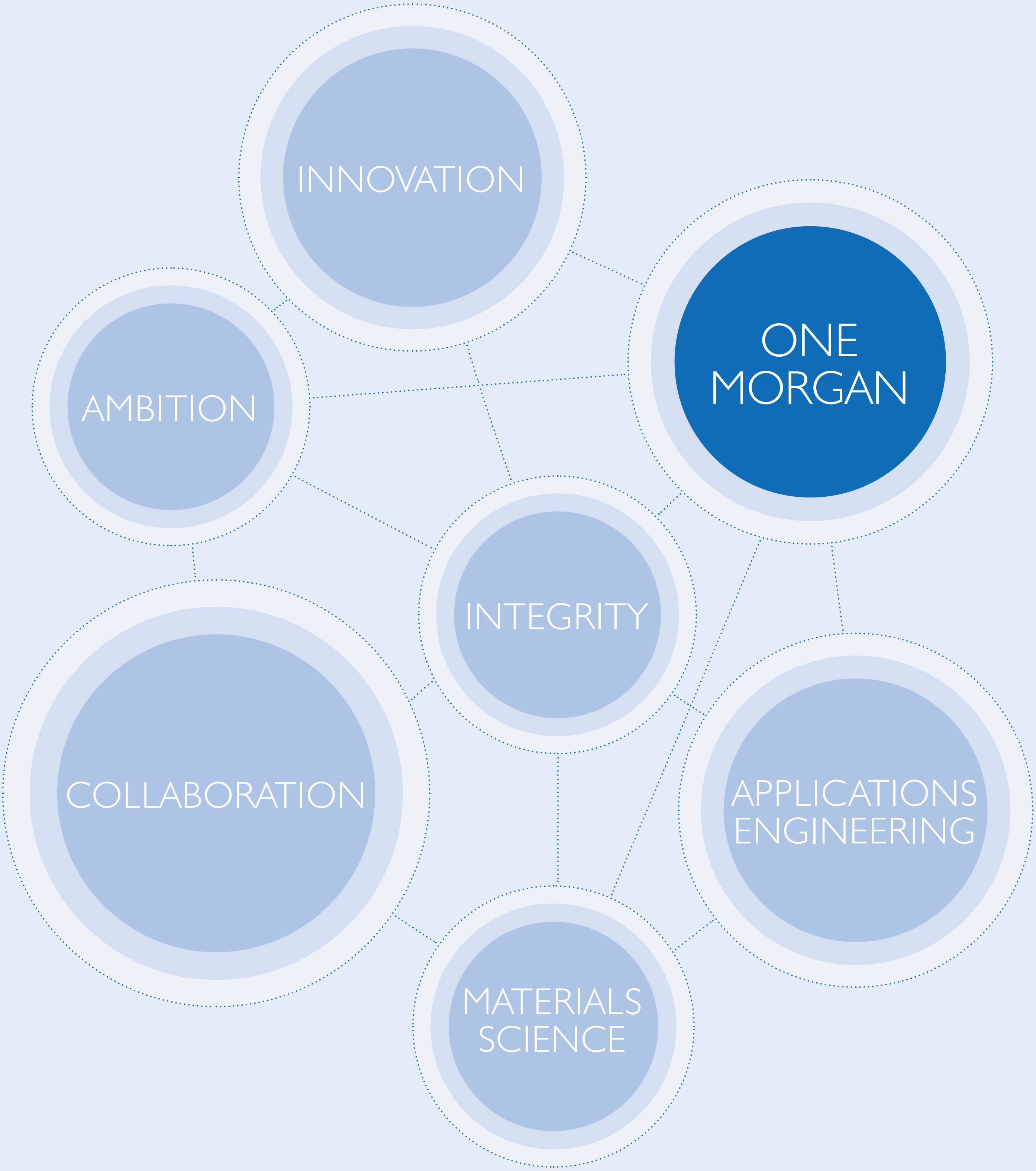
# MORGAN ADVANCED MATERIALS PLC
## HALF-YEAR REPORT 2014




Morgan
Advanced Materials

## MANAGEMENT REPORT



## FINANCIAL STATEMENTS



# ONE MORGAN

## MORGAN ADVANCED MATERIALS IS COMMITTED TO BUILDING A SUSTAINABLE COMPETITIVE ADVANTAGE IN ATTRACTIVE MARKETS WITH TRULY DIFFERENTIATED PRODUCTS AND SERVICES UNDERPINNED BY WORLD-LEADING TECHNOLOGY.

The Group produces 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.

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

In short, the Group supplies innovative, differentiated products made from highly technical advanced materials which enable its customers' products and processes to perform more efficiently, more reliably and for longer.

# OPERATIONAL AND FINANCIAL HIGHLIGHTS

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

"The improvement in the Group's order intake and order book over the past several months is encouraging as we enter the second half of the year, although we expect market conditions to remain mixed. I am pleased with the progress we are making in proactive portfolio reshaping both in terms of exiting lower margin lines of business but also with the growth coming through in geographies such as Asia and in technology families such as Thermal Ceramics, Electrical Carbon and Seals and Bearings.

The key element of our strategy continues to be creating sustainable differentiation through leading-edge materials technology and sophisticated application engineering. To this end we are investing organically in research and development, such as the new Centre of Excellence for Structural Ceramics in the UK, and in higher levels of growth capital expenditure, including the new greenfield sites in Dalian, China and Kizad, UAE. The acquisition of Porextherm complements our existing microporous insulating business, creating a world-leading provider in the market for this differentiated technology.

Our focus remains on self-help initiatives: driving positive mix, delivering cost efficiencies and making continued investments in technology and differentiation. This, aligned to an improved order book compared with the equivalent period last year, gives the Board confidence that the Group will make progress in the second half of 2014."

## RESULTS SUMMARY

| £ million unless otherwise stated | **H1 2014** | H1 2013 | Reported change % | Constant currency change % |
|---|---|---|---|---|
| **Business performance** | | | | |
| Revenue | **448.4** | 486.1 | -7.8% | -0.9% |
| Group EBITA* | **56.4** | 58.3 | -3.3% | +6.0% |
| Group EBITA margin* | **12.6%** | 12.0% | | |
| Group underlying operating profit* | **54.3** | 51.6 | +5.2% | +15.8% |
| Underlying PBT* | **43.8** | 39.7 | +10.3% | +22.1% |
| Underlying EPS* (pence) | **10.6p** | 10.0p | +6.0% | |
| Return on operating capital employed* | **28.1%** | 21.2% | | |
| Half-year dividend (pence) | **3.9p** | 3.8p | +2.6% | |
| Net cash inflow from operating activities | **42.5** | 55.7 | -23.7% | |
| **Statutory reporting** | | | | |
| Operating profit | **50.0** | 47.6 | +5.0% | |
| Profit before tax | **37.5** | 35.7 | +5.0% | |
| Basic EPS (pence) | **8.4p** | 8.5p | -1.2% | |

* Definitions of the financial measures can be found in the Glossary

## FINANCIAL HIGHLIGHTS

- As anticipated in the Group's May IMS, revenue at constant currency in the first half of the year was broadly flat compared to the equivalent period last year
- Order intake in the first half was encouraging with a book-to-bill ratio of 1.06 times with all geographies above 1.00 times and the Asia region showing particular strength
- Group EBITA margin for the first half of the year was 12.6% (H1 2013: 12.0%)
- Reported results were impacted by the continued strengthening of sterling. Relative to H1 2013, the impact of foreign exchange was an adverse movement of £33.7 million for revenue and of £5.1 million for EBITA
- Net debt at the half-year was £194.3 million (Full year 2013: £186.5 million). Net debt to EBITDA ratio at the half-year was 1.3 times (Full year 2013: 1.3 times)
- Interim dividend increased by 2.6% to 3.9 pence per share (2013: Interim 3.8 pence per share)

MANAGEMENT REPORT

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# OPERATIONAL AND FINANCIAL HIGHLIGHTS
continued

