Morgan Crucible
The Advanced Materials Group

FULL YEAR RESULTS FOR THE PERIOD ENDED 31ST DECEMBER 2012

Results summary

£ million unless otherwise stated	2012	2011	Change
Revenue	**1,007.5**	1,101.0	-8.5%
Group EBITA~	**122.0**	143.4	-14.9%
Group underlying operating profit++	**108.8**	141.5	-23.1%
Underlying PBT*	**89.7**	119.7	-25.1%
Underlying EPS** (pence)	**23.2p**	29.9p	-22.4%
Full year dividend (pence)	**10.0p**	9.25p	+8.1%
Net cash inflow from operating activities	**126.8**	137.4	-7.7%
Basic EPS from continuing operations(pence)	**20.2p**	26.9p	-24.9%
Operating profit	**100.5**	133.2	-24.5%
Profit before tax	**81.4**	111.4	-26.9%
Return on Operating Capital Employed^	**26.5%**	33.7%	

- Group EBITA margin for the full year was 12.1% (2011: 13.0%) and Group underlying operating profit margin (after restructuring and one-off costs) was 10.8% (2011: 12.9%)

- The Ceramics Division EBITA margin continued to improve in 2012 to 14.3% (2011: 13.5%) on revenue that was 1.9% lower than 2011 on a constant currency basis

- The Engineered Materials Division revenue for the year was down 15.2% on a constant currency basis with EBITA margins declining to 9.4% (2011: 13.4%).

- Proposed final dividend increased by 6.7% to 6.4 pence per share (2011: Final 6.0 pence per share), giving a full year dividend of 10.0 pence (2011: 9.25 pence)

- The net debt at the year end was reduced by a further £22.6 million to £192.8 million (2011: £215.4 million), resulting in a net debt to EBITDA ratio of 1.3 times (2011: 1.2 times)

Organisational Model

- The Group today announces a new organisation structure creating a 'One Morgan' business model based on a regional structure of North America, Europe and Asia/Rest of World, which positions the Group for enhanced profitable growth

- As part of the changes in organisation the Group will also be changing its name to 'Morgan Advanced Materials plc' which better reflects the full depth and breadth of its materials science and application engineering capabilities

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

"While the past year saw much tougher trading conditions in some of the Group's end markets, 2012 underlying operating profit before one-off costs was still the second highest in Morgan Crucible's history. Ninety percent of the Group performed resiliently but substantial demand declines in the defence and renewable energy markets meant disappointing results in the Engineered Materials Division. As a result, significant actions were taken in the second half of 2012 to align our cost base with the reduced demand levels particularly in the Engineered Materials businesses.

Our continued focus is on driving profitable growth through positive mix shift and innovation in new products and technologies targeted at attractive market segments. To this end, we are announcing today some important changes to the Group's structure which will see us move to a single 'One Morgan' model organised on a regional basis. This will enable us to present a single, integrated advanced materials face to our customers across all our geographies and all our end-markets to position us better for growth and at the same time to improve our operational cost efficiency. In conjunction with the move to a new organisational structure, we are changing the Group's name to 'Morgan Advanced Materials plc', which we believe provides a more accurate reflection of the breadth and depth of our capabilities across a wide range of technically demanding, high performance engineering applications.

Outlook

The Group's overall order intake levels have stabilised in the last two to three months. Nevertheless, we expect the end-market environment to remain fluid and uncertain in 2013. In this environment, our focus remains on self-help initiatives. Based on the restructuring actions taken in the second half of 2012 and some initial benefits from the 'One Morgan' model, we expect to improve our profit run rate by some £10 million in 2013 compared to the second half of 2012."

For further enquiries:

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~ 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 £100.5 million (2011: £133.2 million) before amortisation of £8.3 million (2011: £8.3 million).

* Underlying PBT is defined as operating profit of £100.5 million (2011: £133.2 million) before amortisation of £8.3 million (2011: £8.3 million), less net financing costs of £19.1 million (2011: £21.8 million).

** Underlying earnings per share ("EPS") is defined as basic earnings per share of 20.2 pence (2011: 26.9 pence) adjusted to exclude amortisation of 3.0 pence (2011: 3.0 pence).

^ Return on Operating Capital Employed is defined as Group underlying operating profit for the last 12 months 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.

Strategy update – 'One Morgan' model

The Group is announcing today a change to its organisation, creating a 'One Morgan' business based on a regional structure of North America, Europe and Asia/Rest of World. This is a natural progression and continues the direction of travel over recent years from having nine divisions a decade ago to a single integrated business focused on advanced materials science and specialised application engineering to solve technically demanding challenges for its customers.

