanced material technologies that includes carbon, silicon carbide, oxide-based ceramics and advanced polymeric composite materials.
- Molten Metal Systems – the Molten Metal Systems Business produces crucibles, foundry consumables and furnaces.
- Technical Ceramics – the Technical Ceramics Business is a leading supplier of customer specific, applications-engineered, industrial products with core products manufactured from advanced materials including structural ceramic, electro-ceramic and precious metals.
- Thermal Ceramics – the Thermal Ceramics Business provides thermal management solutions for high-temperature applications which benefit technically, financially and environmentally from optimised thermal and energy efficiency management.

The information presented below represents the operating segments of the Group.

	Morgan Engineered Materials				Morgan Ceramics					
	Morgan AM&T		Molten Metal Systems		Technical Ceramics		Thermal Ceramics		Consolidated	
	Six months 2011 £m	Six months 2010 £m	**Six months 2011 £m**	Six months 2010 £m	**Six months 2011 £m**	Six months 2010 £m	**Six months 2011 £m**	Six months 2010 £m	**Six months 2011 £m**	Six months 2010 £m
Revenue from external customers	**193.0**	186.6	**23.3**	19.9	**145.0**	124.4	**198.7**	170.2	**560.0**	501.1
Divisional EBITA[1]	**25.6**	18.6	**3.9**	2.9	**21.4**	15.8	**23.3**	15.5	**74.2**	52.8
Unallocated costs									**(2.5)**	(2.5)
Group EBITA[2]									**71.7**	50.3
Restructuring costs and other one-off items	**0.2**	(0.7)	**–**	0.1	**2.7**	(1.0)	**(3.1)**	(0.7)	**(0.2)**	(2.3)
Underlying operating profit[3]									**71.5**	48.0
Amortisation of intangible assets	**(2.3)**	(2.0)	**–**	(0.1)	**(1.2)**	(1.2)	**(0.6)**	(0.6)	**(4.1)**	(3.9)
Operating profit									**67.4**	44.1
Finance income									**13.3**	15.5
Finance expense									**(25.1)**	(27.6)
Profit before taxation									**55.6**	32.0
Segment assets	**386.2**	380.0	**32.9**	31.8	**227.8**	230.4	**284.1**	261.9	**931.0**	904.1
Unallocated assets									**114.1**	144.1
Total assets									**1,045.1**	1,048.2

2. Segment information continued

	Morgan Engineered Materials		Morgan Ceramics		
	Morgan AM&T Year 2010 £m	Molten Metal Systems Year 2010 £m	Technical Ceramics Year 2010 £m	Thermal Ceramics Year 2010 £m	Consolidated Year 2010 £m
Revenue from external customers	367.7	40.3	250.1	359.0	1,017.1
Divisional EBITA[1]	39.2	6.3	34.0	34.8	114.3
Unallocated costs					(4.8)
Group EBITA[2]					109.5
Restructuring costs and other one-off items	(1.6)	0.1	(1.7)	(4.7)	(7.9)
Underlying operating profit[3]					101.6
Amortisation of intangible assets	(4.2)	(0.1)	(2.5)	(1.2)	(8.0)
Operating profit					93.6
Finance income					29.0
Finance expense					(54.9)
Profit before taxation					67.7
Segment assets	378.9	31.3	224.8	273.1	908.1
Unallocated assets					125.1
Total assets					1,033.2

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 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 Limited in 2009. £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.

On 31 March 2011 the Group agreed to pay £9.1 million. This amount relates to the second of the four synthetic forwards noted above. In addition to this payment the Group paid £0.8 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
Clearpower Limited 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 20% 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 Limited 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 Limited varies from current expectations.

At 3 July 2011 the Group carries a total liability of £9.2 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 £0.2 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 £6.0 million.

4. Net finance income and expense

	Six months 2011 £m	Six months 2010 £m	Year 2010 £m
Interest income on bank deposits	**0.3**	0.6	1.0
Expected return on IAS 19 scheme assets	**13.0**	12.9	26.0
Gain on foreign exchange derivatives in respect of financial indebtedness	**–**	2.0	2.0
Finance income	**13.3**	15.5	29.0
Interest expense on financial liabilities measured at amortised cost	**(11.3)**	(12.9)	(25.7)
Interest on IAS 19 obligations	**(13.6)**	(14.0)	(28.0)
Interest expense on unwinding of discount on deferred consideration	**(0.2)**	(0.7)	(1.2)
Finance expense	**(25.1)**	(27.6)	(54.9)
Net financing costs recognised in profit or loss	**(11.8)**	(12.1)	(25.9)

5. Taxation – income tax expense

	Six months 2011 £m	Six months 2010 £m	Year 2010 £m
Tax on profit	**16.7**	9.6	19.7

The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 3 July 2011 is based on the Directors' best estimate of the effective tax rate for the year.

The Budget on 23 March 2011 announced that the UK corporation tax rate will reduce from 28% to 23% over a period of 4 years from 2011. The first reduction in the UK corporation tax rate from 28% to 26% was substantively enacted when the Budget resolution was passed on 29 March 2011 and was effective from 1 April 2011.

6. Restructuring costs and other one-off items
Included within restructuring costs and other one-off items is an amount recorded as a result of changes in the United Kingdom defined benefit pension schemes. Future indexation of current employees' accrued benefits will be set by reference to the Consumer Prices Index ('CPI') rather than the Retail Prices Index ('RPI'). This change has resulted in a pension credit (negative past service cost) of £3.2 million being recognised in the income statement.

7. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 3 July 2011 was based on the profit attributable to equity holders of the Company of £35.6 million (4 July 2010: £19.4 million) and a weighted average number of Ordinary shares outstanding during the period ended 3 July 2011 of 271,996,081 (4 July 2010: 268,653,963) calculated as follows:

	Six months 2011 £m	Six months 2010 £m	Year 2010 £m
Profit attributable to equity holders of the Company	**35.6**	19.4	42.5
Weighted average number of Ordinary shares:			
Issued Ordinary shares at beginning of the period	**272,166,025**	270,206,256	270,206,256
Effect of shares issued in period and treasury shares held by the Company	**(169,944)**	(1,552,293)	(378,040)
Weighted average number of Ordinary shares during the period	**271,996,081**	268,653,963	269,828,216
Basic earnings per share (pence)	**13.1p**	7.2p	15.8p

Diluted earnings per share

The calculation of diluted earnings per share at 3 July 2011 was based on the profit attributable to equity holders of the Company of £35.6 million (4 July 2010: £19.4 million) and a diluted weighted average number of Ordinary shares outstanding during the period ended 3 July 2011 of 284,537,841 (4 July 2010: 281,567,233), calculated as follows:

	Six months 2011 £m	Six months 2010 £m	Year 2010 £m
Profit attributable to equity holders of the Company	**35.6**	19.4	42.5
Weighted average number of Ordinary shares:			
Weighted average number of Ordinary shares	**271,996,081**	268,653,963	269,828,216
Effect of share options/incentive schemes	**12,541,760**	12,913,270	13,993,035
Diluted weighted average number of Ordinary shares	**284,537,841**	281,567,233	283,821,251
Diluted earnings per share (pence)	**12.5p**	6.9p	15.0p

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 3 July 2011 was based on operating profit before amortisation, less net financing costs, income tax expense and non-controlling interests of £39.7 million (4 July 2010: £23.3 million) and a weighted average number of Ordinary shares outstanding during the period ended 3 July 2011 of 271,996,081 (4 July 2010: 268,653,963) calculated as follows:

	Six months 2011 £m	Six months 2010 £m	Year 2010 £m
Operating profit before amortisation, less net financing costs, income tax expense and non-controlling interests	**39.7**	23.3	50.5
Weighted average number of Ordinary shares:			
Issued Ordinary shares at beginning of the period	**272,166,025**	270,206,256	270,206,256
Effect of shares issued in period and treasury shares held by the Company	**(169,944)**	(1,552,293)	(378,040)
Weighted average number of Ordinary shares during the period	**271,996,081**	268,653,963	269,828,216
Earnings per share before amortisation of intangible assets (pence)	**14.6p**	8.7p	18.7p

Diluted underlying earnings per share

The calculation of diluted underlying earnings per share at 3 July 2011 was based on operating profit before amortisation, less net financing costs, income tax expense and non-controlling interests of £39.7 million (4 July 2010: £23.3 million) and a diluted weighted average number of ordinary shares outstanding during the period ended 3 July 2011 of 284,537,841 (4 July 2010: 281,567,233) calculated as follows:

	Six months 2011 £m	Six months 2010 £m	Year 2010 £m
Operating profit before amortisation, less net financing costs, income tax expense and non-controlling interests	**39.7**	23.3	50.5
Weighted average number of Ordinary shares:			
Weighted average number of Ordinary shares during the period	**271,996,081**	268,653,963	269,828,216
Effect of share options/incentive schemes	**12,541,760**	12,913,270	13,993,035
Diluted weighted average number of Ordinary shares during the period	**284,537,841**	281,567,233	283,821,251
Diluted earnings per share before amortisation of intangible assets (pence)	**14.0p**	8.3p	17.8p

8. Cash and cash equivalents/bank overdrafts

	Six months 2011 £m	Six months 2010 £m	Year 2010 £m
Bank balances	**57.1**	82.8	68.0
Cash deposits	**10.1**	20.0	17.0
Cash and cash equivalents	**67.2**	102.8	85.0
Bank overdrafts	**(8.0)**	(1.2)	(1.0)

Reconciliation of cash and cash equivalents to net debt*

	Six months 2011 £m	Six months 2010 £m	Year 2010 £m
Opening borrowings	**(321.2)**	(360.3)	(360.3)
Net decrease in borrowings	**7.3**	7.8	47.8
Payment of finance lease liabilities	**0.1**	0.3	0.5
Effect of movements in foreign exchange on borrowings	**2.3**	(11.3)	(9.2)
Closing borrowings	**(311.5)**	(363.5)	(321.2)
Cash and cash equivalents	**67.2**	102.8	85.0
Closing net debt	**(244.3)**	(260.7)	(236.2)

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

During the interim period the Group completed the refinancing of its bank facility with a £150 million unsecured 5 year multi currency revolving credit facility on improved terms. The Group has retained the same lending group of eight banks. The bank facility headroom as at the balance sheet date is £139.2 million.

9. Related parties

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

Transactions with key management personnel

Details of transactions with key management personnel are described in note 26 of the Group's 2010 Annual Report and Accounts.

	Six months 2011 £m	Six months 2010 £m	Year 2010 £m
Transactions with associate			
Sales to associate	**15.9**	24.0	54.5
Trade receivables due from associate	**6.4**	4.7	4.8

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 nature of related party transactions as described in note 26 of the Group's 2010 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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