## REGIONAL HIGHLIGHTS

- In North America the strength of the Thermal Ceramics, Electrical Carbon and Seals and Bearings businesses was offset by a softer performance in Technical Ceramics, particularly from the ceramic cores business, driven by lower demand in aerospace, as customers destocked, and by low operational yields. At constant currency, revenue increased in the first half of the year by 1.4% compared to H1 2013 delivering mid-teen margins of 15.3% (H1 2013: 14.6%)
- European trading was broadly stable compared with H1 2013 with the exception of the Composites and Defence Systems (C&DS) business, where revenue was £13.8 million lower than H1 last year, in part through the exit of low-margin lines of business but also due to the timing of programme orders and shipments. European margins were the same as last year at 11.2%. Adjusting for the weaker C&DS business in the first half, and at constant currency, revenue was down 1.8% compared to H1 2013 with margins increasing by 110 basis points to 12.7% (H1 2013: 11.6%)
- Asia/Rest of World businesses delivered strong revenue and margin progress in the first half of the year, with 9.4% revenue growth on a constant currency basis against the equivalent period last year and, at constant currency, a 240 basis point improvement in EBITA margin from 10.3% to 12.7%

## OPERATIONAL HIGHLIGHTS

- The Group has made continued progress in portfolio reshaping with the sale of the loss-making Hairong lithium ion material business in China and the completion of the exit of the UK fired refractory shapes business, merging it with Magma, a UK-based fired shapes specialist, in return for a 35% stake in the larger entity. These together gave a £2.0 million net one-off charge, shown in the income statement as 'Specific adjusting items' in a separate column
- The Group has now exited/sold c.50% of those low-margin businesses that were highlighted in our portfolio strategy earlier this year. There is an active programme of targeting the remaining c.£25 million of low-margin business for improvement or exit
- There was encouraging progress in the Group's continuing businesses despite the softness in C&DS in the first half. Aside from C&DS, Group revenue grew by 3.1% at constant currency, EBITA margin increased to 13.3% (H1 2013 12.2%) and the Group's outstanding order book was 12.4% higher than at the same time last year
- Good progress continued to be made in improving the profitability of the Electrical Carbon and Seals and Bearing businesses through the first half of 2014. Electrical Carbon profit margins are now entering the mid-teen range while Seals and Bearings delivered strong revenue growth of 10.7% on a constant currency basis compared to the first half of 2013 with improving margins
- The Group has successfully completed its acquisition of Porextherm for an enterprise value of c.€26.5 million. This microporous insulating business complements the Group's existing businesses and technology in an area of differentiated and highly demanding applications in aerospace, oil and gas and industrial markets
- A new Global Materials Centre of Excellence for Structural Ceramics was announced in the first half of 2014 to be located in Stourport, UK. This aims to build on the tried and tested model of developing world-leading advanced materials technology that the Group has already successfully delivered from its high-temperature insulating fibre Global Centre of Excellence in Bromborough, UK
- Construction and fit out of the Group's new greenfield high-temperature ceramics manufacturing site in Dalian, China has now been completed with operational commissioning currently under way. Work has also now started on the new Superwool® fibre greenfield site in Kizad, UAE with targeted completion and operation in the second half of next year

# REVIEW OF OPERATIONS

| | Revenue | | EBITA | | EBITA margin | |
|---|---|---|---|---|---|---|
| | **H1 2014 £m** | H1 2013 £m | **H1 2014 £m** | H1 2013 £m | **H1 2014 %** | H1 2013 % |
| North America | **171.7** | 183.9 | **26.2** | 27.3 | **15.3%** | 14.8% |
| Europe | **159.4** | 180.4 | **17.8** | 20.2 | **11.2%** | 11.2% |
| Asia/Rest of World | **117.3** | 121.8 | **14.9** | 13.1 | **12.7%** | 10.8% |
| | **448.4** | 486.1 | **58.9** | 60.6 | **13.1%** | 12.5% |
| Unallocated central costs | | | **(2.5)** | (2.3) | | |
| **Group EBITA** | | | **56.4** | 58.3 | **12.6%** | 12.0% |
| Restructuring costs and other one-off items | | | **(2.1)** | (6.7) | | |
| **Underlying operating profit** | | | **54.3** | 51.6 | **12.1%** | 10.6% |

## NORTH AMERICA

Revenue for the first half of the year was £171.7 million (H1 2013: £183.9 million) representing a decline of 6.6% at reported rates. At constant currency there was an increase of 1.4%.

EBITA for the first half of the year was £26.2 million (H1 2013: £27.3 million), with EBITA margin improving to 15.3% in the first half of 2014 compared with 14.8% in H1 2013.

Thermal Ceramics, Electrical Carbon and Seals and Bearings all delivered good revenue and profit margin progression in H1 2014. Improving large project orders and strong demand for insulating fibre in demanding automotive applications have been the major drivers in the Thermal business. In the Electrical Carbon business, increased demand for high-temperature insulation was a key driver as was continued market share gain across a range of applications. Growth was strong for Seals and Bearings in petrochemical and water applications.

The Technical Ceramics businesses were impacted by continued lower demand for our hard disk drive products, but also a drop in revenue in our Certech business that provides ceramic cores used in the manufacture of turbine blades for aerospace and industrial gas turbines. In addition the Certech business also experienced a range of operational and yield issues in the first half of 2014 with a reduction in profit compared to the first half of 2013 of £3.0 million at constant currency. The second half is expected to show an increase in Certech margin as yield levels begin to improve.

The order book in North America has remained positive through the first half and this provides a good base for improving performance through the second half of 2014.

## EUROPE

Revenue for the first half of the year was £159.4 million (H1 2013: £180.4 million) representing a decline of 11.6% at reported rates. At constant currency this decline was 9.4%. C&DS was the major contributor to the decline with revenue of £13.9 million (H1 2013: £27.7 million).

EBITA for the first half of the year was £17.8 million (H1 2013: £20.2 million). EBITA margins were the same as H1 2013 at 11.2%, despite the lower sales and the profit impact of this.

The Electrical Carbon and Seals and Bearings businesses have both shown growth year-on-year. In Electrical this was mainly in rotary systems, and in Seals and Bearings in petrochemical and water. This growth, combined with cost base reductions, has driven an improvement in margins for Electrical Carbon and Seals and Bearings which is forecast to continue in H2 and beyond as further operational and footprint rationalisation actions are taken. Revenue and order book in the Technical Ceramics and Thermal Ceramics business have remained relatively stable with markets showing few signs of any consistent pick-up in demand. The C&DS business had a soft first half of 2014, as contract wins in the period are for delivery through the second half of 2014 and beyond, which means that performance is forecast to improve as the second half progresses.

Since last year end Morgan completed the merger of its UK-based fired shapes business with Magma Ceramics, a UK-based fired shapes specialist business, in return for a 35% minority stake in the enlarged Magma business.

The Group successfully completed its acquisition of Porextherm for an enterprise value of c.€26.5 million. This microporous insulating business complements the Group's existing businesses and technology in an area of differentiated and highly demanding insulating applications in oil and gas, aerospace and industrial end-markets.

The outlook for the second half is for higher revenue in C&DS with demand in other businesses expected to be broadly similar to the first half of 2014.

## ASIA/REST OF WORLD

Revenue for the first half of the year was £117.3 million (H1 2013: £121.8 million) representing a decline of 3.7% at reported rates. At constant currency this was an increase of 9.4%.

EBITA for the first half of the year was £14.9 million (H1 2013: £13.1 million). EBITA margins improved significantly to 12.7% in the first half of this year from 10.8% in the first half of 2013.

# REVIEW OF OPERATIONS
## continued

Trading across the region has strengthened in the first half of 2014, with most major geographies showing improvements, including China, India, Korea and the Middle East. The main growth markets have been the energy sector, petrochemical and marine applications. Petrochemical projects have been particularly strong in India and the Middle East, having had a weaker 2013. Working effectively with Morgan businesses in USA and Europe, the Asian business has seen good growth in Western-sourced, higher technology products for markets such as medical and aerospace. The Molten Metal Systems business, with close to 50% of its revenue from the region, continued to see soft demand across its main markets, particularly India.

EBITA margin in the first half of the year has also benefitted from a range of operational improvements including the closure of higher cost fibre lines in Australia, Japan and South Africa coupled with further investment in Superwool® enabled fibre lines in lower cost countries such as China. As part of the Group's portfolio changes the region has successfully completed the disposal of a small loss-making carbon business in India (now a minority stake) and the sale of the Hairong lithium ion material business in China.

The order book for the region is strong, providing confidence in the second half outlook.

### Financial review

Reference is made to 'Underlying operating profit' and 'Underlying EPS' below, both of which are defined in the Glossary at the end of this Half-Year Report. These measures of earnings are shown because the Directors consider that they give the best indication of underlying performance.