The Group believes this new structure will enhance its growth prospects by maximising the full breadth and depth of advanced materials capabilities for its customers and by accelerating the pace of positive mix change into target markets. The new structure will also improve the overall level and flexibility of operating costs by removing duplication and combining support functions with some initial benefits in 2013, but estimated full annualised benefits of £6-8 million from 2014.

The new structure will have tailored regional priorities to drive profitable growth with a common goal to grow through cycle at above GDP levels in each region and deliver mid-teen operating profit margins and operating ROCE of c.35%.

Operating Review

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

	Revenue		EBITA		EBITA Margin	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 %	2011 %
Technical Ceramics	273.3	285.1	42.7	43.1	15.6	15.1
Thermal Ceramics	387.2	400.1	51.9	49.6	13.4	12.4
Ceramics	**660.5**	**685.2**	**94.6**	**92.7**	**14.3**	**13.5**
AM&T including NP Aerospace	301.2	369.1	24.4	48.0	8.1	13.0
Molten Metal Systems	45.8	46.7	8.1	7.7	17.7	16.5
Engineered Materials	**347.0**	**415.8**	**32.5**	**55.7**	**9.4**	**13.4**
Unallocated central costs*			(5.1)	(5.0)		
EBITA pre one-off items**	**1,007.5**	**1,101.0**	**122.0**	**143.4**	**12.1**	**13.0**
One-off items**			(13.2)	(1.9)		
EBITA post one-off items**			**108.8**	**141.5**	**10.8**	**12.9**

* *Includes plc costs (eg. Report & Accounts, AGM, Non-Executives) and Group Management costs (eg. 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

Business performance

Revenue in the Morgan Ceramics Division was £660.5 million (2011: £685.2 million), representing a decrease at reported rates of 3.6%. At constant currency the decrease in revenue was 1.9%.

Revenue for the Technical Ceramics Business in 2012 was £273.3 million (2011: £285.1 million), a decrease of 4.1% at reported rates. Revenue was lower by 4.0% on a constant currency basis. The Thermal Ceramics Business revenue decreased by 3.2% to £387.2 million in 2012 (2011: £400.1 million). On a constant currency basis, the year-on-year decrease was 0.4%.

For Technical Ceramics EBITA was £42.7 million (2011: £43.1 million). Technical Ceramics improved its EBITA margin by 50 basis points, to 15.6% for the year (2011: 15.1%). Thermal Ceramics EBITA increased in the year to £51.9 million (2011: £49.6 million). The EBITA margin for Thermal Ceramics increased by 100 basis points to 13.4% (2011: 12.4%). Overall the Ceramics Divisional EBITA margin showed continued good improvement to 14.3% (2011: 13.5%).

Business developments

In 2012 major investments were focused on the Superwool® fibre programme and the conversion of existing RCF capacity. Significant investment in both equipment and people continued to be made in both the Asian and South American markets. Capital was invested in Kailong, China and Daegu, Korea to increase fibre capacity and the thermal insulation product range. The Division also received approval from the Board to build a new fibre plant to be built in the Middle East, which is becoming an attractive and rapidly growing market. Smaller but important investments were made to extend existing brazing capability in the Hayward California facility. A ceramic grinding facility was established in Yixing, China and in the USA capacity was increased for making CVD Diamond coatings for the growing Asian semiconductor equipment market.

Resources and capabilities in Asia and South America were further developed and added to, resulting in a number of positive new business enquiries being generated. These are now making their way into commercial plans.

The Thermal Ceramics Business made good progress with continued roll-out of high-temperature insulation products. These include a range of differentiated and patent protected products based on the range of Superwool® chemistries. Good progress was made in the engineering business which takes Morgan Ceramics products and through applications engineering adds value to give customers a package design that will give them a more energy efficient and safer operating solution. Typical applications are found in the chemical processing, aluminium, iron and steel and passive fire protection industries. New product development in the Thermal Ceramics Business remains concentrated in the field of low bio-persistent fibre where the Business continues to develop even higher temperature resistant materials.

Work in the Technical Ceramics Business focused on moving towards newer, more differentiated products that will continue to drive positive mix shift. This was achieved by increasing the number of new business projects in higher margin, high value added end markets such as healthcare and aerospace, whilst continuing to reduce exposure to more commoditised and economically cyclical product areas.

The ‘Operational Excellence’ programme has now been firmly embedded across the whole Division. It involves benchmarking projects that have accountability and responsibility at plant level, and it delivered year-on-year improvements in operational efficiency. These locally based and managed initiatives continue to be co-ordinated and supported by engineering and research and development personnel to optimise manufacturing processes.

The continuous operational improvement programmes, cost reduction initiatives and emphasis on positive price pass-through have all helped to deliver the margin growth achieved in 2012 and are expected to continue to contribute in 2013 and beyond.