### *Business performance review*

In the consolidated income statement the Group separately presents 'Specific adjusting items' totalling £2.0 million in H1 2014. There were no specific adjusting items in H1 2013. In the Business Performance Review below results are shown before these items.

Group revenue in the first half of 2014 was £448.4 million, a decrease of 7.8% compared to the first half of 2013 and on a constant currency basis, revenue decreased by 0.9%.

Group EBITA before restructuring charges and other one-off items was £56.4 million (H1 2013: £58.3 million) representing a margin of 12.6% (H1 2013: 12.0%).

Group underlying operating profit (EBITA after restructuring costs and other one-off items) for the first half of 2014 was £54.3 million (H1 2013: £51.6 million). Underlying operating profit margin was 12.1%, compared to 10.6% for the first half of 2013.

The restructuring costs and other one-off items of £2.1 million (H1 2013: £6.7 million) relate mainly to the actions that the Group has undertaken as a consequence of moving to the 'One Morgan' model and the re-organisation into geographical regions, a charge of £1.7 million, and £0.4 million of third party advisor costs incurred as part of the acquisition of Porextherm.

The Group amortisation charge for the half-year was £4.3 million (H1 2013: £4.0 million).

The net finance charge was £10.5 million (H1 2013: £11.9 million), comprising the net bank interest and similar charges of £7.5 million (H1 2013: £8.6 million), and the finance charge under IAS 19 (revised), being the interest charge on pension scheme net liabilities, of £3.0 million (H1 2013: £3.3 million).

The tax charge for the period was £11.5 million (H1 2013: £10.2 million). The effective tax rate, excluding specific adjusting items, for the half-year is 29.1% (H1 2013: 28.5%).

Underlying EPS is 10.6 pence (H1 2013: 10.0 pence).

The Return on Operating Capital Employed at 30 June 2014, defined as Group underlying profit for the last 12 months divided by the sum of working capital and the net book value of tangible assets, was 28.1%, compared with 21.2% at 30 June 2013.

### *Specific adjusting items*

In the condensed consolidated income statement the Group presents specific adjusting items separately. In the judgment of the Directors, due to the nature and value of these items, they should be disclosed separately from the underlying results of the Group to allow the reader to obtain a proper understanding of the financial information and the best indication of underlying performance of the Group. No specific adjusting items were incurred in the six months ended 30 June 2013.

The specific adjusting item of £2.0 million in H1 2014 results from the net loss on disposal of two businesses in the period:

*a) UK Fired Shapes Business*

On 3 April 2014 the Group sold its UK Fired Shapes business to Jemmtec Limited (trading as Magma Ceramics) in exchange for a 35% shareholding in Jemmtec Limited, a fired ceramics shapes business. The profit recognised on disposal of the business was £1.3 million. Assets disposed of consisted of £0.9 million of property, plant and equipment, £0.8 million of inventory and £0.2 million of goodwill. Based on the management structure of Jemmtec Limited the Group has determined that it does not have control of Jemmtec Limited and is therefore accounting for its 35% shareholding in Jemmtec as an associate.

*b) Morgan AM&T Hairong Co. Ltd*

On 20 June 2014 the Group disposed of the whole of the share capital of Morgan AM&T Hairong Co. Ltd ('Hairong') for £0.3 million consideration. The loss recognised on disposal of this shareholding was £3.3 million. Prior to the acquisition the immediate parent company of Hairong was Morgan AM&T (Shanghai) Co., Ltd, in which the Group holds a 70% shareholding. The adjustment to the non-controlling interest component of equity due to this transaction was £1.2 million.

### *Employee benefits*

The Group pension deficit has increased by £9.8 million since last year end to £154.4 million on an IAS 19 basis. The main movement was in the UK defined benefit pension schemes. The UK deficit increased by £6.2 million to £81.2 million (December 2013: £75.0 million). This increase is mainly due to a lower discount rate – from 4.5% at 31 December 2013 to 4.3% at 30 June 2014. The US deficit increased by £0.5 million to £39.8 million (December 2013: £39.3 million).

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### *Cash flow*

| | H1 2014 £m | H1 2013 £m |
|---|---|---|
| **Net cash inflow from operating activities** | **42.5** | 55.7 |
| Net capital expenditure | **(13.6)** | (13.8) |
| Restructuring costs | **(3.7)** | (8.3) |
| Net interest paid | **(7.7)** | (8.5) |
| Tax paid | **(10.7)** | (11.9) |
| **Free cash flow before acquisitions and dividends** | **6.8** | 13.2 |
| Cash flows in respect of disposals and acquisitions | **(0.5)** | 0.4 |
| Dividends paid | **(19.1)** | (15.3) |
| Purchase of own shares for share incentive schemes | **(1.2)** | (5.5) |
| Exchange movement and other items | **6.2** | (15.6) |
| Movement in net debt in period | **(7.8)** | (22.8) |
| Opening net debt | **(186.5)** | (192.8) |
| **Closing net debt** | **(194.3)** | (215.6) |

The net cash inflow from operating activities was £42.5 million (H1 2013: £55.7 million). Free cash flow before acquisitions and dividends was £6.8 million (H1 2013: £13.2 million).

The exchange movement largely results from the fact that the Group has US dollar and Euro debt and £ sterling has strengthened against both of these in the period.

Net debt at the half-year end was £194.3 million (2013 year end: £186.5 million) representing a net debt to EBITDA ratio of 1.3 times (2013 year end: 1.3 times).

## Interim dividend

The Board has declared an interim dividend of 3.9 pence per ordinary share. This is an increase of 2.6% compared to the interim dividend declared in 2013. The dividend will be paid on 28 November 2014 to Ordinary shareholders on the register of members at the close of business on 7 November 2014.

## Principal risks and uncertainties

The Group has in place processes for identifying, evaluating and managing the key risks which could have an impact upon the Group's performance.

The current risks, together with a description of how they relate to the Group's strategy and the approach to managing them, are set out in the 2013 Annual Report, which is available at the Group's website at www.morganadvancedmaterials.com The Group has reviewed these risks and concluded that they adequately represent the current principal risks and uncertainties of the Group and will continue to remain relevant for the second half of the financial year.

The principal risks comprise: technology obsolescence; recruiting, maintaining and motivating high-quality staff; treasury risks; quality of contracts; IT risks and cyber risks; product quality, safety and liability; single point exposures; environment, health and safety risks; changes to or non-compliance with laws and regulation; a changing political, economic and social environment; and pension funding.

## Going concern

As reported on page 45 of the 2013 Annual Report, the Group meets its day-to-day working capital requirements through local banking arrangements and the committed £150 million unsecured five-year multi-currency revolving credit facility. The headroom on this at the half-year was £145 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 30 June 2014.

## Responsibility statement

We confirm that to the best of our knowledge:

- the condensed consolidated set of financial statements has 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 of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board

**Andrew Shilston**
Chairman

**Mark Robertshaw**
Chief Executive Officer

# CONDENSED CONSOLIDATED INCOME STATEMENT

## FOR THE SIX MONTHS ENDED 30 JUNE 2014

| | Note | Six months Results before specific adjusting items 2014 £m | Six months Specific adjusting items* 2014 £m | **Six months Total 2014 £m** | Six months Total 2013 £m | Year Results before specific adjusting items 2013 £m | Year Specific adjusting items* 2013 £m | Year Total 2013 £m |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | 3 | 448.4 | – | **448.4** | 486.1 | 957.8 | – | 957.8 |
| Operating costs before restructuring costs, other one-off items and amortisation of intangible assets | | (392.0) | – | **(392.0)** | (427.8) | (838.8) | – | (838.8) |
| **Profit from operations before restructuring costs, other one-off items and amortisation of intangible assets** | | 56.4 | – | **56.4** | 58.3 | 119.0 | – | 119.0 |
| Restructuring costs and other one-off items: | | | | | | | | |
| Restructuring costs | | (1.7) | – | **(1.7)** | (6.8) | (11.3) | – | (11.3) |
| Gain on disposal of properties | | – | – | **–** | 0.1 | 0.8 | – | 0.8 |
| Business exit costs | 4 | – | – | **–** | – | – | (7.3) | (7.3) |
| Acquisition-related costs | 11 | (0.4) | – | **(0.4)** | – | – | – | – |
| **Profit from operations before amortisation of intangible assets** | 3 | 54.3 | – | **54.3** | 51.6 | 108.5 | (7.3) | 101.2 |
| Amortisation and impairment of intangible assets | | (4.3) | – | **(4.3)** | (4.0) | (8.3) | (3.3) | (11.6) |
| **Operating profit** | 3 | 50.0 | – | **50.0** | 47.6 | 100.2 | (10.6) | 89.6 |
| Finance income | | 0.8 | – | **0.8** | 0.6 | 1.3 | – | 1.3 |
| Finance expense | | (11.3) | – | **(11.3)** | (12.5) | (24.6) | – | (24.6) |
| **Net financing costs** | 5 | (10.5) | – | **(10.5)** | (11.9) | (23.3) | – | (23.3) |
| Net loss on disposal of businesses | 4 | – | (2.0) | **(2.0)** | – | – | (2.3) | (2.3) |
| **Profit before taxation** | | 39.5 | (2.0) | **37.5** | 35.7 | 76.9 | (12.9) | 64.0 |
| Income tax expense | 6 | (11.5) | – | **(11.5)** | (10.2) | (21.1) | 1.8 | (19.3) |
| **Profit for the period** | | 28.0 | (2.0) | **26.0** | 25.5 | 55.8 | (11.1) | 44.7 |
| Profit for the period attributable to: | | | | | | | | |
| Owners of the parent | | 25.9 | (2.0) | **23.9** | 24.0 | 52.4 | (10.6) | 41.8 |
| Non-controlling interests | | 2.1 | – | **2.1** | 1.5 | 3.4 | (0.5) | 2.9 |
| **Profit for the period** | | 28.0 | (2.0) | **26.0** | 25.5 | 55.8 | (11.1) | 44.7 |

| | Note | **Six months Total 2014 £m** | Six months Total 2013 £m | Year Total 2013 £m |
|---|---|---|---|---|
| **Earnings per share from continuing operations** | 7 | | | |
| Basic | | **8.4p** | 8.5p | 14.8p |
| Diluted | | **8.4p** | 8.5p | 14.7p |
| **Dividends** | | | | |
| Proposed interim dividend – pence | | **3.90p** | 3.80p | |
| – £m | | **11.1** | 10.8 | |
| Approved final dividend – pence | | | | 6.70p |
| – £m | | | | 19.1 |

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

* Details of 'Specific adjusting items' are given in note 4 to the financial statements. There were no specific adjusting items in the six months ended 30 June 2013.

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

| | 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 |
|---|---|---|---|---|---|---|---|
| **Six months ended 30 June 2013** | | | | | | | |
| Profit for the period | – | – | – | 24.0 | 24.0 | 1.5 | 25.5 |
| **Items that will not be reclassified subsequently to profit or loss:** | | | | | | | |
| Remeasurement gain on defined benefit plans | – | – | – | 25.3 | 25.3 | – | 25.3 |
| Tax effect of components of other comprehensive income not reclassified | – | – | – | (5.5) | (5.5) | – | (5.5) |
| | – | – | – | 19.8 | 19.8 | – | 19.8 |
| **Items that may be reclassified subsequently to profit or loss:** | | | | | | | |
| Foreign exchange translation differences | 2.2 | – | – | – | 2.2 | 0.9 | 3.1 |
| Net loss on hedge of net investment in foreign subsidiaries | (1.0) | – | – | – | (1.0) | – | (1.0) |
| Cash flow hedges: | | | | | | | |
| Effective portion of changes in fair value | – | (1.7) | – | – | (1.7) | – | (1.7) |
| Transferred to profit or loss | – | 0.3 | – | – | 0.3 | – | 0.3 |
| | 1.2 | (1.4) | – | – | (0.2) | 0.9 | 0.7 |
| **Total comprehensive income, net of tax** | 1.2 | (1.4) | – | 43.8 | 43.6 | 2.4 | 46.0 |
| **Year ended 31 December 2013** | | | | | | | |
| Profit for the period | – | – | – | 41.8 | 41.8 | 2.9 | 44.7 |
| **Items that will not be reclassified subsequently to profit or loss:** | | | | | | | |
| Remeasurement gain on defined benefit plans | – | – | – | 12.2 | 12.2 | – | 12.2 |
| Tax effect of components of other comprehensive income not reclassified | – | – | – | (5.5) | (5.5) | – | (5.5) |
| | – | – | – | 6.7 | 6.7 | – | 6.7 |
| **Items that may be reclassified subsequently to profit or loss:** | | | | | | | |
| Foreign exchange translation differences | (14.6) | – | – | – | (14.6) | (2.8) | (17.4) |
| Net gain on hedge of net investment in foreign subsidiaries | 0.4 | – | – | – | 0.4 | – | 0.4 |
| Cash flow hedges: | | | | | | | |
| Effective portion of changes in fair value | – | (0.5) | – | – | (0.5) | – | (0.5) |
| Transferred to profit or loss | – | 0.4 | – | – | 0.4 | – | 0.4 |
| Change in fair value of equity securities available-for-sale | – | – | 0.3 | – | 0.3 | – | 0.3 |
| | (14.2) | (0.1) | 0.3 | – | (14.0) | (2.8) | (16.8) |
| **Total comprehensive income, net of tax** | (14.2) | (0.1) | 0.3 | 48.5 | 34.5 | 0.1 | 34.6 |

MANAGEMENT REPORT

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# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE SIX MONTHS ENDED 30 JUNE 2014 CONTINUED

| | 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 |
|---|---|---|---|---|---|---|---|
| **Six months ended 30 June 2014** | | | | | | | |
| Profit for the period | – | – | – | 23.9 | 23.9 | 2.1 | 26.0 |
| **Items that will not be reclassified subsequently to profit or loss:** | | | | | | | |
| Remeasurement loss on defined benefit plans | – | – | – | (14.9) | (14.9) | – | (14.9) |
| Tax effect of components of other comprehensive income not reclassified | – | – | – | 1.6 | 1.6 | – | 1.6 |
| | – | – | – | (13.3) | (13.3) | – | (13.3) |
| **Items that may be reclassified subsequently to profit or loss:** | | | | | | | |
| Foreign exchange translation differences | (7.7) | – | – | – | (7.7) | (1.3) | (9.0) |
| Net gain on hedge of net investment in foreign subsidiaries | 2.2 | – | – | – | 2.2 | – | 2.2 |
| Cash flow hedges: | | | | | | | |
| Effective portion of changes in fair value | – | 0.7 | – | – | 0.7 | – | 0.7 |
| | (5.5) | 0.7 | – | – | (4.8) | (1.3) | (6.1) |
| **Total comprehensive income, net of tax** | (5.5) | 0.7 | – | 10.6 | 5.8 | 0.8 | 6.6 |

# CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2014

| | Note | **30 June 2014 £m** | 30 June 2013 £m | 31 December 2013 £m |
|---|---|---|---|---|
| **Assets** | | | | |
| Property, plant and equipment | | **229.3** | 252.0 | 241.4 |
| Intangible assets | | **244.5** | 269.4 | 249.5 |
| Investments | | **6.5** | 5.0 | 3.7 |
| Other receivables | | **3.6** | 4.4 | 4.3 |
| Deferred tax assets | | **31.8** | 36.8 | 28.2 |
| **Total non-current assets** | | **515.7** | 567.6 | 527.1 |
| Inventories | | **124.1** | 146.0 | 118.9 |
| Derivative financial assets | 9 | **2.3** | 1.9 | 1.7 |
| Trade and other receivables | | **188.4** | 198.7 | 188.2 |
| Cash and cash equivalents | 8 | **65.7** | 68.4 | 76.0 |
| **Total current assets** | | **380.5** | 415.0 | 384.8 |
| **Total assets** | | **896.2** | 982.6 | 911.9 |
| **Liabilities** | | | | |
| Interest-bearing loans and borrowings | | **167.3** | 284.0 | 201.5 |
| Employee benefits | | **154.4** | 143.4 | 144.6 |
| Provisions | | **3.5** | 6.6 | 4.8 |
| Non-trade payables | | **0.8** | 4.9 | 1.4 |
| Deferred tax liabilities | | **34.7** | 41.8 | 33.5 |
| **Total non-current liabilities** | | **360.7** | 480.7 | 385.8 |
| Interest-bearing loans and borrowings and bank overdrafts | | **92.7** | – | 61.0 |
| Trade and other payables | | **168.5** | 184.8 | 175.9 |
| Current tax payable | | **2.4** | 6.1 | 1.3 |
| Provisions | | **9.4** | 12.6 | 12.9 |
| Derivative financial liabilities | 9 | **0.5** | 1.5 | 0.9 |
| **Total current liabilities** | | **273.5** | 205.0 | 252.0 |
| **Total liabilities** | | **634.2** | 685.7 | 637.8 |
| **Total net assets** | | **262.0** | 296.9 | 274.1 |
| **Equity** | | | | |
| Share capital | | **71.8** | 71.7 | 71.8 |
| Share premium | | **111.7** | 110.4 | 111.7 |
| Reserves | | **33.1** | 51.7 | 37.9 |
| Retained earnings | | **8.1** | 24.6 | 16.7 |
| **Total equity attributable to equity holders of parent Company** | | **224.7** | 258.4 | 238.1 |
| **Non-controlling interests** | | **37.3** | 38.5 | 36.0 |
| **Total equity** | | **262.0** | 296.9 | 274.1 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2014