Outlook

Following the decline in market demand in the second half of 2012, entering 2013 the orderbooks for both Technical and Thermal Ceramics appear to have stabilised. There remain weaker areas such as the construction market in Europe and whilst quotation levels for engineering projects in Thermal Ceramics are strong, the speed of conversion is slower than expected. Both Businesses are continuing to pursue new business opportunities and increase their share of customer spend in 2013 which, along with a number of the Superwool® capital investments coming fully on line during the year, should leave them well placed to improve performance in 2013 and beyond.

Engineered Materials

Revenue in the Engineered Materials Division was £347.0 million (2011: £415.8 million), representing a decrease at reported rates of 16.5%. At constant currency this decrease in revenue was 15.2%. The revenue of the Morgan AM&T Business was £243.4 million (2011: £276.1 million) representing a decrease of 11.9% at reported rates and 10.6% on a constant currency basis; NP Aerospace revenue was £57.8 million (2011: £93.0 million), a decline of 37.8%. MMS revenue was £45.8 million (2011: £46.7 million), a decrease of 1.9% at reported rates, but an increase of 4.8% on a constant currency basis.

Divisional EBITA for the Engineered Materials Division was £32.5 million (2011: £55.7 million), a margin of 9.4% (2011: 13.4%). Morgan AM&T EBITA margin was 8.5% (2011: 12.7%), NP Aerospace EBITA 6.2% (2011: 14.0%) and MMS Divisional EBITA margin was 17.7% (2011: 16.5%).

The deterioration in performance in the Morgan AM&T (excluding NP Aerospace) business principally comes from the significant softening in demand for renewables products in the solar (high-temperature products) and wind markets and US body armour business. Demand for renewable and clean energy products fell off sharply at the end of the first quarter and remained depressed throughout the year, with the largest impacts being a 50% year-on-year drop in demand for high-temperature insulation products and a sharp decline of the wind energy market in China. The Business also saw some softening of demand across its main electrical and seals and bearings activities as the year progressed, which now appears to have stabilised.

The Business reacted to the reduced volumes by making significant headcount and cost reductions across the globe, including the closure or downsizing of a number of sites, particularly in Continental Europe.

Despite the challenges presented by slowing industrial markets and virtually stalled renewable energy markets, the Business continued to invest selectively in technology, in expanding its low-cost manufacturing capability, and in the Business's overall capability in China in order to continue to advance its ability to compete in its markets.

The reduction in NP Aerospace's revenue reflected the continued decline in Urgent Operational Requirements demand from the UK Ministry of Defence ('MoD') for tactical wheeled vehicles. NP Aerospace margin was impacted in 2012, particularly in the second half, by vehicle contract closures resulting in both settlements with the MoD and prudent assessments of inventory remaining from the long period of supporting Urgent Operational Requirements for the MoD in Afghanistan. Entering 2013, revenue predictions are stable and the cost base has been right sized for this level of revenue. NP Aerospace continues to build a significant pipeline of opportunities both through the USA, focused on key USA military vehicle OEMs, and through a growing series of export opportunities, outside of the UK and the USA. Investment in technology has continued to be a high priority and has yielded break through developments in lighter weight personal protection and highly advanced vehicle armour systems that have the potential to generate significant growth in the future.

The MMS Business continued to perform well with revenue growth (at constant currency rates) and margin improvements as global demand for non-ferrous castings continued to increase, in part driven by increasing demand from the automotive sector. Good growth in China, North America and the Far East more than offset a decline in demand from Europe. The Business continues to benefit from its low-cost manufacturing footprint, strong market presence in dynamic growth markets, and continued progress in driving operational excellence.

Outlook

Entering 2013, Morgan AM&T's order book continues to reflect softness in demand from most sectors and geographies, although demand appears to have stabilised towards the end of 2012. Demand for seals and bearings showed some signs of strengthening towards the end of the year and into January. Demand from the solar sector is expected to remain depressed at least until the second half of the year, while demand from China's wind sector is expected to improve from a very low base through the course of 2013. The Business is also pursuing a number of US body armour contracts that hold promise for improving revenue in 2013 and beyond.

NP Aerospace revenue in 2013 is expected to be in line with 2012, with lower vehicle systems demand from the UK MoD being offset by a growth in export sales.

The outlook for the MMS Business remains positive with continued sales growth expected in the dynamic growth markets and in particular, China. The commitment to operational excellence and market leading positions in dynamic growth economies means MMS is well placed to continue to deliver high margin growth again in 2013.

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 2012 was £1,007.5 million, a decrease of 8.5% compared to 2011. On a constant currency basis, revenue decreased by 6.9%.