| | 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 1 January 2013 | 70.4 | 99.0 | (0.6) | 0.7 | (1.3) | 6.0 | 35.7 | 11.1 | 12.8 | 233.8 | 37.8 | 271.6 |
| Profit for the period | – | – | – | – | – | – | – | – | 24.0 | 24.0 | 1.5 | 25.5 |
| Other comprehensive income | – | – | 1.2 | (1.4) | – | – | – | – | 19.8 | 19.6 | 0.9 | 20.5 |
| **Transactions with owners:** | | | | | | | | | | | | |
| Dividends | 1.3 | 11.4 | – | – | – | – | – | – | (28.0) | (15.3) | (1.0) | (16.3) |
| Equity-settled share-based payment transactions | – | – | – | – | – | – | – | – | 1.5 | 1.5 | – | 1.5 |
| Own shares acquired for share incentive schemes | – | – | – | – | – | – | – | – | (5.5) | (5.5) | – | (5.5) |
| Adjustment arising from change in non-controlling interest | – | – | – | – | – | – | – | 0.3 | – | 0.3 | (0.7) | (0.4) |
| Balance at 30 June 2013 | 71.7 | 110.4 | 0.6 | (0.7) | (1.3) | 6.0 | 35.7 | 11.4 | 24.6 | 258.4 | 38.5 | 296.9 |
| Balance at 1 January 2013 | 70.4 | 99.0 | (0.6) | 0.7 | (1.3) | 6.0 | 35.7 | 11.1 | 12.8 | 233.8 | 37.8 | 271.6 |
| Profit for the period | – | – | – | – | – | – | – | – | 41.8 | 41.8 | 2.9 | 44.7 |
| Other comprehensive income | – | – | (14.2) | (0.1) | 0.3 | – | – | – | 6.7 | (7.3) | (2.8) | (10.1) |
| **Transactions with owners:** | | | | | | | | | | | | |
| Dividends | 1.4 | 12.7 | – | – | – | – | – | – | (38.8) | (24.7) | (1.6) | (26.3) |
| Equity-settled share-based payment transactions | – | – | – | – | – | – | – | – | 0.8 | 0.8 | – | 0.8 |
| Own shares acquired for share incentive schemes | – | – | – | – | – | – | – | – | (6.6) | (6.6) | – | (6.6) |
| Adjustment arising from change in non-controlling interest | – | – | – | – | – | – | – | 0.3 | – | 0.3 | (0.3) | – |
| Balance at 31 December 2013 | 71.8 | 111.7 | (14.8) | 0.6 | (1.0) | 6.0 | 35.7 | 11.4 | 16.7 | 238.1 | 36.0 | 274.1 |
| Balance at 1 January 2014 | **71.8** | **111.7** | **(14.8)** | **0.6** | **(1.0)** | **6.0** | **35.7** | **11.4** | **16.7** | **238.1** | **36.0** | **274.1** |
| Profit for the period | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **23.9** | **23.9** | **2.1** | **26.0** |
| Other comprehensive income | **–** | **–** | **(5.5)** | **0.7** | **–** | **–** | **–** | **–** | **(13.3)** | **(18.1)** | **(1.3)** | **(19.4)** |
| **Transactions with owners:** | | | | | | | | | | | | |
| Dividends | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(19.1)** | **(19.1)** | **(0.7)** | **(19.8)** |
| Equity-settled share-based payment transactions | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **1.1** | **1.1** | **–** | **1.1** |
| Own shares acquired for share incentive schemes | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(1.2)** | **(1.2)** | **–** | **(1.2)** |
| Adjustment arising from change in non-controlling interest | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **1.2** | **1.2** |
| Balance at 30 June 2014 | **71.8** | **111.7** | **(20.3)** | **1.3** | **(1.0)** | **6.0** | **35.7** | **11.4** | **8.1** | **224.7** | **37.3** | **262.0** |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE SIX MONTHS ENDED 30 JUNE 2014



| | Note | **Six months 2014 £m** | Six months 2013 £m | Year 2013 £m |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Profit for the period | | **26.0** | 25.5 | 44.7 |
| Adjustments for: | | | | |
| Depreciation | | **13.9** | 15.5 | 29.3 |
| Amortisation | | **4.3** | 4.0 | 8.3 |
| Net financing costs | | **10.5** | 11.9 | 23.3 |
| Loss on disposal of business | 4 | **2.0** | – | 2.3 |
| Income tax expense | | **11.5** | 10.2 | 19.3 |
| Specific adjusting items | 4 | **–** | – | 10.6 |
| Profit on sale of property, plant and equipment | | **–** | (0.1) | (0.8) |
| Non-cash operating costs relating to restructuring | | **0.6** | 0.2 | 0.5 |
| Equity-settled share-based payment expenses | | **1.0** | 1.4 | 0.7 |
| **Cash generated from operations before changes in working capital and provisions** | | **69.8** | 68.6 | 138.2 |
| (Increase) in trade and other receivables | | **(5.5)** | (7.1) | (10.8) |
| (Increase)/decrease in inventories | | **(10.8)** | (1.8) | 9.5 |
| (Decrease) in trade and other payables | | **(4.7)** | (2.6) | (3.1) |
| (Decrease) in provisions and employee benefits | | **(10.1)** | (9.7) | (20.8) |
| **Cash generated from operations** | | **38.7** | 47.4 | 113.0 |
| Acquisition-related costs | | **(0.3)** | – | – |
| Interest paid | | **(8.4)** | (9.0) | (18.3) |
| Income tax paid | | **(10.7)** | (11.9) | (24.9) |
| **Net cash from operating activities** | | **19.3** | 26.5 | 69.8 |
| **Investing activities** | | | | |
| Purchase of property, plant and equipment | | **(13.6)** | (14.0) | (36.3) |
| Proceeds from sale of property, plant and equipment | | **–** | 0.2 | 2.6 |
| Sale of investments | | **1.3** | 0.3 | 0.1 |
| Interest received | | **0.7** | 0.5 | 1.3 |
| Disposal of subsidiaries, net of cash disposed | | **(0.6)** | (0.4) | 0.7 |
| Loan made to associate | | **(1.0)** | – | – |
| Deferred consideration received on disposal of subsidiary | | **0.4** | 0.8 | 1.0 |
| Forward contracts used in net investment hedging | | **(0.3)** | 1.3 | 2.1 |
| **Net cash from investing activities** | | **(13.1)** | (11.3) | (28.5) |
| **Financing activities** | | | | |
| Purchase of own shares for share incentive schemes | | **(1.2)** | (5.5) | (6.6) |
| Increase/(decrease) in borrowings | 8 | **6.1** | (10.2) | (8.9) |
| Payment of finance lease liabilities | 8 | **(0.1)** | (0.1) | (0.1) |
| Dividends paid | | **(19.1)** | (15.3) | (24.7) |
| **Net cash from financing activities** | | **(14.3)** | (31.1) | (40.3) |
| Net (decrease)/increase in cash and cash equivalents | | **(8.1)** | (15.9) | 1.0 |
| Cash and cash equivalents at start of period | | **76.0** | 80.0 | 80.0 |
| Effect of exchange rate fluctuations on cash held | | **(2.2)** | 4.3 | (5.0) |
| **Cash and cash equivalents at period end** | 8 | **65.7** | 68.4 | 76.0 |

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

Morgan Advanced Materials 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 30 June 2014 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 30 June 2014.

The condensed consolidated financial statements for the six months ended 30 June 2014 have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2013. The condensed consolidated financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards.

These condensed consolidated half-year financial statements do not comprise statutory accounts within the meaning of Section 435 of the Companies Act 2006, and should be read in conjunction with the Annual Report 2013.

Preparing the condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the condensed consolidated financial statements, significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2013.

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, these condensed consolidated financial statements have been prepared by applying the accounting policies that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2013 except for the impact of adopting the accounting standards below.

During the period, the Group has applied IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in other Entities* and IAS 28 *Investments in Associates and Joint Ventures (2011)*. The adoption of these accounting standards did not have a material impact on the Group's financial statements.

The comparative figures for the financial year ended 31 December 2013 are not the Company's statutory consolidated accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying his 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 31 December 2013 are available on request from the Company's registered office at Quadrant, 55-57 High Street, Windsor, Berkshire SL4 1LP or at www.morganadvancedmaterials.com.

The condensed consolidated financial statements for the six months ended 30 June 2014 and the comparative period have neither been audited nor reviewed.

The condensed consolidated financial statements for the six months ended 30 June 2014 were approved by the Board on 23 July 2014.

## 2. ACQUISITIONS AND DISPOSALS

### Acquisitions and disposals: 2014

On 3 April 2014 the Group sold its UK fired shapes business to Jemmtec Limited (trading as Magma Ceramics) in exchange for a 35% shareholding in Jemmtec Limited, a fired ceramics shapes business. Details of this disposal are given in note 4 to the condensed consolidated financial statements.

On 20 June 2014 the Group disposed of the whole of the share capital of Morgan AM&T Hairong Co. Limited for £0.3 million consideration. The adjustment to the non-controlling interest component of equity due to this transaction was £1.2 million. Details of this disposal are given in note 4 to the condensed consolidated financial statements.

Details of the post balance sheet acquisition are given in note 11 to the condensed consolidated financial statements.

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## 2. ACQUISITIONS AND DISPOSALS continued

### Acquisitions and disposals: 2013

On 1 February 2013 the Group purchased the remaining 25% of the share capital of Beijing Morgan Ceramics Co., Ltd ('BMC') not already held by the Group for £0.3 million. As a result the Group now owns 100% of the share capital of BMC. The adjustment to the non-controlling interest component of equity due to this transaction was £0.6 million.

On 28 December 2013 the Group disposed of 23.85% of the share capital of Assam Carbon Products Ltd for nil consideration. The adjustment to the non-controlling interest component of equity due to this transaction was £0.6 million. Details of this disposal are given in note 4 to the condensed consolidated financial statements.

## 3. SEGMENT INFORMATION

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

| | North America | | Europe | | Asia/Rest of World | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **Six months 2014 £m** | Six months 2013 £m | **Six months 2014 £m** | Six months 2013 £m | **Six months 2014 £m** | Six months 2013 £m | **Six months 2014 £m** | Six months 2013 £m |
| **Revenue from external customers** | **171.7** | 183.9 | **159.4** | 180.4 | **117.3** | 121.8 | **448.4** | 486.1 |
| **Regional EBITA*** | **26.2** | 27.3 | **17.8** | 20.2 | **14.9** | 13.1 | **58.9** | 60.6 |
| Unallocated costs | | | | | | | **(2.5)** | (2.3) |
| **Group EBITA**** | | | | | | | **56.4** | 58.3 |
| Restructuring costs and other one-off items | **(0.5)** | (1.9) | **(0.9)** | (1.5) | **(0.7)** | (1.9) | **(2.1)** | (5.3) |
| Unallocated restructuring costs and other one-off items | | | | | | | **–** | (1.4) |
| **Underlying operating profit***** | | | | | | | **54.3** | 51.6 |
| Amortisation of intangible assets | **(1.8)** | (1.4) | **(1.9)** | (2.0) | **(0.6)** | (0.6) | **(4.3)** | (4.0) |
| **Operating profit** | | | | | | | **50.0** | 47.6 |
| Finance income | | | | | | | **0.8** | 0.6 |
| Finance expense | | | | | | | **(11.3)** | (12.5) |
| Net loss on disposal of businesses | | | | | | | **(2.0)** | – |
| **Profit before taxation** | | | | | | | **37.5** | 35.7 |
| Segment assets | **276.8** | 310.1 | **300.9** | 326.6 | **215.2** | 236.9 | **792.9** | 873.6 |
| Unallocated assets | | | | | | | **103.3** | 109.0 |
| Total assets | | | | | | | **896.2** | 982.6 |
| Segment liabilities | **85.7** | 111.2 | **169.5** | 158.8 | **44.8** | 46.2 | **300.0** | 316.2 |
| Unallocated liabilities | | | | | | | **334.2** | 369.5 |
| Total liabilities | | | | | | | **634.2** | 685.7 |

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 3. SEGMENT INFORMATION continued

| | North America Year 2013 £m | Europe Year 2013 £m | Asia/Rest of World Year 2013 £m | Consolidated Year 2013 £m |
|---|---|---|---|---|
| **Revenue from external customers** | 359.9 | 357.3 | 240.6 | 957.8 |
| **Regional EBITA*** | 55.5 | 42.0 | 26.4 | 123.9 |
| Unallocated costs | | | | (4.9) |
| **Group EBITA**** | | | | 119.0 |
| Restructuring costs and other one-off items | (2.5) | (2.6) | (3.3) | (8.4) |
| Unallocated restructuring costs and other one-off items | | | | (2.1) |
| **Underlying operating profit***** | | | | 108.5 |
| Amortisation and impairment of intangible assets | (3.2) | (3.6) | (1.5) | (8.3) |
| **Operating profit before specific adjusting items** | | | | 100.2 |
| Specific adjusting items included in operating profit**** | | | | (10.6) |
| **Operating profit** | | | | 89.6 |
| Finance income | | | | 1.3 |
| Finance expense | | | | (24.6) |
| Loss on disposal of business | | | | (2.3) |
| **Profit before taxation** | | | | 64.0 |
| Segment assets | 283.3 | 303.1 | 218.6 | 805.0 |
| Unallocated assets | | | | 106.9 |
| Total assets | | | | 911.9 |
| Segment liabilities | 89.1 | 166.6 | 46.4 | 302.1 |
| Unallocated liabilities | | | | 335.7 |
| Total liabilities | | | | 637.8 |

* Segment profit is defined as Regional EBITA, which is segment operating profit before restructuring costs and other one-off items and amortisation of intangible assets.
** Group EBITA is defined as operating profit before restructuring costs and other one-off items and amortisation of intangible assets.
*** Underlying operating profit is defined as operating profit before amortisation of intangible assets.
**** Details of 'specific adjusting items' are given in note 4 to the financial statements

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.

## 4. SPECIFIC ADJUSTING ITEMS

In the condensed consolidated income statement the Group presents specific adjusting items separately. In the judgment of the Directors, due to the nature and value of these items they should be disclosed separately from the underlying results of the Group to allow the reader to obtain a proper understanding of the financial information and the best indication of underlying performance of the Group. No specific adjusting items were incurred in the six months ended 30 June 2013.

| | **Six months 2014 £m** | Six months 2013 £m | Year 2013 £m |
|---|---|---|---|
| **Specific adjusting items:** | | | |
| – Business exit costs | **–** | – | 7.3 |
| – Impairment of intangible assets | **–** | – | 3.3 |
| – Net loss on disposal of businesses | **2.0** | – | 2.3 |
| **Total specific adjusting items before income tax credit** | **2.0** | – | 12.9 |
| – Income tax credit from specific adjusting items | **–** | – | (1.8) |
| | **2.0** | – | 11.1 |

## 4. SPECIFIC ADJUSTING ITEMS continued

### 2014

### *Net loss on disposal of businesses*

The net loss on disposal of businesses for the six months ended 30 June 2014 consists of two business disposals:

*a) UK Fired Shapes Business*

On 3 April 2014 the Group sold its UK Fired Shapes business to Jemmtec Limited in exchange for a 35% shareholding in Jemmtec Limited, a fired ceramics shapes business. The profit recognised on disposal of the business was £1.3 million. Assets disposed of consisted of £0.9 million of property, plant and equipment, £0.8 million of inventory and £0.2 million of goodwill. Based on the management structure of Jemmtec Limited the Group has determined that it does not have control of Jemmtec Limited and is therefore accounting for its 35% shareholding in Jemmtec as an associate.

*b) Morgan AM&T Hairong Co. Limited*

On 20 June 2014 the Group disposed of the whole of the share capital of Morgan AM&T Hairong Co. Limited ('Hairong') for £0.3 million consideration. The loss recognised on disposal of this shareholding was £3.3 million. Prior to the acquisition the immediate parent company of Hairong was Morgan AM&T (Shanghai) Co., Ltd, in which the Group holds a 70% shareholding. The adjustment to the non-controlling interest component of equity due to this transaction was £1.2 million.