Group EBITA before restructuring charges and one-off items was £122.0 million (2011: £143.4 million) representing a margin of 12.1% (2011: 13.0%).

Group underlying operating profit (EBITA after restructuring costs and one-off items) for 2012 was £108.8 million (2011: £141.5 million). Underlying operating profit margin was 10.8%, compared to 12.9% for 2011.

The restructuring costs and other one-off items of £13.2 million charge (2011: £1.9 million charge) relate to a range of actions across the Group, mainly in the second half of the year, as the Group took action to reduce the cost base, particularly in the AM&T business.

The Group amortisation charge for year was £8.3 million (2011: £8.3 million).

The net finance charge was £19.1 million (2011: £21.8 million). This charge was primarily net bank interest and similar charges of £16.9 million (2011: £20.4 million), a decrease of £3.5 million. The decrease in the net interest charge is due to the continuing reduction in average debt levels and lower interest rates following the refinancing of the bank facilities in 2011. The balance of the finance charge under IFRS is the net interest charge on pension scheme net liabilities which was £2.0 million (2011: £0.9 million) and interest expense on the unwinding of discount on deferred consideration of £0.2 million (2011: £0.5 million) relating to the NP Aerospace acquisition.

The tax charge for the period was £22.1 million (2011: £32.6 million). The effective tax rate for the year was 27.1% (2011: 29.3%) and the medium term view is that the rate will remain below 30%.

The £21.0 million credit shown as 'discontinued operations' relates to a release of tax liabilities in the period that were set up in prior years relating to business disposals.

Underlying EPS was 23.2 pence (2011: 29.9 pence).

The Group pension deficit has increased by £31.5 million since last year end to £166.6 million on an IAS 19 basis. The main movements were in the US and UK defined benefit pension schemes. The UK scheme deficit increased by £23.9 million to £71.3 million (2011: £47.4 million) and the US scheme increased by £4.2 million to £62.7 million (2011: £58.5 million). This increase was mainly due to lower discount rates.

For the year ended 31 December 2013 the Group is required to adopt IAS 19 (revised) *Employee Benefits*.

	2012 Current £m	**2012 Revised £m**	**2013 Current £m**	**2013 Revised £m**
Operating costs	(4.6)	(5.7)	(5.0)	(6.2)
Net finance charge	(2.0)	(5.7)	(1.3)	(6.1)
Total IAS 19 charge	(6.6)	(11.4)	(6.3)	(12.3)

The impact is summarised in the table above and the reasons for changes are:

- A £1.2 million increase in operating costs as a result of the requirement to reclassify pension scheme administration costs from net finance charge to operating costs. Such costs include the PPF levy and actuary, audit, legal and trustee charges which, under the current IAS 19, are allowed to be included within the net finance charge.
- A £4.8 million increase in the net finance charge, being the net of a £6 million additional charge due to the new requirement for the expected return on assets to be calculated by applying the corporate bond yield discount rate to the balance sheet pension-related assets, offset by a £1.2 million decrease as a result of the reclassification of the administration costs to operating costs identified above.

The Group does not expect there to be a material change in the Group pension deficit as a result of the change in the accounting standard.

The net cash inflow from operating activities was £126.8 million (2011: £137.4 million). Free cash flow before dividends was £48.9 million (2011: 57.8 million).

Net debt at the year end was £192.8 million (2011: £215.4 million) representing a net debt to EBITDA ratio to 1.3 times (2011: 1.2 times). At the end of the year all of the Group bank facility, of £150 million, was undrawn.

Cash Flow

	FY 2012 £m	FY 2011 £m
Net cash inflow from operating activities	**126.8**	137.4
Net capital expenditure	(26.7)	(25.5)
Restructuring costs and other one-off items	(5.9)	(8.1)
Net interest paid	(18.5)	(20.4)
Tax paid	(26.8)	(25.6)
Free cash flow before acquisitions and dividends	**48.9**	57.8
Cash flows in respect of acquisitions	(6.6)	(10.4)
Dividends paid	(16.1)	(18.4)
Purchase of own shares for share incentive schemes	(9.4)	(3.2)
Exchange movement and other items	5.8	(5.0)
Movement in net debt in period	22.6	20.8
Opening net debt*	(215.4)	(236.2)
Closing net debt	**(192.8)**	(215.4)

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

Final Dividend

The Board has recommended a final dividend of 6.4 pence per Ordinary share. This is an increase of 6.7% compared to the final dividend declared in 2011. The dividend will be paid on 31 May 2013 to Ordinary shareholders on the register of members at the close of business on 19 April 2013.

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

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2012

	Note	2012 £m	2011 £m
Revenue	1	1,007.5	1,101.0
Operating costs before restructuring costs, other one-off items and amortisation of intangible assets		(885.5)	(957.6)
Profit from operations before restructuring costs, other one-off items and amortisation of intangible assets		122.0	143.4
Restructuring costs and other one-off items:	4		
Restructuring costs		(13.3)	(5.6)
Gain on disposal of properties		0.1	2.4
Net pension credit		-	1.3
Profit from operations before amortisation of intangible assets	1	108.8	141.5
Amortisation of intangible assets		(8.3)	(8.3)
Operating profit	1	100.5	133.2
Finance income		26.3	27.7
Finance expense		(45.4)	(49.5)
Net financing costs	2	(19.1)	(21.8)
Profit before taxation		81.4	111.4
Income tax expense	3	(22.1)	(32.6)
Profit after taxation before discontinued operations		59.3	78.8
Discontinued operations	5	21.0	-
Profit for the period		80.3	78.8
Profit for period attributable to:			
Owners of the parent		77.0	73.0
Non-controlling interests		3.3	5.8
		80.3	78.8
Earnings per share	6		
Basic - Continuing operations		20.2p	26.9p
- Discontinued operations		7.6p	-
Diluted - Continuing operations		19.9p	25.7p
- Discontinued operations		7.4p	-
Dividends			
Proposed interim dividend - pence		3.60p	3.25p
- £m		10.1	8.8
Proposed final dividend - pence		6.40p	6.00p
- £m		17.9	16.6

The proposed interim and final dividends (2011: actual) are based upon the number of shares outstanding at the balance sheet date.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2012

	Translation reserve £m	Hedging reserve £m	Fair value reserve £m	Retained earnings £m	Total parent comprehensive income £m	Non-controlling interests £m	Total comprehensive income £m
2011							
Profit for the year	-	-	-	73.0	73.0	5.8	78.8
Foreign exchange translation differences	(5.4)	-	-	-	(5.4)	0.2	(5.2)
Actuarial loss on defined benefit plans	-	-	-	(45.5)	(45.5)	-	(45.5)
Net gain on hedge of net investment in foreign subsidiary	1.0	-	-	-	1.0	-	1.0
Cash flow hedges							
- Effective portion of changes in fair value	-	0.3	-	-	0.3	-	0.3
- Transferred to profit or loss	-	(0.2)	-	-	(0.2)	-	(0.2)
Change in fair value of equity securities available-for-sale	-	-	0.1	-	0.1	-	0.1
Tax effect on components of other comprehensive income	-	-	-	5.9	5.9	-	5.9
Total comprehensive income, net of tax	**(4.4)**	**0.1**	**0.1**	**33.4**	**29.2**	**6.0**	**35.2**
2012							
Profit for the year	-	-	-	77.0	77.0	3.3	80.3
Foreign exchange translation differences	(11.8)	-	-	-	(11.8)	(3.5)	(15.3)
Actuarial loss on defined benefit plans	-	-	-	(47.9)	(47.9)	-	(47.9)
Net gain on hedge of net investment in foreign subsidiary	2.6	-	-	-	2.6	-	2.6
Cash flow hedges							
- Effective portion of changes in fair value	-	0.9	-	-	0.9	-	0.9
- Transferred to profit or loss	-	(0.6)	-	-	(0.6)	-	(0.6)
Change in fair value of equity securities available-for-sale	-	-	0.1	-	0.1	-	0.1
Tax effect on components of other comprehensive income	-	-	-	6.7	6.7	-	6.7
Total comprehensive income, net of tax	**(9.2)**	**0.3**	**0.1**	**35.8**	**27.0**	**(0.2)**	**26.8**

CONSOLIDATED BALANCE SHEET
as at 31 December 2012

	Note	2012 £m	2011 £m
Assets			
Property, plant and equipment		245.5	259.8
Intangible assets		265.1	283.3
Investments		5.4	6.1
Other receivables		4.6	4.2
Deferred tax assets		40.6	41.1
Total non-current assets		561.2	594.5
Inventories		139.9	166.6
Derivative financial assets		1.8	1.6
Trade and other receivables		185.4	195.3
Cash and cash equivalents	7	80.0	83.4
Total current assets		407.1	446.9
Total assets		968.3	1,041.4
Liabilities			
Interest-bearing loans and borrowings		265.0	287.3
Employee benefits		166.6	135.1
Provisions		6.9	7.0
Non-trade payables		4.8	10.5
Deferred tax liabilities		40.5	44.5
Total non-current liabilities		483.8	484.4
Interest-bearing loans and borrowings and bank overdrafts		7.8	11.5
Trade and other payables		184.0	251.3
Current tax payable		6.1	10.8
Provisions		14.1	12.0
Derivative financial liabilities		0.7	1.2
Total current liabilities		212.7	286.8
Total liabilities		696.5	771.2
Total net assets		271.8	270.2
Equity			
Share capital		70.4	68.7
Share premium		99.0	90.6
Reserves		51.6	60.4
Retained earnings		13.0	9.7
Total equity attributable to equity holders of parent Company		234.0	229.4
Non-controlling interests		37.8	40.8
Total equity		271.8	270.2