### 2013

### *Business exit costs*

Business exit costs related to C&DS and was as a result of the exit of the UK MoD vehicles logistics and spares contract and the completion of UK MoD Urgent Operational Requirements (UOR) for new vehicle builds. Specifically the charge comprised a £5.7 million provision against inventory and a £1.6 million provision for building exit costs and impairment of other assets. An income tax credit of £1.6 million was recognised in respect of these items.

### *Impairment of intangible assets*

The impairment of intangible assets consisted of a £3.3 million impairment of goodwill and intangible assets originally recognised on acquisition of Hairong, based on the current view of the future financial performance of Hairong. An income tax credit of £0.2 million was recognised in respect of this item.

### *Loss on disposal of business*

On 28 December 2013 the Group disposed of 23.85% of the share capital of Assam Carbon Products Ltd ('Assam') for nil consideration. The Group retained a 28.8% shareholding. As a result of the transaction the Group no longer had control of Assam and therefore deconsolidated the assets and liabilities of Assam in its condensed consolidated financial statements. The loss recognised on the disposal of this shareholding was £2.3 million. Based on the Group's remaining 28.8% shareholding the Group accounted for the shareholding as an associate. The fair value of the Group's remaining investment was measured at nil. The adjustment to the non-controlling interest component of equity due to this transaction was £0.6 million.

## 5. NET FINANCE INCOME AND EXPENSE

| | **Six months 2014 £m** | Six months 2013 £m | Year 2013 £m |
|---|---|---|---|
| Interest income on bank deposits measured at amortised cost | **0.8** | 0.6 | 1.3 |
| Finance income | **0.8** | 0.6 | 1.3 |
| Interest expense on financial liabilities measured at amortised cost | **(8.3)** | (9.2) | (18.3) |
| Net interest on IAS 19 obligations and assets | **(3.0)** | (3.3) | (6.3) |
| Finance expense | **(11.3)** | (12.5) | (24.6) |
| Net financing costs recognised in profit or loss | **(10.5)** | (11.9) | (23.3) |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 6. TAXATION – INCOME TAX EXPENSE

| | **Six months 2014 £m** | Six months 2013 £m | Year 2013 £m |
|---|---|---|---|
| Tax on profit | **11.5** | 10.2 | 19.3 |

The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 30 June 2014 is based on the Directors' best estimate of the effective tax rate for the year.

## 7. EARNINGS PER SHARE

### Earnings per share from continuing operations

The calculation of basic/diluted earnings per share from continuing operations at 30 June 2014 was based on the following:

| | **Six months 2014** | | Six months 2013 | | Year 2013 | |
|---|---|---|---|---|---|---|
| | **Basic £m** | **Diluted £m** | Basic £m | Diluted £m | Basic £m | Diluted £m |
| **Profit attributable to equity holders of the Company from continuing operations** | **23.9** | **23.9** | 24.0 | 24.0 | 41.8 | 41.8 |
| **Weighted average number of Ordinary shares** | | | | | | |
| Issued Ordinary shares at the beginning of the period (millions) | **285.4** | **285.4** | 279.7 | 279.7 | 279.7 | 279.7 |
| Effect of shares issued in period and shares held by The Morgan General Employee Benefit Trust (millions) | **(0.2)** | **(0.2)** | 1.3 | 1.3 | 3.2 | 3.2 |
| Dilutive effect of share options/ incentive schemes (millions) | | **0.7** | | 2.7 | | 1.3 |
| Basic/diluted weighted average number of Ordinary shares during the period (millions) | **285.2** | **285.9** | 281.0 | 283.7 | 282.9 | 284.2 |
| **Earnings per share from continuing operations (pence)** | **8.4p** | **8.4p** | 8.5p | 8.5p | 14.8p | 14.7p |

### Underlying earnings per share

The calculation of basic/diluted underlying earnings per share at 30 June 2014 was based on the following:

| | **Six months 2014** | | Six months 2013 | | Year 2013 | |
|---|---|---|---|---|---|---|
| | **Basic £m** | **Diluted £m** | Basic £m | Diluted £m | Basic £m | Diluted £m |
| **Underlying operating profit before specific adjusting items and amortisation, less net financing costs, income tax expense and non-controlling interests** | **30.2** | **30.2** | 28.0 | 28.0 | 60.7 | 60.7 |
| Basic/diluted weighted average number of Ordinary shares during the period – calculated as above (millions) | **285.2** | **285.9** | 281.0 | 283.7 | 282.9 | 284.2 |
| **Earnings per share before specific adjusting items and amortisation of intangible assets (pence)** | **10.6p** | **10.6p** | 10.0p | 9.9p | 21.5p | 21.4p |

## 8. CASH AND CASH EQUIVALENTS

| | **30 June 2014 £m** | 30 June 2013 £m | 31 December 2013 £m |
|---|---|---|---|
| Bank balances | **52.9** | 53.1 | 60.3 |
| Cash deposits | **12.8** | 15.3 | 15.7 |
| Cash and cash equivalents | **65.7** | 68.4 | 76.0 |

### Reconciliation of cash and cash equivalents to net debt*

| | **Six months 2014 £m** | Six months 2013 £m | Year 2013 £m |
|---|---|---|---|
| Opening borrowings | **(262.5)** | (272.8) | (272.8) |
| (Increase)/decrease in borrowings | **(6.1)** | 10.2 | 8.9 |
| Payment of finance lease liabilities | **0.1** | 0.1 | 0.1 |
| Effect of movements in foreign exchange on borrowings | **8.5** | (21.5) | 1.3 |
| Closing borrowings | **(260.0)** | (284.0) | (262.5) |
| Cash and cash equivalents | **65.7** | 68.4 | 76.0 |
| Closing net debt | **(194.3)** | (215.6) | (186.5) |

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

## 9. FINANCIAL RISK MANAGEMENT

### Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

| | **Carrying amount 30 June 2014 £m** | **Fair value 30 June 2014 £m** | Carrying amount 30 June 2013 £m | Fair value 30 June 2013 £m | Carrying amount 31 December 2013 £m | Fair value 31 December 2013 £m |
|---|---|---|---|---|---|---|
| **Financial assets and liabilities at amortised cost** | | | | | | |
| 5.70% US Dollar Senior Notes 2014 | **(58.6)** | **(59.5)** | (66.0) | (69.2) | (60.4) | (62.4) |
| 3.65% Euro Senior Notes 2015 | **(32.3)** | **(32.9)** | (34.6) | (35.6) | (33.6) | (34.3) |
| 4.32% Euro Senior Notes 2017 | **(16.2)** | **(17.3)** | (17.3) | (18.5) | (16.8) | (17.9) |
| 6.12% US Dollar Senior Notes 2017 | **(102.3)** | **(112.1)** | (115.3) | (128.8) | (105.6) | (116.9) |
| 6.26% US Dollar Senior Notes 2019 | **(43.8)** | **(48.9)** | (49.4) | (56.0) | (45.2) | (50.4) |
| Bank and other loans | **(6.7)** | **(6.7)** | (1.1) | (1.1) | (0.7) | (0.7) |
| Obligations under finance leases | **(0.1)** | **(0.1)** | (0.3) | (0.3) | (0.2) | (0.2) |
| Trade and other payables | **(84.8)** | **(84.8)** | (94.9) | (94.9) | (88.1) | (88.1) |
| Loans and receivables | **165.9** | **165.9** | 176.7 | 176.7 | 167.5 | 167.5 |
| Cash and cash equivalents | **65.7** | **65.7** | 68.4 | 68.4 | 76.0 | 76.0 |
| | **(113.2)** | **(130.7)** | (133.8) | (159.3) | (107.1) | (127.4) |
| **Available-for-sale financial instruments** | | | | | | |
| Available-for-sale financial assets | **1.9** | **1.9** | 3.5 | 3.5 | 2.7 | 2.7 |
| **Derivatives and other items at fair value** | | | | | | |
| Forward exchange contracts used for hedging | **1.5** | **1.5** | 0.4 | 0.4 | 0.8 | 0.8 |
| Cross currency swaps | **0.3** | **0.3** | – | – | – | – |
| | **(109.5)** | **(127.0)** | (129.9) | (155.4) | (103.6) | (123.9) |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 9. FINANCIAL RISK MANAGEMENT continued
The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the preceding table.