The financial statements were approved by the Board of Directors on 14 February 2013 and were signed on its behalf by:

Mark Robertshaw, Chief Executive Officer
Kevin Dangerfield, Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2012

	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 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 year	-	-	-	-	-	-	-	-	73.0	73.0	5.8	78.8
Other comprehensive income	-	-	(4.4)	0.1	0.1	-	-	-	(39.6)	(43.8)	0.2	(43.6)
Transactions with owners:												
Dividends	0.2	2.3	-	-	-	-	-	-	(20.9)	(18.4)	(2.3)	(20.7)
Equity-settled share-based payment transactions	-	-	-	-	-	-	-	-	6.8	6.8	-	6.8
Own shares acquired for share incentive schemes	-	-	-	-	-	-	-	-	(3.2)	(3.2)	-	(3.2)
Balance at 1 January 2012	**68.7**	**90.6**	**8.6**	**0.4**	**(1.4)**	**6.0**	**35.7**	**11.1**	**9.7**	**229.4**	**40.8**	**270.2**
Balance at 2 January 2012	**68.7**	**90.6**	**8.6**	**0.4**	**(1.4)**	**6.0**	**35.7**	**11.1**	**9.7**	**229.4**	**40.8**	**270.2**
Profit for the year	-	-	-	-	-	-	-	-	77.0	77.0	3.3	80.3
Other comprehensive income	-	-	(9.2)	0.3	0.1	-	-	-	(41.2)	(50.0)	(3.5)	(53.5)
Transactions with owners:												
Dividends	0.9	8.4	-	-	-	-	-	-	(25.4)	(16.1)	(2.8)	(18.9)
Equity-settled share-based payment transactions	-	-	-	-	-	-	-	-	3.1	3.1	-	3.1
Own shares issued/acquired for share incentive schemes	0.8	-	-	-	-	-	-	-	(10.2)	(9.4)	-	(9.4)
Balance at 31 December 2012	**70.4**	**99.0**	**(0.6)**	**0.7**	**(1.3)**	**6.0**	**35.7**	**11.1**	**13.0**	**234.0**	**37.8**	**271.8**

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2012

	Note	2012 £m	2011 £m
Operating activities			
Profit for the period before discontinued operations		59.3	78.8
Adjustments for:			
Depreciation		30.0	31.1
Amortisation		8.3	8.3
Net financing costs	2	19.1	21.8
Profit on sale of property, plant and equipment		(0.2)	(2.6)
Income tax expense	3	22.1	32.6
Non-cash operating costs relating to restructuring		5.0	-
Equity-settled share-based payment expenses		1.9	5.9
Cash generated from operations before changes in working capital and provisions		145.5	175.9
Decrease/(increase) in trade and other receivables		0.8	(12.9)
Decrease/(increase) in inventories		18.5	(7.7)
(Decrease) in trade and other payables		(31.9)	(8.5)
(Decrease) in provisions and employee benefits		(11.9)	(17.5)
Cash generated from operations		121.0	129.3
Interest paid		(20.1)	(22.0)
Income tax paid		(26.8)	(25.6)
Net cash from operating activities		74.1	81.7
Investing activities			
Purchase of property, plant and equipment		(29.4)	(28.7)
Proceeds from sale of property, plant and equipment		2.7	3.2
Sale of investments		0.1	0.7
Interest received		1.6	1.6
Acquisition of subsidiaries, net of cash acquired		(6.6)	(10.4)
Forward contracts used in net investment hedging		0.7	(4.8)
Net cash from investing activities		(30.9)	(38.4)
Financing activities			
Purchase of own shares for share incentive schemes		(9.4)	(3.2)
Repayment of borrowings	7	(16.2)	(24.4)
Payment of finance lease liabilities	7	(0.2)	(0.4)
Dividends paid		(16.1)	(18.4)
Net cash from financing activities		(41.9)	(46.4)
Net increase/(decrease) in cash and cash equivalents		1.3	(3.1)
Cash and cash equivalents at start of period		83.4	85.0
Effect of exchange rate fluctuations on cash held		(4.7)	1.5
Cash and cash equivalents at period end	7	80.0	83.4

Basis of Preparation

The preliminary announcement for the year ended 31 December 2012 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and as issued by the International Accounting Standards Board. There has been no significant impact arising from new accounting policies adopted in the year.

Going Concern

The Group meets its day-to-day working capital requirements through local banking arrangements that are supported by the flexibility provided by the Group bank facility of £150 million unsecured five year multi-currency revolving credit facility. The bank facility headroom at the year end was £150 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 consolidated financial statements for the year ended 31 December 2012.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2012 or 1 January 2012. Statutory accounts for the year ended 1 January 2012 have been delivered to the registrar of companies, and those for the year ended 31 December 2012 will be delivered in due course. The auditors have reported on those accounts; their report 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 in respect of the accounts for 2012 and 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Segment reporting

The Group comprises the following four reportable operating segments:

- Technical Ceramics - the Technical Ceramics Business is a leading supplier of customer specific, applications-engineered, industrial 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 energy and emissions control.

- 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 and foundry consumables.

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

	Morgan Ceramics				Morgan Engineered Materials					
	Technical Ceramics		Thermal Ceramics		Morgan AM&T		Molten Metal Systems		Consolidated	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
Revenue from external customers	273.3	285.1	387.2	400.1	301.2	369.1	45.8	46.7	1,007.5	1,101.0
Divisional EBITA+	42.7	43.1	51.9	49.6	24.4	48.0	8.1	7.7	127.1	148.4
Unallocated costs									(5.1)	(5.0)
Group EBITA~									122.0	143.4
Restructuring costs and other one-off items	(1.4)	1.1	(5.4)	(3.0)	(6.4)	-	-	-	(13.2)	(1.9)
Underlying operating profit*									108.8	141.5
Amortisation of intangible assets	(2.5)	(2.5)	(1.3)	(1.2)	(4.3)	(4.5)	(0.2)	(0.1)	(8.3)	(8.3)
Operating profit									100.5	133.2
Finance income									26.3	27.7
Finance expense									(45.4)	(49.5)
Profit before taxation									81.4	111.4

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

~ 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 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.

The Group did not have any significant inter-segment revenue between reportable operating segments in 2012 and 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Segment reporting (continued)

	Morgan Ceramics				Morgan Engineered Materials					
	Technical Ceramics		Thermal Ceramics		Morgan AM&T		Molten Metal Systems		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Segment assets	210.1	225.7	257.3	277.7	342.2	372.0	30.9	31.4	840.5	906.8
Unallocated assets									127.8	134.6
Total assets									968.3	1,041.4
Segment liabilities	44.3	50.8	73.2	81.6	49.5	77.4	7.0	8.5	174.0	218.3
Unallocated liabilities									522.5	552.9
Total liabilities									696.5	771.2
Segment capital expenditure	5.7	6.2	10.8	8.2	10.8	11.5	2.0	1.8	29.3	27.7
Unallocated capital expenditure									0.1	1.0
Total capital expenditure									29.4	28.7
Segment depreciation	8.7	8.6	9.9	11.1	9.9	10.1	1.4	1.3	29.9	31.1
Unallocated depreciation									0.1	-
									30.0	31.1

	Revenue from external customers		Non-current assets (excluding tax and financial instruments)	
	2012	2011	2012	2011
	£m	£m	£m	£m
USA	315.5	326.1	171.0	182.6
UK (the Group's country of domicile)	107.9	141.9	165.6	176.4
China	83.6	87.7	51.9	51.6
Germany	70.3	75.7	31.1	30.1
France	41.1	43.2	20.9	23.8
Other Asia, Middle East and Africa	187.3	203.2	36.2	40.8
Other Europe	127.5	142.9	22.5	24.1
Other North America	30.8	29.8	11.6	13.4
South America	43.5	50.5	9.8	10.6
	1,007.5	1,101.0	520.6	553.4

Revenue from external customers is based on geographic location of the end-customer. Segment assets are based on geographical location of the assets.

2. Net finance income and expense

	2012 £m	2011 £m
Recognised in profit or loss		
Interest income on bank deposits measured at amortised cost	1.6	1.3
Expected return on IAS 19 scheme assets	24.7	26.4
Finance income	26.3	27.7
Interest expense on financial liabilities measured at amortised cost	(18.5)	(21.7)
Interest on IAS 19 obligations	(26.7)	(27.3)
Interest expense on unwinding of discount on deferred consideration	(0.2)	(0.5)
Finance expense	(45.4)	(49.5)
Net financing costs recognised in profit or loss	(19.1)	(21.8)
Recognised directly in equity		
Net change in fair value of available-for-sale financial assets	0.1	0.1
Cash flow hedges:		
Effective portion of changes in fair value of cash flow hedges	0.9	0.3
Transferred to profit or loss	(0.6)	(0.2)
Effective portion of change in fair value of net investment hedge	2.6	1.0
Foreign currency translation differences for foreign operations	(11.8)	(5.4)
	(8.8)	(4.2)