### Equity securities
Fair value is based on quoted market prices at the balance sheet date.

### Derivatives
Forward exchange contracts are marked to market either using listed market prices or by discounting the contractual forward price and deducting the current spot rate.

### Interest-bearing loans and borrowings
Fair value is calculated based on discounted expected future principal and interest cash flows. The interest rates used to determine the fair value of loans and borrowings are 2.0-3.9% (30 June 2013: 2.1-3.9%; 31 December 2013: 2.1-4.1%).

### Finance lease liabilities
The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect changes in interest rates.

### Trade and other receivables/payables
For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

### Cash and cash equivalents, trade and other payables and loans and receivables
The Group has disclosed the fair value of cash and cash equivalents, current loans and receivables and current payables at their carrying amount, given their notional amount is deemed to be their fair value.

### Fair value hierarchy
The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:
Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices)
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | **30 June 2014** | | | 30 June 2013 | | |
|---|---|---|---|---|---|---|
| | **Level 1 £m** | **Level 2 £m** | **Total £m** | Level 1 £m | Level 2 £m | Total £m |
| Available-for-sale financial assets | **1.9** | **–** | **1.9** | 3.5 | – | 3.5 |
| Derivative financial assets | **–** | **2.3** | **2.3** | – | 1.9 | 1.9 |
| | **1.9** | **2.3** | **4.2** | 3.5 | 1.9 | 5.4 |
| Derivative financial liabilities | **–** | **(0.5)** | **(0.5)** | – | (1.5) | (1.5) |

| | 31 December 2013 | | |
|---|---|---|---|
| | Level 1 £m | Level 2 £m | Total £m |
| Available-for-sale financial assets | 2.7 | – | 2.7 |
| Derivative financial assets | – | 1.7 | 1.7 |
| | 2.7 | 1.7 | 4.4 |
| Derivative financial liabilities | – | (0.9) | (0.9) |

## 9. FINANCIAL RISK MANAGEMENT continued

The table below analyses financial instruments disclosed at fair value, by valuation method.

| | **30 June 2014** | | | 30 June 2013 | | |
|---|---|---|---|---|---|---|
| | **Level 1 £m** | **Level 2 £m** | **Total £m** | Level 1 £m | Level 2 £m | Total £m |
| 5.70% US Dollar Senior Notes 2014 | **–** | **(59.5)** | **(59.5)** | – | (69.2) | (69.2) |
| 3.65% Euro Senior Notes 2015 | **–** | **(32.9)** | **(32.9)** | – | (35.6) | (35.6) |
| 4.32% Euro Senior Notes 2017 | **–** | **(17.3)** | **(17.3)** | – | (18.5) | (18.5) |
| 6.12% US Dollar Senior Notes 2017 | **–** | **(112.1)** | **(112.1)** | – | (128.8) | (128.8) |
| 6.26% US Dollar Senior Notes 2019 | **–** | **(48.9)** | **(48.9)** | – | (56.0) | (56.0) |
| Obligations under finance leases | **–** | **(0.1)** | **(0.1)** | – | (0.3) | (0.3) |
| | **–** | **(270.8)** | **(270.8)** | – | (308.4) | (308.4) |

| | 31 December 2013 | | |
|---|---|---|---|
| | Level 1 £m | Level 2 £m | Total £m |
| 5.70% US Dollar Senior Notes 2014 | – | (62.4) | (62.4) |
| 3.65% Euro Senior Notes 2015 | – | (34.3) | (34.3) |
| 4.32% Euro Senior Notes 2017 | – | (17.9) | (17.9) |
| 6.12% US Dollar Senior Notes 2017 | – | (116.9) | (116.9) |
| 6.26% US Dollar Senior Notes 2019 | – | (50.4) | (50.4) |
| Obligations under finance leases | – | (0.2) | (0.2) |
| | – | (282.1) | (282.1) |

There have been no transfers between level 1 and level 2 between 1 January 2013 and 30 June 2014 and there were no level 3 financial instruments between 1 January 2013 and 30 June 2014.

## 10. 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 27 of the Group's 2013 Annual Report and Accounts.

| | **Six months 2014 £m** | Six months 2013 £m | Year 2013 £m |
|---|---|---|---|
| **Transactions with associate** | | | |
| Sales to associates | **1.2** | 5.0 | 10.3 |
| Purchases from associate | **0.6** | – | – |
| Loan made to associate | **1.0** | – | – |
| Trade receivables due from associate | **9.9** | 9.3 | 13.0 |
| Trade payables due to associate | **–** | – | 0.3 |

The Group also has trade receivables owed by associates of £1.3 million which have been fully provided for (30 June 2013: nil; 31 December 2013: £1.6 million).

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 27 of the Group's 2013 Annual Report and Accounts that could have a material effect on the financial position or performance of the Group during the period.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 11. SUBSEQUENT EVENT

On 14 July 2014, the Group acquired all of the shares in Porextherm Dämmstoffe GmbH ('Porextherm'), a leading producer of microporous insulation materials for an enterprise value of c.€26.5 million, comprising cash purchase consideration of €17.7 million and the assumption of c.€8.8 million of debt.

The Group estimates that Porextherm achieved revenue of €24 million and profit for the period (profit after taxation) of €1.3 million for the year ended 31 December 2013. If the acquisition had occurred on 1 January 2014 management estimates that Porextherm would have increased Group consolidated revenue for the six months ended 30 June 2014 by €12 million and Group consolidated profit for the period by €0.7 million.

The addition of Porextherm to the Morgan Group enhances the Group's existing portfolio of high-performance insulating systems, and also gives the Group the chance to share knowledge and process which will lead to future product development. In line with the Group's strategic priorities, the acquisition brings with it the opportunity to explore new markets and expand the Group's range to benefit both new and existing customers.

As at 30 June 2014 the Group had incurred acquisition-related costs of £0.4 million relating to external legal fees and due diligence costs. These costs have been included in 'Acquisition-related costs', part of the 'Restructuring costs and other one-off items' section of the condensed consolidated income statement.

Due to the short timespan between acquisition and release of the half-year financial statements the Group has not yet been able to accurately calculate fair values for the opening balance sheet. Full details will be included in the consolidated accounts for the year ended 31 December 2014.

# GLOSSARY OF TERMS

| | |
|---|---|
| Group earnings before interest, tax, depreciation and amortisation ('EBITDA') | Operating profit before specific adjusting items, restructuring costs and other one-off items, depreciation and amortisation of intangible assets |
| Group earnings before interest, tax and amortisation ('EBITA') | Operating profit before specific adjusting items, restructuring costs and other one-off items and amortisation of intangible assets |
| Group underlying operating profit | Operating profit of £50.0 million (H1 2013: £47.6 million) before amortisation of intangibles of £4.3 million (H1 2013: £4.0 million) |
| Net debt | Interest-bearing loans and borrowings, bank overdrafts less cash and cash equivalents |
| Restructuring costs and other one-off items | Include the costs of restructuring activity, gain on disposal of property and acquisition-related costs |
| Return on operating capital employed ('ROCE') | Group underlying profit for the last 12 months divided by the sum of working capital and the net book value of tangible assets |
| Unallocated central costs | Includes plc costs (eg Report & Accounts, AGM, Non-Executive Directors) and Group management costs (eg Corporate head office rent, utilities, staff etc.) |
| Underlying earnings per share ('EPS') | Basic earnings per share of 8.4 pence (H1 2013: 8.5 pence) adjusted to exclude specific adjusting items of 0.7 pence (H1 2013: nil) and amortisation of 1.5 pence (H1 2013: 1.5 pence) |
| Underlying profit before tax ('PBT') | Operating profit of £50.0 million (H1 2013: £47.6 million) before amortisation of intangibles of £4.3 million (H1 2013: £4.0 million), less net financing costs of £10.5 million (H1 2013: £11.9 million) |
| Working capital (as used in the ROCE calculation) | Working capital as used in the calculation of ROCE is the sum of inventories, £124.1 million (H1 2013: £146.0 million), trade and other receivables, £188.4 million (H1 2013: £198.7 million), net derivative financial assets, £1.8 million (H1 2013: £0.4 million), trade and other payables, £(168.5) million (H1 2013: £(184.8) million) less tax accruals £(22.9) million (H1 2013: £(22.7) million), plus the net of deferred consideration, third party dividends payable and other sundry items, £(1.6) million (H1 2013: £(1.5) million). |



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