3. Taxation - income tax expense

Recognised in the income statement

	2012 £m	2011 £m
Current tax expense		
Current year	25.4	30.4
Adjustments for prior years	(5.0)	(0.5)
	20.4	29.9
Deferred tax expense		
Origination and reversal of temporary differences	1.7	2.7
Total income tax expense in income statement	22.1	32.6

Reconciliation of effective tax rate	2012 £m	2012 %	2011 £m	2011 %
Profit before tax	81.4		111.4	
Income tax using the domestic corporation tax rate	19.9	24.5	29.5	26.5
Non-deductible expenses	2.4	2.8	3.3	3.0
Temporary differences not equalised in deferred tax	(1.4)	(1.7)	(2.8)	(2.5)
Over-provided in prior years	(3.6)	(4.4)	(0.4)	(0.4)
Other (including the impact of overseas tax rates)	4.8	5.9	3.0	2.7
	22.1	27.1	32.6	29.3

Income tax recognised directly in equity		
Tax effect on components of other comprehensive income:		
- Current tax associated with share schemes	1.3	-
- Deferred tax associated with defined benefit schemes and share schemes	5.4	5.9
- Other	-	0.1
Total income tax recognised directly in equity	6.7	6.0

4. Restructuring costs and other one-off costs

Included within restructuring costs and other one-off items in the year ended 1 January 2012 is a net pension credit of £1.3 million arising from the following:

- For 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 one-off pension credit (negative past service cost) of £3.1 million.

- In North America, a total charge of £1.8 million arose as a result of a charge of £1.6 million in respect of a provision relating to a USA pension plan and a charge of £0.2 million in respect of the curtailment and settlement loss as a result of closure of three Canadian defined benefit schemes.

5. Discontinued operations

Discontinued operations is a tax credit arising from the review and release of tax liabilities set up in prior years relating to business disposals.

6. Earnings per share

Earnings per share from continuing operations

The calculation of basic/diluted earnings per share from continuing operations at 31 December 2012 was based on the following:

	2012		2011	
	Basic	Diluted	Basic	Diluted
	£m	£m	£m	£m
Profit attributable to equity holders of the Company from continuing operations	56.0	56.0	73.0	73.0
Weighted average number of Ordinary shares				
Issued Ordinary shares at the beginning of the period (millions)	273.1	273.1	272.2	272.2
Effect of shares issued in period and shares held by The Morgan General Employee Benefit Trust (millions)	3.9	3.9	(0.5)	(0.5)
Dilutive effect of share options/incentive schemes (millions)		5.0		12.7
Basic/diluted weighted average number of Ordinary shares during the period (millions)	277.0	282.0	271.7	284.4
Earnings per share from continuing operations (pence)	20.2p	19.9p	26.9p	25.7p

Earnings per share from discontinued operations

The calculation of basic/diluted earnings per share from discontinued operations at 31 December 2012 was based on the following:

	2012		2011	
	Basic	Diluted	Basic	Diluted
	£m	£m	£m	£m
Profit attributable to equity holders of the Company from discontinued operations	21.0	21.0	-	-
Basic/diluted weighted average number of Ordinary shares during the period - calculated as above (millions)	277.0	282.0	271.7	284.4
Earnings per share from discontinued operations (pence)	7.6p	7.4p	0.0p	0.0p

Underlying earnings per share

The calculation of basic/diluted underlying earnings per share at 31 December 2012 was based on the following:

	2012		2011	
	Basic	Diluted	Basic	Diluted
	£m	£m	£m	£m
Operating profit before amortisation, less net financing costs, income tax expense and non-controlling interests	64.3	64.3	81.3	81.3
Basic/diluted weighted average number of Ordinary shares during the period - calculated as above (millions)	277.0	282.0	271.7	284.4
Earnings per share before amortisation of intangible assets (pence)	23.2p	22.8p	29.9p	28.6p

7. Cash and cash equivalents

	2012 £m	2011 £m
Bank balances	64.2	71.7
Cash deposits	15.8	11.7
Cash and cash equivalents	80.0	83.4

Reconciliation of cash and cash equivalents to net debt*

	2012 £m	2011 £m
Opening borrowings	(298.8)	(321.2)
Net decrease in borrowings	16.2	24.4
Payment of finance lease liabilities	0.2	0.4
Effect of movements in foreign exchange on borrowings	9.6	(2.4)
Closing borrowings	(272.8)	(298.8)
Cash and cash equivalents	80.0	83.4
Closing net debt	(192.8)	(215.4)

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